STATE OF WISCONSIN

UNIFORM GAAP CONVERSION POLICIES AND PROCEDURES MANUAL

Wisconsin Department of Administration
Division of Executive Budget and Finance
State Controller's Office

PREFACE

The adoption of generally accepted accounting principles (GAAP) by the State of Wisconsin for financial reporting purposes serves to present the State's financial position in a business-like manner following accounting standards issued by the Governmental Accounting Standards Board. GAAP accurately measures financial operations, fully discloses financial position, provides an externally accepted presentation, and provides information for managers and external users on a timely basis.

The State must convert the budgetary basis of accounting to a GAAP basis for financial reporting. This approach uses data generated by Wisconsin's statutory based central accounting system and supplemental information provided by State agencies to produce a GAAP basis *Annual Comprehensive Financial Report* (ACFR).

The policies and procedures contained in this manual are designed to address the general procedures to be performed by agencies during Wisconsin's GAAP conversion process. They are not intended to cover agency-specific procedures nor address basic accounting theory and practices.

The Department of Administration-State Controller's Office appreciates the cooperation and continuing efforts of accounting and other technical staff of many State agencies who assist in the development of these policies and procedures and the annual ACFR.

V. Policies and Procedures

V. Policies and Procedures (Cont'd.)

VI. Forms and Samples

Note Disclosures:

Investment Note Disclosures:

SECTION:	II - Introduction	**EFFECTIVE DATE:**	July 1, 1989
SUB-SECTION:		**REVISION DATE:**	July 24, 1990
SUBJECT:	Index	**PAGE:**	1 of 1

SECTION:	II - Introduction	**EFFECTIVE DATE:**	July 1, 2011
SUB-SECTION:	1 - Purpose of Manual	**REVISION DATE:**	June 26, 2012
SUBJECT:		**PAGE:**	1 of 1

The purpose of the State Controller's Office *Uniform GAAP Conversion Policies and Procedures Manual* (GAAP Manual) is to provide direction on accounting policies and procedures which will be followed by the State of Wisconsin in preparing financial reports in accordance with generally accepted accounting principles for the Annual Comprehensive Financial Report (ACFR). The Manual is designed to supplement professional literature and guidelines which prescribe and illustrate the application of GAAP for the ACFR.

SECTION:	II - Introduction	**EFFECTIVE DATE:**	July 1, 2006
SUB-SECTION:	2 - Manual Revisions and Maintenance	**REVISION DATE:**	April 30, 2007
SUBJECT:		**PAGE:**	1 of 1

The policies and procedures set forth in this manual are subject to revisions reflecting changes in generally accepted accounting principles (GAAP), State law, and administrative action. The State Controller will authorize all significant revisions impacting policies as discussed in the manual. The State Controller's Office, Financial Reporting Section will transmit them to state agencies and financial officers for distribution.

Any questions or suggestions regarding the content of this manual should be forwarded in writing for consideration to:

Financial Reporting Section
State Controller's Office
Division of Executive Budget and Finance
101 E. Wilson St. - 5th Floor
Madison, WI 53703

SECTION:	III - Financial Reporting	**EFFECTIVE DATE:**	July 1, 2001
SUB-SECTION:		**REVISION DATE:**	June 25, 2002
SUBJECT:	Index	**PAGE:**	1 of 1

Generally accepted accounting principles (GAAP) are the uniform standards and guidelines for financial accounting and reporting which govern the form and content of the financial statements of an entity.

Hierarchy of Government GAAP

As established in the Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GAAP hierarchy governs what constitutes GAAP for all state and local governmental entities. It lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance. The sources of accounting principles that are generally accepted are presented in descending order of authority as follows:

a. Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements (Category A).

   All GASB Interpretations are considered as being included in Category A.

b. GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB (Category B).

   Authoritative material from GASB Implementation Guides is incorporated periodically in the GASB *Comprehensive Implementation Guide*, and when presented in the *Comprehensive Implementation Guide*, it retains its authoritative status.

   AICPA literature specifically made applicable to state and local governmental entities contains a statement that indicates that it has been cleared by the GASB in accordance with the GASB's Rule of Procedure.

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP and then may consider nonauthoritative accounting literature that does not conflict or contradict authoritative GAAP. A governmental entity should not apply the accounting principles specified in authoritative GAAP to similar transactions or other events if those accounting principles either: a) prohibit the application of the accounting treatment to the particular transaction or other event or b) indicate that the accounting treatment should not be applied by analogy.

Other nonauthoritative accounting literature includes GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board (FASB), Federal Accounting Standards Advisory Board (FASAB), International Public Sector Accounting Standards Board, International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

The appropriateness of nonauthoritative accounting literature depends on the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority. For example, GASB concept statements would normally be more influential than other sources in this category.

---

*The **Attachment** to this section lists the statements, interpretations, and technical bulletins issued by GASB to date. It also provides the effective date for any GASB pronouncements to be implemented in future years.*

Implementation of GASB Statement No. 62

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

GASB 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

GASB 62 continues the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source which brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

****

The State follows the accounting principles promulgated by the Governmental Accounting Standards Board (GASB) in the pronouncements listed below:

Note: The GAAP Manual was written to cover general policies and procedures related to State Agencies. It is not intended to address all accounting principles required in the preparation of the Annual Comprehensive Financial Report. Agencies should refer to the specific guidance found in the pronouncements of the GASB, and other authoritative literature, as necessary.

GASB offers on-line access to all standards, implementation guides, interpretations, technical bulletins, etc. on their website at www.GASB.org. The standards listed below are summarized in the GASB's Codification of Governmental Accounting and Financial Reporting Standards and the Comprehensive Implementation Guide, both of which may be purchased from that organization.

GASB Statements:

	GASB Statement	Year Issued**	Comments
1	Authoritative Status of NCGA Pronouncements* and AICPA Industry Audit Guide	1984	Superseded in part ***
2	Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457	1986	Superseded by GASB Statement 32
3	Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements	1986	• Superseded in part *** • Also see GAAP Manual Section V-1, *Cash and Cash Equivalents and Deposit Disclosures* • Also see GAAP Manual Section V-2, *Investments* • In 1992, GASB issued a Questions and Answers Implementation Guide covering deposits with financial institutions, investments (including repurchase agreements), and reverse repurchase agreements.
4	Applicability of FASB Statement No. 87, "Employers' Accounting for Pensions," to State and Local Governmental Employers	1986	Superseded by GASB Statement 27
5	Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers	1986	Superseded for the most part by GASB Statements 25 and 27
6	Accounting and Financial Reporting for Special Assessments	1987	Superseded in part ***
7	Advance Refundings Resulting in Defeasance of Debt	1987	Superseded in part ***
8	Applicability of FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," to Certain State and Local Governmental Entities	1988	Superseded by GASB Statement 35
9	Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting	1989	• Superseded in part *** • Also see GAAP Manual Section V-34, *Cash Flows Statement* • In 1992, GASB issued a Questions and Answers Implementation Guide covering the reporting of cash flows.
10	Accounting and Financial Reporting for Risk Financing and Related Insurance Issues	1989	• Superseded in part *** • In 1993, GASB issued a Questions and Answers Implementation Guide covering the accounting and financial reporting for risk financing and related insurance issues.
11	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements	1990	Superseded by various GASB statements
12	Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Governmental Employers	1990	Superseded in part ***
13	Accounting for Operating Leases with Scheduled Rent Increases	1990	• Superseded in part ***
14	The Financial Reporting Entity	1991	• Superseded in part *** • Also see GAAP Manual Section III-5, *Reporting Entity* • In 1994, GASB issued a Questions and Answers Implementation Guide covering the Financial Reporting Entity
15	Governmental College and University Accounting and Financial Reporting Models	1991	Superseded by GASB Statement 35
16	Accounting for Compensated Absences	1992	• Superseded in part *** • Also see GAAP Manual Section V-11, *Compensated Absences*
17	Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements	1993	Superseded for the most part by GASB Statement 34
18	Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs	1993	• Superseded in part ***
19	Governmental College and University Omnibus Statements	1993	Superseded by GASB Statement 35
20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting	1993	Superseded by GASB 62
21	Accounting for Escheat Property	1993	• Superseded in part ***
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	1993	Superseded by GASB Statement 33
23	Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities	1993	• Superseded in part ***
24	Accounting and Financial Reporting for Certain Grants and Other Financial Assistance	1994	• Superseded in part ***
25	Financial Reporting For Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans	1994	• Superseded in part *** by GASB Statement 67 • GASB 25 was superseded by GASB 67 for pensions administered as trusts (which the WRS is). It still remains effective for pensions not administered as trusts, so it has little remaining relevance to the State.
26	Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans	1994	Superseded by GASB Statement 43

GASB Statements (Continued):

	GASB Statement	Year Issued	Comments
27	Accounting for Pensions by State and Local Governmental Employers	1994	• Superseded in part *** by GASB Statement 68 • GASB 27 was superseded by GASB 68 for pensions administered as trusts (which the WRS is). It still remains effective for pensions not administered as trusts, so it has little remaining relevance to the State
28	Accounting and Financial Reporting for Securities Lending Transactions	1995	Superseded in part ***
29	The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities	1995	Superseded in part ***
30	Risk Financing Omnibus	1996	
31	Accounting and Financial Reporting for Certain Investments and for External Investment Pools	1997	• Superseded in part *** • In 1998, GASB issued a Questions and Answers Implementation Guide covering accounting and financial reporting for certain investments and for external investment pools.
32	Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	1997	
33	Accounting and Financial Reporting for Nonexchange Transactions	1998	• Superseded in part *** • Also see GAAP Manual Section V-18, *Grants and Contributions*, including Attachment A.
34	Basic Financial Statements–and Management's Discussion and Analysis–-for State and Local Governments	1999	• Superseded in part *** • In 2000 and 2001, GASB issued a Questions and Answers Implementation Guides covering GASB Statement 34 on basic financial statements—and management's discussion and analysis—for state and local governments.
35	Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities	1999	
36	Recipient Reporting for Certain Shared Nonexchange Revenues	2000	
37	Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus	2001	
38	Certain Financial Statement Note Disclosures	2001	
39	Determining Whether Certain Organizations Are Component Units	2002	
40	Deposit and Investment Risk Disclosures	2003	• Also see GAAP Manual Section V-1, C*ash and Cash Equivalents and Deposit Disclosures* • Also see GAAP Manual Section V-2, *Investments* • In 2003, GASB issued a Questions and Answers Implementation Guide covering deposit and investment risk disclosures.
41	Budgetary Comparison Schedules—Perspective Differences	2003	
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2003	
43	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2004	• See Implementation Guide covering other postemployment benefits. • Replaced by GASB Statement 74
44	Economic Condition Reporting: The Statistical Section	2004	See Implementation Guide covering the Statistical Section.
45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	2004	Replaced by GASB Statement 75
46	Net Assets Restricted by Enabling Legislation	2004	Amends GASB 34
47	Accounting for Termination Benefits	2005	
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2006	• Amends GASB 34 • Supersedes GASBTB 2004-1 in part***
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2006	Additional information in Comprehensive Implementation Guide.
50	Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27	2007	GASB 50 was superseded by GASB 67 and 68 for pensions administered as trusts (which the WRS is). It still remains effective for pensions not administered as trusts, so it has little remaining relevance to the State.
51	Accounting and Financial Reporting for Intangible Assets	2007	Additional information in Comprehensive Implementation Guide.
52	Land and Other Real Estate Held as Investments by Endowments	2007	
53	Accounting and Financial Reporting for Derivative Instruments	2008	Superseded in part ***
54	Fund Balance Reporting and Governmental Fund Type Definitions	2009	Additional information in Comprehensive Implementation Guide
55	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2009	Superseded by GASB Statement 76.
56	Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards	2009	Superseded in part ***
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2009	Not Applicable to the State of Wisconsin
58	Accounting and Financial Reporting for Chapter 9 Bankruptcies	2009	Not Applicable to State Governments
59	Financial Instruments Omnibus	2010	
60	Accounting and Financial Reporting for Service Concession Arrangements	2010	Superseded by GASB Statement 94
61	The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34	2010	Effective with the 2013 ACFR
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	2010	Effective with the 2013 ACFR
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2011	Effective with the 2013 ACFR
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53	2011	Effective with the 2012 ACFR
65	Items Previously Reported as Assets and Liabilities	2012	Effective with the 2014 ACFR
66	Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62	2012	Effective with the 2014 ACFR
67	Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25	2012	• Effective with the 2015 ACFR • Implementation Guide Issued in June 2013
68	Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27	2012	• Effective with the 2015 ACFR • Amended by GASB Statement 71 • Implementation Guide Issued in January 2014

GASB Statements (Continued)

	GASB Statement	Year Issued	Comments
	Government Combinations and Disposals of Government Operations	2013	Effective with the 2015 ACFR
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	2013	Effective with the 2014 ACFR
71	Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68	2013	• Effective with the 2015 ACFR • Should be applied simultaneously with GASB Statement 68.
72	Fair Value Measurement and Application	2015	Effective with the 2016 ACFR
73	Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	2015	Effective with the 2016 ACFR
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2015	Effective with the 2018 ACFR (effective for CY17 plan statements, which are presented in the FY18 ACFR)
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2015	Effective with the 2018 ACFR
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2015	• Effective with the 2016 ACFR • To be implemented along with the 2015-1 Implementation Guide, which GASB 76 makes authoritative
77	Tax Abatement Disclosures	2015	Effective with the 2017 ACFR
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	2015	Effective with the 2017 ACFR
79	Certain External Investment Pools and Pool Participants	2015	Effective with the 2016 ACFR
80	Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14	2016	Effective with the 2017 ACFR
81	Irrevocable Split-Interest Agreements	2016	Effective with the FY 2018 ACFR
82	Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73	2016	Effective with the FY 2018 ACFR
83	Certain Asset Retirement Obligations	2016	Effective with the FY 2019 ACFR
84	Fiduciary Activities	2017	Effective with the FY 2020 ACFR
85	Omnibus 2017	2017	Effective with the FY 2018 ACFR
86	Certain Debt Extinguishment Issues	2017	Effective with the FY 2018 ACFR
87	Leases	2017	Effective with the FY 2022 ACFR^
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2018	Effective with the FY 2019 ACFR
89	Accounting for Interest Cost Incurred before the End of a Construction Period	2018	Effective with the FY 2021 ACFR
90	Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61	2018	Effective with the FY 2021 ACFR^
91	Conduit Debt Obligations	2019	Effective with the FY 2023 ACFR^
92	Omnibus 2020	2020	Effective with the FY 2022 ACFR
93	Replacement of Interbank Offered Rates	2020	Effective with the FY 2022 ACFR^
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2020	Effective with the FY 2023 ACFR^
95	Postponement of the Effective Dates of Certain Authoritative Guidance	2020	Effective with the FY 2020 ACFR
96	Subscription-Based Information Technology Arrangements	2020	Effective with the FY 2023 ACFR
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32	2020	Effective with the FY 2021 ACFR
98	Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.	2021	Effective with the FY 2022 ACFR
99	Omnibus 2022	2022	**Paragraphs 4-10 effective with the FY 2024 ACFR** Paragraphs 11-25 effective with the FY 2023 ACFR Paragraphs 26-32 effective with the FY 2022 ACFR
100	Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62	2022	**Effective with the FY 2024 ACFR**
101	Compensated Absences	2022	Effective with the FY 2025 ACFR
102	Certain Risk Disclosures	2023	Effective with the FY 2025 ACFR

GASB Interpretations:

	GASB Interpretation	Year Issued	Comments
1	Demand Bonds Issued by State and Local Governmental Entities	1984	
2	Disclosure of Conduit Debt Obligations	1995	
3	Financial Reporting for Reverse Repurchase Agreements	1996	Superseded in part ***
4	Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools	1996	Superseded in part ***
5	Property Tax Revenue Recognition in Governmental Funds	1997	
6	Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements	2000	

GASB Technical Bulletins:

	GASB Technical Bulletin	Year Issued	Comments
84-1	Purpose and Scope of GASB Technical Bulletins and Procedures for Issuance	1984	
87-1	Applying Paragraph 68 of GASB Statement 3	1987	Superseded by GASB Statement 40
92-1	Display of Governmental College and University Compensated Absences Liabilities	1992	Superseded by GASB Statement 35
94-1	Disclosures and Derivatives and Similar Debt and Investment Transactions	1994	Superseded by GASB Technical Bulletin 2003-1
96.-1	Application of Certain Pension Disclosure Requirements for Employers Pending Implementation of GASB Statement 27	1996	Superseded by GASB Statement 27
97-1	Classification of Deposits and Investments into Custodial Credit Risk Categories for Certain Bank Holding Company Transactions	1997	Superseded by GASB Statement 40
98-1	Disclosures about Year 2000 Issues	1998	Superseded by GASB Technical Bulletin 2000-1
99-1	Disclosures about Year 2000 Issues - an Amendment of Technical Bulletin 98-1	1999	Superseded by GASB Technical Bulletin 2000-1
2000-1	Disclosures about Year 2000 Issues - a Rescission of Technical Bulletins 98-1 and 99-1	2000	
2003-1	Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets	2003	Superseded by GASB Statement 53
2004-1	Tobacco Settlement Recognition and Financial Reporting Entity Issues	2004	Superseded in part by GASB Statement 48
2004-2	Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-sharing Employers	2004	
2006-1	Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D	2006	Effective upon issuance except for provisions related to GASB Statement 45. For provisions related to GASB 45, simultaneously with that statement.
2008-1	Determining the Annual Required Contribution Adjustment for Postemployment Benefits	2008	
2020-1	Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases	2020	Effective immediately

GASB Implementation Guidance:

	GASB Implementation Guide	Year Issued	Comments
2015-1	Implementation Guide No. 2015-1	2015	The requirements of this Implementation Guide should be applied simultaneously with the requirements in Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for reporting periods beginning after June 15, 2015.
2016-1	Implementation Guide No. 2016-1, *Implementation Guidance Update—2016*	2016	The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2016.
2017-1	Implementation Guidance Update No. 2017-1, *Implementation Guidance Update—2017*	2017	The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2017.
2017-2	Implementation Guidance Update No. 2017-2, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	2017	Except for the requirements in Questions 4.80, 4.144, and 4.151, the requirements are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged if Statement 74 has been implemented. The requirements in Questions 4.80, 4.144, and 4.151 are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged if the related OPEB plan provision of Statement No. 85, Omnibus 2017, has been implemented.
2017-3	Implementation Guidance Update No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*	2017	Except for the requirements of Questions 4.85, 4.103, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1-5.4, and the requirements of Questions 4.484 and 4.491 in circumstances in which OPEB is provided through an OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75, the requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2017. The requirements of Questions 4.85, 4.103, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1-5.4 are effective for actuarial valuations as of December 15, 2017, or later. The requirements of Questions 4.484 and 4.491 in circumstances in which OPEB is provided through an OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75 are effective for an employer or nonemployer contributing entity in the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2018. Earlier application is encouraged if the Statement addressed by the question and answer has been implemented.

GASB Implementation Guidance (Continued):

	GASB Implementation Guide	Year Issued	Comments
2018-1	Implementation Guide No. 2018-1, *Implementation Guidance Update-2018*	2018	The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2019.^
2019-1	Implementation Guide No. 2019-1, *Implementation Guidance Update-2019*	2019	The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2020.^
2019-2	Implementation Guide No. 2019-2, *Fiduciary Activities*	2019	The requirements of this Implementation Guide are effective for financial reporting periods beginning after December 15, 2019. Earlier application is encouraged if Statement 84 has been implemented.^
2019-3	Implementation Guide No. 2019-3, *Leases*	2019	The requirements of this Implementation Guide are effective for financial reporting periods beginning after June 15, 2021. Earlier application is encouraged if Statement 87 has been implemented.^
2020-1	Implementation Guide No. 2020-1, *Implementation Guidance Update-2020*	2020	The requirements of this Implementation Guide are effective as follows: • Questions 4.1-4.5, 4.18, and 5.3 for reporting periods beginning after June 15, 2021 • Questions 4.6-4.17 for fiscal years beginning after December 15, 2021, and all reporting periods thereafter • Questions 4.19-4.21 for reporting periods beginning after December 15, 2021 • Questions 5.1, 5.2, 5.4, and 5.5 for fiscal years beginning after June 15, 2021 • The provisions of paragraph 6 are effective immediately Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.
2021-1	Implementation Guide No. 2021-1, *Implementation Guidance Update-2021*	2021	The requirements of this Implementation Guide are effective as follows: • Questions 4.1-4.3, 4.23, and 5.2-5.4 and the supersession of Questions Z.51.4-Z.51.7 in Implementation Guide 2015-1 for reporting periods beginning after June 15, 2022 • Questions 4.4-4.21 for fiscal years beginning after June 15, 2022, and all reporting periods thereafter • Question 4.22 for fiscal years beginning after June 15, 2021 • Question 5.1 for reporting periods beginning after June 15, 2023. Earlier application is encouraged if the pronouncement addressed by the question and answer has been implemented.
2023-1	Implementation Guide No. 2023-1, *Implementation Guidance Update-2023*	2023	The requirements of this Implementation Guide are effective for reporting periods beginning after June 15, 2023.

* The National Council on Governmental Accounting (NCGA), the standard setting body that immediately preceded the GASB, issued a number of statements and interpretations. While some of the requirements found in the NCGA pronouncements have since been superseded, others still remain in effect.

** The "year issued" is different than the "effective date". All statements/interpretations have been implemented unless otherwise noted.

*** While some paragraphs are still in effect, this statement/interpretation contains at least one paragraph that has been superseded or subject to editorial deletion.

^ GASB Statement 95 issued in May 2020 delayed the effective date of certain standards. The year effective for the ACFR shown factors in the delay. The effective date for GASB 84 was also delayed, but the State implemented this standard in FY 2020.

SECTION:	III – Financial Reporting	**EFFECTIVE DATE:**	July 1, 2019
SUB-SECTION:	2 – Financial Statements	**REVISION DATE:**	June 2, 2020
SUBJECT:		**PAGE:**	1 of 5

Financial reporting is the process of communicating information concerning the financial condition and activities of an entity. Although used by officials for internal purposes, governmental financial reports should also meet the information needs of citizens, governing and legislative bodies and other parties external to government. Users of the financial statements would include:

- Taxpayers,
- Service consumers,
- Governing boards,
- Oversight bodies,
- Investors,
- Creditors,
- Government employees, and
- Participants in the annual budget process.

In order to provide financial information to satisfy the needs of this broad range of users, the State of Wisconsin will annually issue an Annual Comprehensive Financial Report (ACFR). The ACFR is comprehensive in the depth and breadth of its reporting detail and provides full disclosure including the requirements of generally accepted accounting principles (GAAP).

The basic elements of these statements include:

- Management discussion and analysis
- Basic financial statements:
  - Government-wide financial statements
  - Fund financial statements
- Notes to the financial statements
- Required supplementary information

The ***Management Discussion and Analysis*** (MD&A) introduces the basic financial statements and provides an analytical overview of the State's financial activities. The State Controller's Office - Financial Reporting Section (SCO-FRS) will primarily prepare the MD&A with assistance from State agencies. Agencies with significant activities to be disclosed in the MD&A will need to report them to the SCO-FRS.

The ***government-wide financial statements*** consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Each statement presents governmental, business-type and component unit columns. Fiduciary activities, whose resources are not available to finance the State's programs, are excluded from these statements. To prepare these statements, the SCO-FRS will compile additional adjusting entries based on information submitted from agencies.

Fund financial statements report additional and detailed information about the primary government and focus on major funds. Governmental, proprietary and fiduciary fund types are included within the fund financial statements. Agencies will submit fund financial statements for activities that are identified as individual GAAP funds.

Notes to the financial statements consist of additional information that is provided to amplify or explain items from the basic financial statements. This information is deemed by GASB to be essential to a user's understanding of the basic financial statements. State agencies will submit note disclosure information required by GASB standards on note disclosure forms.

Required supplementary information (RSI), other than the MD&A, consists primarily of budgetary comparison and infrastructure schedules with related notes.

In addition to the information required above, the State's Annual Comprehensive Financial Report (ACFR) will also present information such as a letter of transmittal, the combining fund financial statements, and various statistical information.

The specific elements of the ACFR will include:

I. INTRODUCTORY SECTION

A. Title page

B. Table of contents

C. Letter of transmittal

D. A current Certificate of Achievement for Excellence in Financial Reporting (if applicable)

E. Organizational chart

F. Listing of principal officials

G. Other material deemed appropriate by management

II. FINANCIAL SECTION

The financial statements and schedules to be included in the Financial Section consist of:

A. Independent auditor's opinion on the financial statement audit

B. Management Discussion and Analysis (MD&A)

C. Basic Financial Statements

1. Government-wide Financial Statements
   a. Statement of Net Position
   b. Statement of Activities

2. Governmental Fund Financial Statements
   a. Balance Sheet
   b. Statement of Revenues, Expenditures, and Changes in Fund Balances

II. FINANCIAL SECTION (Cont'd.)

3. Proprietary Fund Financial Statements
    a. Statement of Net Position
    b. Statement of Revenues, Expenses, and Changes in Fund Net Position
    c. Statement of Cash Flows

4. Fiduciary Fund Financial Statements
    a. Statement of Fiduciary Net Position (required for all fiduciary funds).
    b. Statement of Changes in Fiduciary Net Position (required for all fiduciary funds starting in FY 2020 with the implementation of GASB 84).

5. Notes to the financial statements.

Discretely presented component units are included only in the government-wide financial statements, while fiduciary funds and fiduciary component units are excluded from those same government-wide financial statements. Internal balances and activities are eliminated from the total columns reported in the government-wide financial statements, except when their elimination would distort the cost data on functional activities provided in the government-wide statement of activities.

In both the governmental and proprietary fund financial statements, the focus is on major individual funds, while fiduciary fund reporting focuses on fund types.

D. Required Supplementary Information

1. Postemployment Benefits – State Retiree Health, State Retiree Life Insurance Programs and Supplemental Health Insurance Conversion Credit Program
2. Pension Benefits – Wisconsin Retirement System
3. Infrastructure Assets Reported Using the Modified Approach
4. Budgetary Comparison Schedule – General and Major Special Revenue Funds
5. Notes to Required Supplementary Information – Budgetary Information

D. Combining and individual fund presentations

1. Combining Statements – nonmajor governmental funds
    a. Balance Sheet
    b. Statement of Revenues, Expenditures, and Changes in Fund Balances
    c. Budgetary Comparison Schedule for Nonmajor Budgeted Special Revenue and Permanent Funds

2. Combining Statements – nonmajor enterprise funds
    a. Statement of Net Position
    b. Statement of Revenues, Expenses, and Changes in Fund Net Position
    c. Statement of Cash Flows

II. FINANCIAL SECTION (Cont'd.)

3. Combining Statements – internal service funds
   a. Statement of Net Position
   b. Statement of Revenues, Expenses, and Changes in Fund Net Position
   c. Statement of Cash Flows

4. Fiduciary Combining Statements
   a. Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds
   b. Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds
   c. Fiduciary Net Position – Investment Trust Funds
   d. Changes in Fiduciary Net Position – Investment Trust Funds
   e. Fiduciary Net Position – Private Purpose Trust Funds
   f. Changes in Fiduciary Net Position – Private Purpose Trust Funds
   g. Fiduciary Net Position – Custodial Funds
   h. Changes in Fiduciary Net Position – Custodial Funds

III. STATISTICAL SECTION

This section contains tables that differ from financial statements in that they usually cover more than two fiscal years and may present non-accounting data. The statistical tables are presented in five categories: financial trends information, revenue capacity information, debt capacity information, demographic and economic data, and operating information. The State of Wisconsin's ACFR may include the following schedules:

A. Financial Trends Information gives an indication of how the government's financial position has changed over time.

   1. Schedules presented at the entity-wide level on the accrual basis of accounting:
      a. Net Position by Component
      b. Changes in Net Position

   2. Schedules presented at the fund-level on the modified accrual basis of accounting:
      a. Fund Balances of Governmental Funds
      b. Changes in Fund Balance of Governmental Funds

B. Revenue Capacity Information
   1. Personal Income by Industry
   2. Personal Income Tax Rates
   3. Personal Income Filers and Liability by Income Level Calendar Year and Nine Years Prior

C. Debt Capacity Information
   1. Ratio of Outstanding Debt by Type
   2. Ratio of General Obligation Bonded Debt and Appropriation Bonds to Personal Income and Per Capita
   3. Legal Debt Margin
   4. Revenue Bond Debt Service Schedules

III. STATISTICAL SECTION (Cont'd.)

D. Demographic and Economic Information
   1. Demographic and Economic Statistics

E. Operating Information
   1. Full Time Equivalent Employees by Function/Program
   2. Operating Indicators by Function
   3. Capital Assets Statistics by Function
   4. Ten-year required supplementary information for public entity risk pools

SECTION:	III - Financial Reporting	**EFFECTIVE DATE:**	July 1, 2019
SUB-SECTION:	3 – Fund Accounting	**REVISION DATE:**	June 3, 2020
SUBJECT:		**PAGE:**	1 of 2

Generally accepted accounting principles (GAAP) for government bodies require that governmental accounting systems be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

The State of Wisconsin's accounting system is organized on a fund basis. By statute the system includes the General Fund, used to account for revenues which finance the general operations of the State, and various segregated funds used to account for revenues which have been designated by law for a particular purpose.

In conformance with GAAP reporting standards, the State's statutory funds, together with the proprietary and fiduciary activities accounted for in the General and certain segregated funds, are classified into three fund categories which are divided into fund types that group all funds of similar characteristics and purpose.

These fund categories and types are described below.

Governmental Funds

1. **General Fund** – to account for and report all financial resources not accounted for and reported in another fund.

2. **Special Revenue Funds** – to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for debt service or capital projects funds) that are restricted or committed to expenditure for specified purposes.

3. **Capital Projects Funds** – to account for and report financial resources that are restricted, committed or assigned for capital outlays, including the acquisition or construction of major capital facilities and other capital assets (other than capital outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments).

4. **Debt Service Funds** – to account for and report financial resources that are restricted, committed or assigned to expenditure for debt principal and interest.

5. **Permanent Funds** – to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Funds

6. **Enterprise Funds** – to account for operations (a) that are financed with debt that is secured solely by fees and charges; or (b) where laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (c) where the government's policy is to establish activity fees or charges designed to recover the cost of providing services (including capital costs such as depreciation or debt service)

7. **Internal Service Funds** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. If other governments are involved, the use of an internal service fund is only appropriate if the sponsoring government is itself the predominant participant in the activity. Otherwise, an enterprise fund should be used.

Fiduciary Funds

8. **Pension and Other Employee Benefit Trust Funds** – to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

9. **Investment Trust Funds** – to report the external portion of resources that result from a government sponsored arrangement in which legally separate governments commingle or pool their resources in an investment portfolio for the benefit of all participants.

10. **Private-Purpose Trust Funds** – to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments.

11. **Custodial Funds** – to account for situations where the government's role is purely custodial.

Measurement focus refers to *what* is being expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering not only *which* resources are measured, but also *when* the effects of transactions or events involving those resources are recognized (the basis of accounting).

Basis of accounting refers to *when* the effects of transactions or events should be recognized for financial reporting purposes. For example, the effects of transactions or events can be recognized on an accrual basis (that is, when the transactions or events take place) or on a cash basis (that is, when cash is received or paid). Basis of accounting is an essential part of measurement focus because a particular timing of recognition is necessary to accomplish a particular measurement focus.

Measurement Focus

GAAP based fund accounting principles generally discuss the measurement focus of governmental and propriety funds. Fiduciary fund types are treated in a similar manner as proprietary funds.

Fund Statements

A clear distinction should be made between the measurement focus of governmental funds and that of proprietary and fiduciary funds.

Governmental Funds -- Governmental funds are used to account for activities that primarily provide services to citizens. They are financed primarily by taxes and intergovernmental grants. Governmental funds use a *current financial resources* measurement focus. This measurement focus recognizes the net effect of transactions on current financial resources by recording accruals for those revenue and expenditure transactions which have occurred by year-end that are normally expected to result in cash receipt or disbursement early enough in the following year either (a) to provide financial resources to liquidate liabilities recorded in the fund at year end or (b) to require the use of available expendable financial resources reported at year end.

Proprietary Funds -- Proprietary funds are used to account for activities that are similar to those found in the private sector. Proprietary funds use an *economic resources* measurement focus. The economic resources measurement focus measures the increases (revenues) and decreases (expenses) in net total assets and the balance of and claims against assets. Under this measurement focus, all assets and liabilities are reported on the balance sheet whether current or noncurrent. It includes depreciation of capital assets, deferral of unearned revenues and prepaid expenses, and amortization of the resulting liabilities and assets.

Fiduciary Funds – Fiduciary funds are used to report assets held by the State but cannot be used to support the State's own programs. Fiduciary funds use an *economic resources* measurement focus and accrual basis of accounting. Certain liabilities for fiduciary funds should be recognized when an event has occurred that compels the government to disburse fiduciary resources.

Government-wide Statements

In the government-wide financial statements, both governmental and business-type activities report financial activity using the economic resources measurement focus.

Basis of Accounting

Measurement focus can relate to the various funds in a different way, and yet, the various funds can still have the same basis of accounting. The major bases of accounting are cash and accrual.

Cash basis of accounting, which is used for *budgetary* purposes, is not an acceptable basis of accounting for the purpose of preparing the State's GAAP financial statements. Under the cash basis of accounting, transactions are recognized only when cash changes hands. Cash basis financial statements omit recognition of assets and liabilities not arising from cash transactions; therefore, they rarely present financial position or results of operations in conformity with GAAP.

The *accrual basis of accounting* recognizes revenues when they are earned regardless of when cash is received. Expenses/ expenditures are recognized when a liability is incurred regardless of when paid. Since accrual accounting results in accounting measurements based on the substance of transactions and events, rather than when cash is received or disbursed, it enhances their relevance, neutrality, timeliness, completeness, and comparability.

Fund Statements

Governmental Funds -- Governmental fund revenues and expenditures should be recognized on the *modified accrual* basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Proprietary Funds -- Proprietary fund revenues and expenses should be recognized on an *accrual basis* of accounting. Revenues should be recognized in the accounting period in which they are earned and become measurable; expenses should be recognized in the period incurred, if measurable.

Fiduciary Funds – Fiduciary funds should be reported using the economic resources measurement focus and accrual basis of accounting. Recognition of certain liabilities of defined benefit pension and other postemployment benefit plans are required when benefits are due and payable in accordance with benefit terms. Other fiduciary activities recognize a liability when an event has occurred that compels the government to disburse fiduciary resources.

Government-wide Statements

In the government-wide financial statements, both governmental and business-type activities report financial activity using the accrual basis of accounting.

BACKGROUND

The State of Wisconsin is involved in providing a full range of services to its citizens. Many of these services are provided by various State agencies whose activities are accounted for in numerous funds. Such agencies are logically part of the reporting entity due to the direct relationship between the agency and the State, as evidenced by the high degree of their integration into the budgetary process and daily operations. Other services are provided by various "quasi-state" agencies, corporations and programs whose activities are accounted for in separate, independent systems. The existence of these organizations necessitates the development of a conceptual framework to determine the State of Wisconsin's financial reporting entity.

The Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity," GASB Statement No. 39 “Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14,” GASB Statement No. 61 “The Financial Reporting Entity: Omnibus, an amendment of GASB Statement No. 14 and No. 34,” GASB Statement No. 80 “Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14”, and GASB Statement No. 90 “Majority Equity Interest, an amendment of GASB Statement No. 14 and No. 61” prescribe the standards for defining and reporting on the financial reporting entity.

FINANCIAL REPORTING ENTITY DEFINITION

The financial reporting entity consists of:

a) the primary government, (the State)
b) organizations for which the primary government is ***financially accountable***, and
c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Legally separate organizations included under (b) and (c), above, that are considered part of the financial reporting entity are referred to as **component units**.

GASB STATEMENT NO. 14, AS AMENDED BY GASB STATEMENT NO. 61, GASB STATEMENT NO. 80 and GASB STATEMENT NO. 90

Financial Accountability

Statement 14, as amended, establishes financial accountability as the threshold for including an organization in the financial statements of the reporting entity. Generally the primary government is financially accountable if results from one of the following determinations:

a. If it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
b. If a special-purpose government is fiscally dependent on the primary government and there is a potential for the special purpose government to provide specific financial benefits to, or impose specific financial burdens on, the primary government, regardless of whether the special purpose government has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.
c. If the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment.

- Imposition of Will

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

- Financial Benefit or Burden Relationship

A financial benefit or burden relationship exists if the primary government:
- is legally entitled to or can otherwise access the organization's resources,
- is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization, ***or***
- is obligated in some manner for the debt of the organization.

- Holding of a Majority Equity Interest - GASB Statement No. 90

GASB defines equity interest as a financial interest in a legally separate organization evidenced through stock ownership or by having the explicit right to net resources of an organization based on cash or capital resource contributions by the government.

If the primary government's holding of an equity interest meet the definition of an investment under GASB 72, the equity interest should be reported as an investment using the equity method. There is an exception if the government holding this investment is a special purpose government engaged only in fiduciary activities, a fiduciary fund or and endowment/permanent fund. In those cases the majority equity interest should be recorded at fair value.

If the primary government's holding of an equity interest does not meet the definition of an investment under GASB 72, then there is financial accountability for that legally separate organization and the government should report the organization as a component unit and report the interest as an asset of the fund that holds the equity interest using the equity method.

Fiscal Dependency

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

GASB Statement No. 39

GASB Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

- the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents,

- the primary government, 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 separate organization, and

- the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component units' relationship with the primary government warrant inclusion in the reporting entity.

FINANCIAL STATEMENT PRESENTATION OF COMPONENT UNITS

The financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. To accomplish this goal, the financial statements should generally communicate information about the component units and their relationships with the primary government rather than create the perception that the primary government and all of its component units are one legal entity.

Discrete Presentation

Most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in one or more columns separate from the financial data of the primary government. Certain information should be disclosed about each major component unit included in the component units column. The required information may be presented by using one column in the government-wide financial statements for the component units and either including appropriate combining statements for the discretely presented component units or presenting appropriate condensed financial statements of the discretely presented component units in the notes to the reporting entity's financial statements.

Blending

Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending.

Note Disclosures

The notes to the reporting entity's financial statements should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units. The reporting entity's financial statements should make those component unit disclosures that are essential to fair presentation of the financial reporting entity's ACFR. The notes to the financial statements also should include a brief description of the component units and their relationship to the primary government as well as information about how the separate financial statements of individual component units may be obtained.

GASB Statement No. 14 also requires certain disclosures about the entity's relationships with organizations other than component units, including related organizations, joint ventures, jointly governed organizations, and component units of another government with characteristics of a joint venture or jointly governed organizations. This statement also provides financial statement display requirements for joint ventures in which the participating government has an equity interest.

MECHANISM TO IDENTIFY POTENTIAL COMPONENT UNITS OF THE STATE

With the implementation of GASB Statement No. 14, GASB Statement No. 39, GASB Statement No. 61, GASB Statement No. 80 and GASB Statement No. 90, the Financial Reporting Section has surveyed State agencies to identify potential component units (PCUs). Based on the survey and additional follow-up, State agencies have identified the PCUs listed on the final pages of this sub-section. Agencies have applied the criteria of GASB Statement No. 14, GASB Statement No. 39, GASB Statement No. 61, GASB Statement No. 80 and GASB Statement No. 90 to determine which PCUs should be included in the State's Annual Comprehensive Financial Report (ACFR).

It is the responsibility of State agencies to notify the Financial Reporting Section of:

- **any new potential component units (PCUs), or**
- **any changes in already-evaluated PCUs,**

that could impact the composition of the financial reporting entity.

The Financial Reporting Section will annually communicate with agencies to assist in the analysis and with guidance on the overall evaluation process.

COMPONENT UNITS OF THE STATE

After analysis as potential component units (PCUs), the organizations listed below have been determined to be and are reported as component units in the ACFR. The listing indicates whether these are presented discretely, or blended with the primary government.

Component Unit	Related Agency	Presentation in ACFR
Wisconsin Public Broadcasting Foundation	Educational Communications Board	Blended
Wisconsin Health Care Liability Insurance Plan	Office of the Commissioner of Insurance	Discrete Presentation
University of Wisconsin Foundation	UW System	Discrete Presentation
University of Wisconsin Hospitals & Clinics Authority	*Separate authority*	Discrete Presentation
Wisconsin Housing & Economic Development Authority	*Separate authority*	Discrete Presentation
Wisconsin Economic Development Corp.	*Separate authority*	Discrete Presentation

OTHER POTENTIAL COMPONENT UNITS OF THE STATE

The other potential component units (PCUs) listed below have been analyzed by applying GASB Statement No. 14, GASB Statement No. 39, GASB Statement No. 61, GASB Statement No. 80 and GASB Statement No. 90 criteria. The conclusions of that analysis (i.e. the basis for not presenting the organization as a component unit) is presented below. Related organizations are presented first:

Potential Component Units (PCU)	Related Agency	Conclusion
Wisconsin Health and Educational Facilities Authority	Separately identified authority	Related Organization
Fox River Navigational System Authority	Separately identified nonprofit corp.	Related Organization
Lower Fox River Remediation Authority	Separately identified authority	Related Organization – Immaterial for ACFR
Wisconsin Technology Council	Economic Development	Not Part of Financial Reporting Entity
Wisconsin Medical College	N/A	Not Part of Financial Reporting entity
Green Bay/Brown Co. Professional Football Stadium Dist.	Separately identified district	Not Part of Financial Reporting Entity
Wisconsin Compensation Rating Bureau	Department of Workforce Development	Not Part of Financial Reporting Entity
Wisconsin Worker's Compensation Pool	Department of Workforce Development	Not Part of Financial Reporting Entity
Wisconsin Center District	Separately identified district	Not Part of Financial Reporting Entity
Southeast Wisconsin Professional Baseball Park District	Separately identified district	Not Part of Financial Reporting Entity
Wisconsin Statewide Health Information Network	Separately identified nonprofit org.	Not Part of Financial Reporting Entity
Celebrate Children's Foundation	Child Abuse and Neglect Prevention Board	Immaterial to the ACFR
Wisconsin Aerospace Authority	Separately identified authority	Immaterial to the ACFR

Affiliated Organizations of the State

The following affiliated organizations were identified during the GASB Statement No. 39 evaluation but are not included as part of the ACFR reporting entity:

Agency	Affiliated organization
State Fair Park	Wisconsin State Fair Park Foundation, Inc.
Educational Communications Board	Friends of Wisconsin Public Television, Inc
	Wisconsin Public Radio Association, Inc.
Historical Society	Friends of the State Historical Society of Wisconsin
	Friends of the Wade House, Inc.
	Old World Wisconsin Foundation, Inc.
	Wisconsin Historical Foundation, Inc.
University of Wisconsin System	American Institute of the History of Pharmacy (AIHP)
	American Suzuki Foundation of Stevens Point WI, Inc.
	Babcock House
	Badger Basketball Boosters, Inc.
	Becoming an Outdoors-Woman, Inc.

University of WI System (cont.)	Bluegold Radio, LLC
	Blugold Entrepreneurs
	Blugold Real Estate, LLC
	Blugold Roast Coffee, LLC
	Center for Advanced Studies in Business, Inc.
	Eau Claire Community Complex, Inc.
	Economic Justice Institute, Inc.
	French House, Inc.
	Friends of Allen Centennial Garden
	Friends of Lakeshore Nature Preserve, Inc.
	Friends of Madison Student Radio, Inc.
	Friends of Max Kade Institute for German-American Studies Inc
	Friends of PBS Wisconsin, Inc.
	Friends of Schmeekle Reserve, Inc.
	Friends of the Arboretum, Inc.
	Friends of the Campus, Inc. (Baraboo)
	Friends of the Geology Museum UW - Madison, Inc.
	Friends of the Lake Superior National Estuarine Research Reserve, Inc.
	Friends of the School of Human Ecology at UW-Madison, Inc.
	Friends of the UW Odyssey Project, Inc.
	Friends of the Waisman Center, Inc.
	Friends of the Wisconsin Singers, Inc.
	Friends of WisCARES, Inc.
	GTNT, LLC
	Haymarket Concepts, LLC
	Healthy Minds Innovations, Inc.
	Kelab, Inc.
	Leadership Wisconsin, Inc.
	Madison Family Residency Corp., Inc.
	Morgridge Institute for Research
	Platteville Foundation, Inc
	QB Club Booster Club
	REF Bridgeway Commons LLC
	Richland County Campus Foundations, Ltd.
	Stout Technology Park Development Corporation
	Stout University Foundation, Inc.
	The University of Wisconsin Madison Naval Reserve Officers Training Corps
	The University of Wisconsin Trust
	The UW Madison School of Music Alumni Association Incorporated
	The UW-Madison Retirement Association, Inc.
	The Varsity Collective Charitable Fund, Inc.
	The Wisconsin Union Association, Inc.
	Tip Off Club
	University Foundation: UW - Marshfield/Wood County
	University Insurance Association, Inc.
	University of Wisconsin Medical Foundation, Inc.
	University of Wisconsin Platteville Alumni Association
	University of Wisconsin School of Pharmacy Alumni Association, Inc.
	University of Wisconsin-Madison Nurses Alumni Organization, Inc.

University of WI System (cont.)	University of Wisconsin-Parkside Alumni Association
	University Research Park
	University Village Housing, Inc. c/o U.W.G.B., Business & Finance
	UW - Fox Valley Foundation, Inc.
	UW - La Crosse Foundation, Inc.
	UW - Lacrosse - Alumni Association
	UW – Platteville Pioneer Education and Development Foundation, Inc.
	UW - Superior Alumni Association
	UW - Wausau Campus Foundation, Inc.
	UW- Eau Claire Foundation, Inc.
	UW Fond du Lac Foundation, Inc.
	UW Oshkosh Foundation, Inc
	UW Parkside Foundation, Inc.
	UW Platteville Real Estate Foundation, Inc.
	UW Riverfalls Foundation
	UW Stevens Point Foundation, Inc.
	UW Stevens Point Paper Science Foundation, In.
	UW Superior Foundation, Inc.
	UW Waukesha Foundation, Inc
	UW Whitewater Foundation, Inc.
	UW-Green Bay Foundation, Inc.
	UWM Alumni Association, Inc.
	UWM Foundation, Inc.
	UWM Real Estate Foundation, Inc.
	UWM Research Foundation, Inc.
	UW-Madison Ophthalmology Alumni Association, Inc.
	Warhawk Real Estate Foundation, LLC
	Washington County Campus Foundation
	Weidner Center Presents, Inc.
	WiCell Research Institute
	William F. Vilas Estate
	Wisconsin 4-H Foundation, Inc.
	Wisconsin Alumni Research Foundation
	Wisconsin Center for Educational Products & Services
	Wisconsin Crop Improvement Association Inc
	Wisconsin Humanities Council
	Wisconsin Public Radio Station
	Wisconsin Real Estate Alumni Association
	Wisconsin Technology Innovation Initiative Inc (WI2)

Note: UW System may present component units in their standalone statements that are not considered component units for Wisconsin's ACFR.

Department of Natural Resources	Natural Resources Foundation of Wisconsin, Inc.
	Friends of Wyalusing State Park
Department of Veterans Affairs	Wisconsin Veterans Museum Foundation
Tourism	Friends of the Kickapoo Valley Reserve

RELATED PARTIES

GASB 62, para. 54 defines related parties and requires disclosure of transactions between related parties. Examples of related party transactions include transactions (a) between a government and its related organizations, joint ventures, and jointly governed organizations; (b) between a government and its elected and appointed officials, management, or members of their immediate families; and (c) between a government and trusts for the benefit of employees, such as pension and other postemployment benefit trusts that are managed by or under the trusteeship of the government's management.

Transactions between related parties commonly occur in the normal course of operations. Some examples of common types of transactions with related parties are sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services; use of capital assets by lease or otherwise; borrowings and lendings; guarantees; and reimbursements based on allocations of common costs. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, a government may receive services from a related party without charge and not record receipt of the services.

STATE FINANCIAL ACTIVITY ACCOUNTED FOR 'OFF-SYSTEM'

The following state activities are not accounted for on the State's Central Accounting System. Rather, they are accounted for 'off-system'. However, these activities are included as part of the primary government within the financial reporting entity:

Department of Transportation Revenue Bonds
Annual Appropriation Bonds
2009 Annual Appropriation Bonds
Unemployment Insurance Reserve
Inmate and Resident Funds
Bank and Insurance Company Deposits
Correctional Canteen Operations

See Section III, Sub-section 6, "State GAAP Fund Structure" for a complete listing of the State's GAAP funds, including component units and off-system activities.

GOVERNMENT COMBINATIONS & DISPOSALS OF GOVERNMENT OPERATIONS

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. It is applicable when two separate legal entities are involved. For GAAP reporting purposes, state agencies are all part of one legal entity – the State of Wisconsin.

As used in the Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. Carrying values are used to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. GASB 69 requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

GASB 69 also provides guidance for transfers of operations between legally separate entities in which no significant consideration is exchanged. The term *operations* are defined for purposes of determining the applicability of the statement which requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government that have been transferred or sold to another entity. For example, certain operations of the State might be transferred to a newly created separate legal authority.

At times, state activities, programs or functions, are moved between, within, or to newly created state agencies. Provisions of GASB 69 do not apply in those circumstances because the reorganization occurs within one existing legal entity (the State of Wisconsin). Other GASB standards would be applied, as necessary, to reflect the financial impact in the ACFR.

MECHANISM TO IDENTIFY COMBINATION AND DISPOSALS

Because of the relative stability of governmental entities, GASB 69 is not expected to be applicable to the State's ACFR on a recurring or frequent basis. Changes impacting the State are expected to occur through legislation enacted by the State legislature. SCO-FRS staff will monitor legislative proposals, e.g. biennial budget acts, and other sources of information for indications such an event has occurred.

Determination of proper ACFR reporting will be driven by the legal conditions established within the legislation resulting in the combination/disposal/acquisition transactions. As a result, evaluations of the transactions will be handled on a case-by-case basis by SCO-FRS staff. Staff will work with state agencies or other entities, as necessary, to analyze the circumstances and apply the provisions of GASB 69. After conclusions have been reached, applicable steps will be taken to appropriately reflect the circumstances in the State's ACFR.

If agency GAAP accountants become aware of potential combinations/disposals/transfers/mergers that SCO-FRS may not be aware of, they should promptly contact staff in the SCO-FRS to discuss the issue.

****

The State of Wisconsin's Annual Comprehensive Financial Report (ACFR) reflects a reorganization of the state's statutory fund structure to a GAAP fund structure in compliance with GASB standards. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

To connect the State's chart of accounts to the concept of a GAAP fund as reported in the State's ACFR, to maintain proper internal controls over financial reporting, and to enhance efficiency, agencies must use only self-balancing chartfields to designate their individual GAAP funds.

To construct a GAAP fund, financial activity may be reorganized in a number of ways including:

- Financial activity may be extracted from one "parent" statutory fund to make an individual GAAP fund;
- Multiple individual statutory funds may be combined (rolled up) with a portion of the statutory General Fund to make one GAAP fund;
- Multiple individual statutory funds may be combined with a portion of one or many other statutory funds to make one GAAP fund;
- Portions of multiple statutory funds may be extracted from the "parent" statutory funds and combined to make one GAAP fund; or
- One statutory fund may comprise one GAAP fund.

Furthermore, certain activities such as those of legally-separate component units, which are not recorded on the state central accounting system, must also be included in the state's reporting entity.

The following pages provide detail on the state's GAAP fund structure by:

- Fund type (pages 2 through 6)
- Agency (pages 7 through 12).

Note: *Implementation of the PeopleSoft-based STAR ERP system resulted in changes to the State of Wisconsin fund numbering structure that had been used prior to FY 2016. Each transaction is assigned a fund number in STAR which is the lowest level of detail for that fund. This means that both the statutory and GAAP fund number, for reporting purposes, may be determined from the transaction's fund number. The statutory fund provides the basis for budgetary reporting while the GAAP fund provides the basis for ACFR reporting. Exceptions to this situation, which are limited to the DOT Transportation Revenue Bond Program and Capital Accounting Funds, are further explained on page 12 of this section.*

The fund numbers to be used for recording financial activity may be found in the Wisconsin Accounting Manual (located on the State Controller's Office website.) The GAAP fund numbers on the following pages will be used to compile the ACFR.

<u>GOVERNMENTAL FUNDS</u>	<u>GAAP Fund No.</u>	<u>*STAR Detail Fund(s) No.*</u>
General Fund (Major Fund)	**100**	
General		10000
Medical Assistance Trust		28000
Hospital Assessment		28200
Critical Access Hospital Assessment		28400
Budget Stabilization		28600
Local Government		28700
PFAS		28800
Permanent Endowment		29100
Read to Lead		29300
Democracy Trust		29500
Wisconsin Election Campaign		29700
Unemployment Integrity		29800
Special Revenue Funds:		
Transportation (Major Fund)	211	21100
Conservation (#)	212	21200
Utility Public Benefits	235	23500
911 (name change, was Police and Fire Protection)	239	23900
Ambulance Serv Provider Trust	242	24200
Economic Development	248	24800
Petroleum Inspection	272	27200
Wisconsin Public Broadcasting Foundation *	278	27800
Other Environmental Special Revenue – consisting of:		
Heritage State Parks and Forests	213	21300
Waste Management	217	21700
Environmental (#)	274	27400
Dry Cleaner Environmental Response	277	27700
Recycling and Renewable Energy (#)	279	27900
Other Special Revenue – consisting of:		
Unemployment Interest Payment	214	21400
Investment and Local Impact	219	21900
Election Administration	220	22000
Industrial Building Construction Loan	222	22200
Children’s Trust	223	22300
Self-insured Employers Liability	224	22400
Work Injury Supplemental Benefit	226	22600
Workers Compensation	227	22700
Uninsured Employers	229	22900
Mediation	238	23800
Working Lands	241	24100

GOVERNMENTAL FUNDS (continued)	**GAAP Fund**	***Detail Fund(s)***
Special Revenue Funds (continued):		
State Capitol Restoration	250	25000
Military Family Relief	251	25100
Wholesale Drug Distributors Bonding (inactive)	252	25200
Universal Service (#)	255	25500
Agricultural Chemical Cleanup (#)	257	25700
Farms for the Future (inactive)	258	25800
Agrichemical Management	259	25900
Agricultural Producer Security	261	26100
Historical Legacy Trust	264	26400
History Preservation Partnership Trust	266	26600
Wireless 911	268	26800
Land Information	269	26900
Debt Service Funds:		
Petroleum Inspection Revenue Bonds * (Last year of activity was FY20)	310	31000
Transportation Revenue Bond - Debt Service ^	311	31100
Annual Appropriation Bonds *	312	31200
2009 Annual Appropriation Bonds *	313	31300
Bond Security and Redemption @	315	31500
Capital Projects Funds:		
Building Trust @	360	36000
Capital Improvement @	363	36300
Transportation Revenue Bond - Capital Project ^	365	36500
Permanent Funds:		
Common School	**374**	
Common School		37400
Common School Income		37500
Other Permanent – consisting of:		
Agricultural College	381	38100
Normal School	383	38300
University	385	38500
Historical Society	387	38700
Benevolent	389	38900

PROPRIETARY FUNDS	GAAP Fund	*Detail Fund(s)*
Enterprise Funds:		
University of Wisconsin System (Major Fund) (G)	**150**	
University of Wisconsin %		15000
University Trust Principal		51100
University Trust Income		51200
Injured Patients and Families Compensation	533	53300
Unemployment Reserve (Major Fund) *	540	54000
Environmental Improvement (Major Fund)	573	57300
Mendota Mental Health Institute (G)	141	14100
Winnebago Mental Health Center (G)	142	14200
Health Insurance	**402**	
Core - Health Insurance		40200
PET - Health Insurance		47200
Retiree Health Insurance	**404**	
Core - Retiree Health Insurance		40400
PET - Retiree Health Insurance		47400
Income Continuation Insurance	406	40600
Duty Disability	407	40700
Lottery	521	52100
Veterans Trust	582	58200
Veterans Mortgage Loan Repayment (Last year of activity was FY20)	583	58300
Other Care and Treatment Facilities – consisting of:		
Central Developmental Disabilities Center (G)	144	14400
Northern Developmental Disabilities Center (G)	143	14300
Southern Developmental Disabilities Center (G)	145	14500
Homes for Veterans (G)	152	15200
Other Enterprise – consisting of:		
State Fair Park	151	15100
Institutional Farm Operations (G)	153	15300
Correctional Canteen Operations	154	15400
Life Insurance (No longer reported in ACFR starting FY19)	476	47600
Local Government Property Insurance (Last year of activity was FY21)	531	53100
State Life Insurance	532	53200
Transportation Infrastructure Loan	587	58700

PROPRIETARY FUNDS (Continued)	**GAAP Fund**	***Detail Fund(s)***
Internal Service Funds:		
Technology Services	**161**	
General - Tech Services		16100
VendorNet - Tech Services		58000
Fleet Services	162	16200
Financial Services	163	16300
Facilities Operations and Maintenance	164	16400
Risk Management	165	16500
Badger State Industries	166	16600
Human Resource Services	167	16700
Accumulated Sick Leave Conversion Credit	416	41600
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds:		
Wisconsin Retirement System	**401**	
Core - Wisconsin Retirement System		40100
Long Term Disability Insurance		40800
Variable - Wisconsin Retirement System		44100
PET - Wisconsin Retirement System		47100
Supplemental Health Insurance Conversion Credit	405	40500
Reimbursed Employee Expense	475	47500
Local Retiree Life Insurance	477	47700
Retiree Life Insurance	478	47800
Deferred Compensation	479	47900
Investment Trust Funds:		
Milwaukee Retirement Systems	**409**	
Core - Milwaukee Retirement Systems		40900
Variable - Milwaukee Retirement Systems		44900
Local Government Pooled Investment	756	75600
Private Purpose Funds:		
College Savings Program Trust (No longer reported in ACFR starting FY20)	**750**	
College Savings Program Trust		75000
College Savings Program Trust - Bank Deposits		75100
College Savings Program Trust - CU Deposits		75200
Tuition Trust	775	77500

FIDUCIARY FUNDS (Continued)	**GAAP Fund**	***Detail Fund(s)***
Custodial Funds:		
Insurance Company Liquidation Account	171	17100
Local Retiree Health Insurance	**403**	
Core - Local Retiree Health Insurance		40300
PET - Local Retiree Health Insurance		47300
Inmate and Resident *	772	77200
Local Sales Tax Collections	777	10000
Bank and Insurance Company Deposits *	780	78000
Support Collection Trust	788	78800

COMPONENT UNITS

University of Wisconsin Hospitals and Clinics Authority *	990	99000
Wisconsin Economic Development Corporation *	992	99200
Wisconsin Housing and Economic Development Authority *	994	99400
Wisconsin Health Care Liability Insurance Plan *	996	99600
University of Wisconsin Foundation *	998	99800

Virtually all state agencies report financial activity in the General Fund. However, only agencies designated as Major General Fund agencies, per Section IV-1 of this manual, must submit GAAP information for the General Fund and government-wide entries.

Below is a list of state agencies that must also submit financial statements and related information, such as note disclosures, for individual GAAP funds. If no individual GAAP funds are listed beside an agency name, they report activity only in the General Fund.

	Agency Responsible for GAAP Fund Reporting	*Individual GAAP Fund Name*	*GAAP Fund Type and Number (Detail)*
115	Agriculture, Trade & Consumer Protection	• Working Lands	Special Revenue/241
		• Agricultural Chemical Cleanup	Special Revenue/257
		• Farms of the Future (inactive)	Special Revenue/258
		• Agrichemical Management	Special Revenue/259
		• Agricultural Producer Security	Special Revenue/261
144	Financial Institutions	• Tuition Trust	Private Purpose Trust/775
145	Insurance	• State Life Insurance	Enterprise/532
		• Injured Patients and Families Compensation	Enterprise/533
		• Insurance Company Liquidation Account	Custodial/171
		• Wisconsin Health Care Liability Insurance Plan	Component Unit/996*
155	Public Service	• Police and Fire Protection	Special Revenue/239
		• Wireless 911	Special Revenue/268
		• Universal Service	Special Revenue/285
165	Safety and Professional Services	• Wholesale Drug Distributors Bonding (inactive)	Special Revenue/252
190	State Fair Park Board	• State Fair Park	Enterprise/151
192	WI Economic Development	• Economic Development	Special Revenue/248
		• Industrial Building Construction Loan (inactive)	Special Revenue/222
220	WI Artistic Endowment Foundation		
225	Education Communications Bd	• Wisconsin Public Broadcasting Foundation	Special Revenue/278*
235	Higher Educational Aids Bd		
245	Historical Society	• Historical Legacy Trust	Special Revenue/264
		• History Preservation Partnership Trust	Special Revenue/266
		• Historical Society	Permanent/387
250	Medical College of Wisconsin		

	Agency Responsible for GAAP Fund Reporting	*Individual GAAP Fund Name*	*GAAP Fund Type and Number (Detail)*
255	Public Instruction	• Read to Lead Development accrual entries	General Fund/293
285	University of Wisconsin System	• University of Wisconsin System (**Major Fund**) • University of Wisconsin Foundation	Enterprise/150 (#) % Component Unit/998*
292	Technical College System Bd		
320	Clean Water (DOA - SCO)	• Environmental Improvement (**Major Fund**)	Enterprise/573
360	Lower Wisconsin Riverway		
370	Natural Resources	• Conservation • Heritage State Parks and Forests • Waste Management • Petroleum Inspection • Environmental • Dry Cleaner Environmental Response • Recycling and Renewable Energy • PFAS	Special Revenue/212 Special Revenue/213 Special Revenue/217 Special Revenue/272 Special Revenue/274 Special Revenue/277 Special Revenue/279 General Fund/288
375	Lower Fox River Remediation Authority		
380	Tourism		
385	Kickapoo Reserve Mgmt Board		
395	Transportation	• Transportation (**Major Fund**) • Transportation Revenue Bonds • Transportation Infrastructure Loan	Special Revenue/211 Capital Project/365 Debt Service/311^ Enterprise/587
410	Department of Corrections	• Benevolent • Institutional Farm Operations • Correctional Canteen Operations • Badger State Industries • Inmate and Resident	Permanent/389 Enterprise/153 Enterprise/154 Internal Service/166 Custodial/772*
425	Employment Relations Comm.		
427	Labor & Industry Review Commission		
432	Board on Aging (DOA-BFM)		
433	Child Abuse & Neglect (DCF)	• Children's Trust	Special Revenue/223

	Agency Responsible for GAAP Fund Reporting	*Individual GAAP Fund Name*	*GAAP Fund Type and Number (Detail)*
435	Health Services	• Ambulance Serv Provider Trust	Special Revenue/242
		• Medical Assistance Trust accrual entries	General Fund/280
		• Hospital Assessment accrual entries	General Fund/282
		• Critical Access Hospital Assessment accrual entries	General Fund/284
		• Mendota Mental Health Institute	Enterprise/141
		• Winnebago Mental Health Institute	Enterprise/142
		• Northern Developmental Disabilities Center	Enterprise/143
		• Central Developmental Disabilities Center	Enterprise/144
		• Southern Developmental Disabilities Center	Enterprise/145
		• Inmate and Resident	Custodial/772*
437	Children and Families (See also 433)	• Support Collection Trust	Custodial/788
438	People with Developmental Disabilities Board (DOA-BFM)		
440	Health and Educational Facilities Authority		
445	Workforce Development	• Unemployment Interest Payment	Special Revenue/214
		• Self-insured Employers Liability	Special Revenue/224
		• Work Injury Supplemental Benefit	Special Revenue/226
		• Workers Compensation	Special Revenue/227
		• Unemployment Integrity accrual entries	General Fund/298
		• Uninsured Employers	Special Revenue/229
		• Unemployment Reserve **(Major Fund)**	Enterprise/540*
455	Justice		
465	Military Affairs	• Military Family Relief	Special Revenue/251
475	District Attorneys (DOA-BFM)		
485	Veterans Affairs	• Homes for Veterans	Enterprise/152
		• Veterans Trust	Enterprise/582
490	Wisconsin Housing & Economic Development Authority	• Wisconsin Housing and Economic Development Authority	Component Unit/994*
492	Wisconsin Economic Development Corp	• Wisconsin Economic Development Corp	Component Unit/992*
495	UW Hospitals and Clinics Authority	• UW Hospitals and Clinics Authority	Component Unit/990*

	Agency Responsible for GAAP Fund Reporting	***Individual GAAP Fund Name***	***GAAP Fund Type and Number (Detail)***
505	Administration – State Controller's Office	• General **(Major Fund)**	General/100
		• General Fund elimination entries	General/280, 282, 284, 286, 291, 293, 295, 297, 298
		• 2009 Annual Appropriation Bonds	Debt Service/313*
		• Capital Improvement	Capital Projects/363 @
		• Local Government Pooled Investment	Investment Trust/756
		• Bank and Insurance Company Deposits	Custodial/780*
	Administration – (DOA-BFM)	• Utility Public Benefits	Special Revenue/235
		• State Capitol Restoration	Special Revenue/250
		• Land Information	Special Revenue/269
		• Technology Services	Internal Service/161 (161 & 580)
		• Fleet Services	Internal Service/162
		• Financial Services	Internal Service/163
		• Facilities Operations & Maintenance	Internal Service/164
		• Risk Management	Internal Service/165
		• Human Resource Services	Internal Service/167
505	Administration – Capital Finance	• Annual Appropriation Bonds	Debt Service/312*
507	Board of Commissioners of Public Lands	• Common School	Permanent/374 (374 & 375)
		• Agricultural College	Permanent/381
		• Normal School	Permanent/383
		• University	Permanent/385
510	Elections Commission	• Election Administration	Special Revenue/220
515	Employee Trust Funds	• Income Continuation Insurance	Enterprise/406
		• Duty Disability	Enterprise/407
		• Health Insurance	Enterprise/402 (402 & 472)
		• Retiree Health Insurance	Enterprise/404 (404 & 474)
		• Accumulated Sick Leave Conversion Credit	Internal Service/416
		• Wisconsin Retirement System	Pension Trust/401 (401,408,441,471)
		• Reimbursed Employee Expense	Other Employee Benefit Trst /475
		• Local Retiree Life Insurance	Other Employee Benefit Trst /477
		• Retiree Life Insurance	Other Employee Benefit Trst /478
		• Milwaukee Retirement Systems	Investment Trust/409 (409 & 449)
		• Retiree Health Insurance	Private Purpose Trust /404 (404 & 474)
		• Local Retiree Health Insurance	Custodial/403 (403 & 473)
		• Supplemental Health Ins. Conversion Credit	Pension Trust/405
521	Ethics Commission		
525	Office of the Governor (DOA-BFM)		

	Agency Responsible for GAAP Fund Reporting	*Individual GAAP Fund Name*	*GAAP Fund Type and Number (Detail)*
536	Investment Board		
540	Office of Lt. Governor (DOA-BFM)		
547	Personnel Commission		
550	Public Defender Board		
566	Revenue	• Lottery • Investment and Local Impact • Local Sales Tax Collections	Enterprise/521 Special Revenue/219 Custodial/100 (BU 835 Appns 4XX)
575	Secretary of State		
585	State Treasurer (DOA-BFM)	• Democracy Trust Fund adjusting entries (inactive)	General Fund/295
625	Circuit Courts		
660	Court of Appeals		
665	Judicial Commission		
670	Judicial Council		
680	Supreme Court	• Mediation	Special Revenue/238
765	Legislature: Senate Assembly Legislative Audit Bureau Legislative Council Legislative Fiscal Bureau Legislative Reference Bureau Legislative Tech Serv. Bureau		
835	Shared Revenue & Tax Relief	• DOR (Appns 1xx to 3xx) • SCO-FRS Municipal Service Pmts (Appns 5xx only)	
855	Miscell. Appropriations (DOA-BFM)		
865	Program Supplements (DOA-BFM)		
866	Public Debt	• Bond Security and Redemption	Debt Service/315
867	Building Commission (DOA-BFM)	• Building Trust	Capital Projects/360
870	Information Technology Invest		
875	Budget Stabilization	• Budget Stabilization adjusting entries	General Fund/286

Notes:

*	Fund transactions are not recorded in STAR, the State's Central Accounting System.
^	Activity in the Transportation Revenue Bond Program is recorded in STAR in the Capital Projects fund only. DOT then makes ACFR adjustments to split the activity between the Debt Service and Capital Projects funds.
(#)	Most GPR expenditures relating to agency 285 will be reclassified as interfund transfers out per an FRS-determined entry included in the trial balance worksheet for the University of Wisconsin.
(G)	General purpose revenue activity will be reflected as a revenue and transfer-out of the GAAP General Fund and a transfer-in and expenditure/ expense of the recipient fund.
@	Financial activity is extracted from Capital Accounting funds and included in the following proprietary fund statements: UW, State Fair. Homes for Vets, Mendota, Winnebago, Northern, Central, Southern, Inst Farm Ops, FOM, BSI, and Vet Trust.
%	Agency 285 expenditures in appropriation 110 are considered to be part of the General fund. Combination edit rules in STAR ensure that this agency/ appn combination is only allowed in fund 10000 and not in fund 15000. Additionally, FRS makes trial balance entries to move the activity in UW appn 100 from fund 15000 to fund 10000.

SECTION:	III - Financial Reporting	**EFFECTIVE DATE:**	July 1, 1989
SUB-SECTION:	7 – Legal Compliance	**REVISION DATE:**	October 9, 1990
SUBJECT:		**PAGE:**	1 of 1

Adherence to generally accepted accounting principles (GAAP) is essential to assure a reasonable degree of comparability among the financial reports of state, provincial and local governmental units. However, an important function of governmental accounting systems is to enable administrators to assure, and report on, compliance with finance-related legal provisions. This means that the accounting system must take cognizance of and be adapted to satisfy finance-related legal requirements. Differences between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal compliance basis, but should include sufficient additional reports to permit GAAP based reporting. Where legal provisions conflict with GAAP, legal-basis data typically are reflected in the accounts and are used as the starting point for deriving statements prepared in conformity with GAAP.

GAAP basis reporting requires the disclosure of violations of legal and contractual provisions which could have a material impact on the combined financial statements. Where financial statements prepared in conformity with GAAP do not disclose finance-related legal and contractual compliance, such additional schedules and narrative explanation should be presented in the Annual Comprehensive Financial Report (ACFR) as may be necessary to report legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis supplemental report may be necessary.

SECTION:	III - Financial Reporting	**EFFECTIVE DATE:**	July 1, 2021
SUB-SECTION:	8 - Materiality	**REVISION DATE:**	June 30, 2022
SUBJECT:		**PAGE:**	1 of 4

Financial statements or financial information required to be prepared by individual state agencies for inclusion in the State's Annual Comprehensive Financial Report (ACFR) shall contain no material errors of omission or material misstatement of accounting information. An item is material if its inclusion or omission would influence or change the judgement of a reasonable person. Professional judgment is necessary in determining whether a given item is or is not material because it varies both with relative amount (in comparison to other items) and with relative importance (the nature of the item itself). The complexity is increased for the General Fund, in particular, because of the number of State agencies reporting activity in that fund. Further, materiality can be applied from a number of ACFR perspectives i.e. government-wide, fund-level, account type (asset/liability/revenue/expenditure), etc.

When providing or analyzing information, materiality as well as cost-benefit relationship and conservatism should be considered. Agencies with large numbers of transactions may need to perform statistical sampling, use estimation techniques or implement other compilation methodologies to determine the accrual and other adjusting entries in a cost-beneficial and timely manner. This is most likely the case for the largest state agencies or GAAP funds. However, small or medium-sized agencies/GAAP funds would likely benefit from implementing simple techniques, such as stratification of transactions, to reduce work efforts while maintaining accuracy.

For example, an agency may have many payment transactions reported in July and August of the new fiscal year. If several larger transactions comprise most of the dollar value of the payments, the agency would best be served by reviewing only the largest transactions to determine what adjusting entries, if any, are required. Consideration of the account balance in relation to other assets, liabilities, revenues or expenses reported by the agency/fund during the year can provide a very useful perspective on what activity/transactions warrant further review. **For ACFR reporting purposes, agencies are *not* required to review all activity or transactions or make entries for clearly inconsequential amounts.** Note: The State Controller's Office may, at its discretion, modify or disregard accounting entries or note disclosure data in determining what is material or immaterial for presentation in the ACFR.

Often $100,000 is the threshold used for determining if an entry needs to be made for the ACFR. The intent of establishing materiality thresholds is to provide general guidance for agencies. However, for certain large General Fund agencies or GAAP funds, the $100,000 threshold may be too small when considering the very large balance sheet or operating statement account balances reported in the financial statements. As a result, unreasonable work efforts may be required to determine entries that may be more than $100,000 but that are a very small percentage of balance sheet or operating statement account balances for the ACFR. In those cases, alternative approaches should be implemented.

GAAP accountants are encouraged to contact staff in the State Controller's Office, Financial Reporting Section (SCO-FRS) to discuss ways to reduce work while maintaining reasonable accuracy of the ACFR. Because SCO-FRS has information for all General Fund agencies as well as other GAAP funds, staff are able to provide useful perspective to agency GAAP accountants.

Besides being included in the ACFR, some GAAP funds also issue stand-alone financial statements (e.g. State Fair Park, Lottery, or Universal Service funds). Smaller materiality thresholds, as determined by the agency, may be reasonable for the stand-alone statements but are not suitable for the ACFR. Application of smaller thresholds applicable to those stand-alone statements should neither delay the submission of information to SCO-FRS nor result in unnecessary work, such as inconsequential prior period adjustments, for the ACFR. While consistency between the ACFR and stand-alone financial statements may be desired, it is often impractical and differences will exist between the two.

To reduce the amount of effort involved while still maintaining material accuracy of the financial statements, the following thresholds have been established in relation to financial reporting:

Item	Manual Section	Description
General Fund Agencies excluded from submitting GAAP information	IV-1 Conversion Process Overview and IV-2 Agency Procedures	Beginning in FY 2012, certain smaller General Fund agencies are no longer required to submit GAAP information to SCO-FRS. Rather, SCO-FRS will rely on the STAR ACTUALS ledger to provide materially accurate information for those agencies.
Trial Balance adjusting entries prepared by the State Controller's Office – Financial Reporting Section (SCO-FRS)	Section V – 8 Payables	SCO-FRS prepares entries for the trial balance worksheet that are subject to materiality thresholds. Examples include: ***Split Payperiod Accrual*** – This entry accrued the current year portion of the split payperiod that spans two fiscal years but is charged on-system entirely to the new fiscal year. Because the net effect of this accrual entry and the related reversal of the prior year's accrual is typically to accrue one day of expenses, FRS has determined this entry is typically immaterial. As such, it will not be made for the ACFR. ***Cancelled Draft Adjustment*** – This entry corrects the accounts recorded on-system and recognizes a GAAP fund's cancelled drafts liability. Adjustments are not made if the amount of the liability is less than $100,000 except for a few certain GAAP funds.
Petty Cash and Contingent Funds	Section V – 1	Agencies are not required to prepare an adjusting entry to accrue petty cash and contingent fund unreimbursed invoices if the amount is less than $100,000.
Unrecorded Year-end Bank Deposits	Section V – 1	Agencies are not required to prepare an adjustment to the account "Cash and Cash Equivalents" for unrecorded bank deposits at June 30 if the total amount of the unrecorded deposit is less than $100,000. This amount is subject to revision based on the analysis done by SCO-FRS of the unrecorded deposits at US Bank. Please follow the year-specific guidance accompanying the list of unrecorded deposits.
Inventories	Section V – 3	Agencies are not required to make an entry if the total amount of inventories is less than $100,000.
Prepaid Items	Section V – 4	Agencies are not required to prepare an adjustment for prepaid items like subscriptions. In addition, agencies are not required to prepare an adjustment to the account "Prepaid Items" if the cumulative total of the entry is less than $100,000.
Accounts Receivable – Revenue Accrual	Section V – 5	Agencies are not required to prepare an adjustment to the account "Accounts Receivable" to accrue revenues if the cumulative total of the accrual is less than $100,000. Agencies must still assess revenues earned but not accrued to identify the amount of potential receivables.
Due to/Due from Component Units	Sections V – 5 and V – 8	Agencies are not required to prepare an adjustment to the accounts "Due from Component Units" or "Due to Component Units" if the amount of the adjustment is less than $100,000. This guidance would similarly apply to the accounts "Due from Primary Government" and "Due to Primary Government."

Item	Manual Section	Description
Billings Due to/Due from Other Funds	Sections V – 5 and V – 8	Payables & Receivables: SCO-FRS prepares detailed AP and AR reports to assist agencies in reclassifying payables and receivables. In some cases, those amounts are Due to Other Funds or Due from Other Funds. SCO-FRS will analyze the AP and AR details in an attempt to match Due To amounts with the correlating Due From amounts. Reports will be distributed to agencies so they may make entries, if necessary. At times, SCO may not include immaterial items in the reports distributed to agencies to avoid undue work burdens to reclassify immaterial items between balance sheet accounts.
Badger State Industries (BSI) Due to/Due from Other Funds	Sections V – 5 and V – 8	Payables: Agencies/funds having $10,000 or more of outstanding invoices per GAAP fund analyze BSI invoices. SCO-FRS will provide the BSI report to agencies meeting the criteria. Receivables: DOC should provide an electronic BSI AR file to SCO-FRS so they may create the BSI report. SCO-FRS will let BSI know how much of “Due from Other Funds” to report in the ACFR. Amounts not being reclassified are shown as “Other Receivables” in the statements.
Capital Assets – Tangible and Intangible	Section V – 7	The following materiality thresholds apply for capital assets: Tangible Assets — Unit cost of $5,000 or more Intangible Assets • Purchased “off-the-shelf” software — Unit cost of $5,000 or more • All other intangible assets including internally generated assets — Unit cost of $1.0 million or more
Capital Assets/ Accumulated Depreciation – beginning balance, governmental activities	Section V – 7	Typically, an adjustment to the beginning balance of either capital assets or the related accumulated depreciation accounts results in a corresponding adjustment to net position. The ultimate consequence of this would be an overabundance of minor prior period adjustments. To eliminate this problem, net adjustments of less than $1.0 million to capital assets and/or accumulated depreciation should be offset by expenses rather than net position (equity).
Capital Assets – Transfers	Section V – 7	If the net intrafund/interfund transfer in/out (purchase cost – accumulated depreciation) per individual asset is $100,000 or more, follow the journal entries in the capital asset procedures. If the net intrafund/interfund transfer in/out is less than $100,000 treat the transaction the same as a purchase/disposal of a capital asset.
Capital Assets – Impairment	Section V – 7	When considering the potential impairment of capital assets related to governmental funds, agencies need not apply the GASB 42 requirements to individual capital assets with a gross value less than $1.0 million. Proprietary fund materiality generally should be based on the fund’s capital assets.

Item	Manual Section	Description
Accounts Payable – Expenditure Accrual	Section V – 8	Agencies are not required to prepare an adjustment to the account "Accounts Payable" to accrue expenditures if the cumulative total of the accrual is less than \$100,000. Agencies must still review vouchers processed during the new fiscal year to identify the amount of potential payables.
Leases and Subscription-Based Information Technology Arrangements	Section V – 10	Agencies should not report contracts that have total payments less than \$100,000 over the life of the contract. The \$100,000 threshold relieves agencies from having to report multiple leases for items such as copy machines that, as a whole, are immaterial to the financial statements.
Municipal Services Accrual	Section V - 28	SCO-FRS and agencies shall not make accruals for immaterial municipal services payments to reimburse BU 83500. SCO-FRS will 1) centrally determine the accrual entries to be made each year by owing agencies/funds and 2) coordinate with agencies as necessary to reconcile amounts with BU 83500.
Prior Period Adjustments	Section V – 33	When correcting for prior period adjustments of the *General Fund*, agencies should not prepare entries that debit/credit the fund balance account for amounts less than \$100,000. Rather, agencies should reflect the immaterial correction through operations by debiting/crediting an appropriate revenue/expenditure account. While using a \$100,000 materiality level as a guide, agencies preparing prior period adjustments for *individual funds* or for *government-wide* entries, should use professional judgment in reporting immaterial corrections through the current year's operations instead of to fund equity/net assets. Agencies should not prepare prior period adjustments for capital assets for less than \$1.0 million.
Pollution Remediation Liability accrual	Section V – 42	Agencies are not required to prepare an adjustment to accrue pollution remediation costs unless the estimated total outlays equals or exceeds \$1.0 million per site. That is, the agency making the determination has a reasonable expectation that an outflow or sacrifice greater than that will occur (without consideration for expected recoveries).
Budget-to-Actual Over-expenditure Disclosures	Section III – 9	SCO-FRS prepares the disclosures for Budget-to-Actual over-expenditures. An excess of expenditures over appropriations is not considered material unless it equals or exceeds \$100,000.
Litigation and Contingencies, Subsequent Events	Section V – 14 and 36	Agencies are not required to report or disclose litigation or contingencies for an individual event or occurrence unless the individual event or occurrence equals or exceeds \$1.0 million. Similarly, subsequent events for items less than \$1.0 million need not be disclosed.

SECTION:	III - Financial Reporting	**EFFECTIVE DATE:**	July 1, 2015
SUB-SECTION:	9 - Budgetary Presentation	**REVISION DATE:**	May 9, 2016
SUBJECT:		**PAGE:**	1 of 2

The comparison between budget and actual data for the **General** and **Transportation** funds is included as Required Supplementary Information (RSI) in the Annual Comprehensive Financial Report (ACFR). This information is shown on the *Budgetary Comparison Schedule,* which includes data on both the original and final budgets for these funds. GASB 34, paragraph 130 limits this treatment to the General and *major special revenue* funds. As a result, the State's other nonmajor funds' budget-to-actual data, is reported as other supplementary information on the *Combining Budgetary Comparison Schedule*. Budget data on this schedule is limited to the final budget.

The budgetary schedules provide data on all governmental funds which have legally adopted annual budgets. Capital Projects funds are consequently excluded from these schedules because no comprehensive budgets are approved for these funds. The Debt Service funds are excluded because of the way these funds are budgeted. Debt service expenditures are budgeted through appropriations in the General, Special Revenue, and other segregated funds and then reflected in Debt Service funds as transfers in (out). In the case of Permanent funds, only the Historical Society and portions of the Common School and Normal School funds are annually budgeted. As a result, most of the activity of the Permanent funds has been excluded from the budget-to-actual comparison.

According to generally accepted accounting principles (GAAP), budget-to-actual comparisons must be presented at the legal level of budgetary control. While the legal level of control for Wisconsin is maintained by appropriation, this level of detail is impractical for inclusion in the ACFR. As an alternative, the budgetary schedule shows expenditures by fund & function and a supplementary budget-to-actual expenditure report is prepared (and is available upon request), which provides budgetary comparisons at the legal level of control.

When the budgetary basis of accounting differs materially from the GAAP reporting model, as is the case in Wisconsin, these schedules present comparisons of the legally adopted budget with actual data on the budgetary basis. This "budgetary basis" data will differ from GAAP presentations in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds. The differences between the budgetary basis and GAAP basis for the major funds are explained in the notes to required supplementary information (RSI Note 1. Budgetary - GAAP Reporting Reconciliation).

This reconciliation describes the basis, timing, perspective and entity differences that exist between the GAAP reporting model and actual governmental budgetary practices. An explanation of these types of differences follows:

Basis differences occur when the use of a basis of accounting for budgetary purposes conflicts with the basis of accounting required for reporting in accordance with GAAP. For example, Wisconsin is required by statute to use a *modified cash* basis of accounting for budgetary reporting. This basis of accounting does not conform to the *modified accrual* basis of accounting required by GAAP.

Timing differences may result from the use of non-GAAP budgetary practices. Examples include the use of continuing appropriations, automatic reappropriations and biennial budgeting.

Perspective differences result from the structure of financial information for budgetary purposes. The perspectives used for budgetary purposes include fund structure, organizational structure, or program structure. Additionally, a subsidiary perspective, such as nature of revenue source, special projects, or capital and operating budgets may be used.

Entity differences result because an "appropriated budget" may either include or exclude organizations, programs, activities and functions that may or may not be compatible with the criteria defining the governmental reporting entity.

The State's biennial budget is primarily a general purpose revenue and expenditure budget. General purpose revenues (GPR) consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the legislature. The remaining revenues consist of program revenues (PR), which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues (SEG) which are collected for a specific purpose and paid into separate identified funds.

While general purpose revenues are budgeted, program revenues and segregated program revenues are not. Although State departments and agencies are required to submit estimates of expected revenues for these categories, these estimates are not formally incorporated into the adopted budget. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the budget-to-actual schedule.

Likewise, expenditure budgeting differs for the various types of appropriations. For the majority of appropriation types (e.g. GPR and PR annual/continuing) budgeted expenditures equals the amount from the adopted budget plus any subsequent legislative or administrative revisions. However, for sum sufficient appropriations or the first year of biennial appropriations, budgeted expenditures equals actual expenditures. Per Chapter 20 of the State Statutes, these types of appropriations are allowed to expend money as needed to accomplish their purpose (although biennial appropriations are constrained to expend only up to the amount appropriated for the whole biennium). The table below summarizes budgeted expenditures for the various types of appropriations:

Type Of Appropriation		**Budgeted Expenditure Methodology**
GPR	Annual/Continuing	Budgetary Authority
ALL	Biennial - First Year	Actual Expenditures
ALL	Biennial - Second Year	Budgetary Authority
PR	Annual	Budgetary Authority
PR	Continuing	Budgetary Authority
ALL	Sum-Sufficient	Actual Expenditures
SEG	Executive - Annual	Budgetary Authority
SEG	Revolving - Annual	Budgetary Authority
SEG	Revolving - Continuing	Budgetary Authority
SEG	Executive - Continuing	Budgetary Authority

The State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in preparing the GAAP financial statements. Major differences occur because of the appropriations and parts of appropriations that are removed from the statutory funds to create separate GAAP enterprise, internal service, and trust funds. In addition, some separate statutory special revenue funds are reported as part of the GAAP General Fund. Consequently revisions are necessary to bring the budgetary data into compliance with the GAAP fund structure used to record actual expenditure and revenue data.

Excess of Expenditures over Appropriations

Per GASB guidance, any excess of expenditures over appropriations should be disclosed in the notes to RSI (if an entity includes their budget-to-actual information on a RSI schedule rather than as an individual financial statement). SCO-FRS limits disclosures to material items that equal or exceed $100,000 (FRS's general suggested materiality threshold). **Note**: If the overexpenditure is determined to constitute a significant violation of finance-related, legal, or contractual provisions it will instead be disclosed in the notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section* provides guidance on statistical section reporting within the Annual Comprehensive Financial Report (ACFR). The objective of the statistical section is to provide financial statement users with additional historical perspective, context, and detail to assist the financial statement user in understanding and assessing a government's economic condition. Paragraph 6 of Statement 44 establishes five categories of information to be included in a statistical section. This includes financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. The Statistical Section is the final section of the ACFR and includes the information described below.

FINANCIAL TRENDS INFORMATION

Net Position by Component (Accrual Basis of Accounting)

This table displays three components of net position: invested in capital assets net of related debt; restricted net position and unrestricted net position. Governmental activities are shown separately from business-type activities with a total for the primary government. The information is from the Statement of Net Position on an accrual basis. Trend information is shown for the current year and up to nine years prior.

Changes in Net Position (Accrual Basis of Accounting)

This schedule shows the trend in changes in net position for the current year and up to nine years prior. The following information is presented: expenses by function, program, or identifiable activity; program revenues by category; total net expense (revenue); general revenues and other changes in net position by type; and total change in net position. Governmental and business-type activities are shown separately. The information is from the Statement of Activities at the government-wide perspective.

Fund Balances of Governmental Funds (Modified Accrual Basis of Accounting)

This table displays the fund balances of governmental funds for the last ten years. The General Fund is shown separately and other governmental funds are presented in the aggregate for each year. Fund balance is shown in five categories: nonspendable, restricted, committed, assigned and unassigned as required by GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This information is from the Balance Sheet - Governmental Funds.

Changes in Fund Balance of Governmental Funds (Modified Accrual Basis of Accounting)

This schedule reflects the changes in the State's revenues by source and expenditures by function for the last ten years. The schedule presents all governmental fund types, i.e., General, Special Revenue, Debt Service, Capital Projects and Permanent, by revenue source (e.g., Taxes, Intergovernmental, License and Permits) and expenditures by function (e.g., Commerce, Education, Environmental Resources). In addition, the schedule presents excess of revenues over (under) expenditures, other financing sources and uses, and net changes in fund balances. The information is from the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.

REVENUE CAPACITY INFORMATION

Personal Income by Industry

The schedule of personal income by industry presents trend information by revenue base. Personal income by source is presented for a variety of industries. A per capita amount is calculated for the previous year and up to nine years prior. Data presented in this schedule is obtained from the U.S. Department of Commerce, Bureau of Economic Analysis.

Personal Income Tax Rates

The schedule of personal income tax rates includes a breakdown of personal income tax by category of filer; single or head of household, married filing jointly, and married filing separately. The top rate and average tax rate is displayed for the previous year and nine years prior. This information is provided by the Wisconsin Department of Revenue.

Personal Income Filers and Liability by Income Level Calendar Year and Nine Years Prior

This table includes personal income tax filers and liability by income level. The percentage of total filers is calculated by dividing the number of filers at each level by the total. The percentage of personal income tax liability by income level is calculated by dividing the number at each level by the total. Two years are displayed for comparative purposes. The data is obtained from the Wisconsin Department of Revenue.

DEBT CAPACITY INFORMATION

Schedule of Ratio of Outstanding Debt by Type

This schedule lists the State's debt by type and measures it against personal income and population. Governmental and business-type activities are listed separately. The details regarding the State's outstanding debt on a fiscal year basis are obtained from the notes to the financial statements. Personal income and population for the prior calendar year is used in the calculations of percentage of personal income and per capita debt.

Schedule of Ratio of General Obligation Bonded Debt and Appropriation Bonds to Personal Income and Per Capita

This schedule reflects the amount of general bonded debt and annual appropriation bonds the State has in regards to its personal income, as well as per capita for the last ten years.

Population and personal income statistics are provided by the U.S. Department of Commerce, Bureau of Census. Prior calendar year statistics are used in the calculation of bonded debt per capita and the ratio of bonded debt to personal income. The total bonded debt information is found in the notes to the financial statements.

Schedule of Legal Debt Margin

This schedule reflects the State's legal debt margin for the last ten calendar years. The calculation of annual public debt limit for the current calendar year is presented and, for each year listed, the legal debt margin as a percentage of the legal debt limit is listed.

Data presented in this schedule is obtained from the Wisconsin Department of Administration, Division of Executive Budget and Finance, Capital Finance.

Schedules of Revenue Bond Coverage

These schedules reflect each agency's ability to meet their outstanding revenue bond repayment requirements. Agencies with revenue bond activity are required to provide a schedule containing gross revenues, operating expenses, required principal and interest payments, and revenue bond coverage ratios.

Data presented in these schedules is obtained from each of the individual agency's audited financial statements.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Schedule of Demographic and Economic Statistics

This schedule reflects a variety of social and economic characteristics of the State. Items included are population, personal income, per capital personal income, unemployment, and public school enrollment.

Information on population, personal income and per capita personal income is provided by the U.S Department of Commerce, Bureau of Economic Analysis. The unemployment rate is obtained from the Wisconsin Department of Workforce Development. The most recent information available at time of report is used. The enrollment information is provided by the Wisconsin Department of Public Instruction, Division of Management and Budget, Educational Information Service.

OPERATING INFORMATION

Schedule of Full Time Equivalent Employees by Function/Program

The schedule lists the number of full time equivalent employees of the State by function and year. Ten fiscal years are presented along with the percentage of change. The State Controller's Office provides the information. Measurement date for most positions is the last full pay period prior to June 30. In the case of the University of Wisconsin System, an April pay period is used to better capture individuals who don't have full-year appointments.

Schedule of Operating Indicators by Function

This schedule is organized by function and provides trend data on levels of service provided by the State. Indicators of service levels vary significantly by program. Each agency determines what operations most represent the service efforts of their agency. The data compares the State's operations and resources over a ten year period.

Schedule of Capital Assets Statistics by Function

This table provides ten years of data on capital assets of the major functions of the State. Agencies provide capital asset data on the most significant capital assets used in the daily operations of the State. The nature of the capital assets will vary by function and is determined by the agency. The Wisconsin Department of Transportation may report miles of State Highways, while the Wisconsin Department of Natural Resources may focus on number of parks, state forest and fish hatcheries. The Wisconsin Department of Administration, Wisconsin Blue Book, and other state agencies provide the information.

Schedules of Claims Development Information

Tables of claims development information for prior years are presented for the following funds:

- Income Continuation Insurance Risk Pool
- Health Insurance Risk Pool (Pharmacy Benefit)
- Health Insurance Risk Pool (Dental Benefit)
- Duty Disability Risk Pool

Supplementary data comprising the tables includes: required contributions, unallocated expenses, estimated incurred claims, increase in estimated incurred claims from end of policy year and benefits paid.

Data presented on claims development history is provided by the Wisconsin Department of Employee Trust Funds.

SECTION:	IV - Processing Procedures	**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION:		**REVISION DATE:**	May 22, 2019
SUBJECT:	Index	**PAGE:**	1 of 1

The State Controller's Office, Financial Reporting Section (SCO-FRS) is primarily responsibility for compiling the Annual Comprehensive Financial Report (ACFR), the State's official financial statements prepared annually using Generally Accepted Accounting Principles (GAAP). Although SCO-FRS completes as much work as possible centrally, to accurately compile the ACFR, SCO-FRS must rely on state agencies to submit General Fund and government-wide adjusting entries, prepare financial statements for individual GAAP funds, and prepare note disclosures or other information for inclusion in the ACFR.

This section of the Manual (IV - 1) describes the overall ACFR compilation process. Section IV - 2 that follows lists the *general* procedures to be performed by agencies. Section V describes policies and procedures related to *specific* topics.

State Accounting Records

STAR, the State's central accounting system, reflects transactions on the budgetary basis of accounting prescribed by State statutes and serves as the starting point for the ACFR. STAR uses a hybrid basis of accounting. Many transactions are reported on the cash basis; however, payable and receivables are regularly accrued through the use of various modules and processes in STAR (e.g. AP, AR, billing).

The GAAP conversion process used by SCO-FRS consists of adjustments to financial activity reported in the ACTUALS ledger in STAR. The adjustments take many forms, including adjusting entries to the CAFR ledger in STAR, off-system adjusting entries, and stand-alone financial statements prepared outside of STAR. SCO-FRS maintains a series of complex interlinked nVision, Excel and Word files to combine STAR information from the ACTUALS ledger, adjusting entries in the CAFR ledger, adjusting entries prepared outside of STAR, and other information to produce the ACFR in a manner consistent with applicable GASB standards.

Impact of Fund Structure on Processing

By applying GASB standards to the financial activity of the State, the Financial Reporting Section has identified nearly 100 individual GAAP funds. Section III - 6 "Financial Reporting, State GAAP Fund Structure" lists these funds by *fund type* and by *agency* responsible for preparation of the related financial statements.

The nature (whether intact, extracted, incorporated into the General Fund or off-system) of each fund impacts the process followed to compile the fund's GAAP financial statements.

Also affecting this process is whether an agency is responsible for preparing the financial statements for an individual GAAP fund, or if they report to another agency that compiles the data and completes the statements (such as SCO-FRS obtaining and compiling adjusting entries from agencies for the General Fund).

Exclusion of Certain State Agencies from GAAP Reporting for the General Fund (Major and Minor Agencies)

Beginning with FY 2012, only larger General Fund agencies (major agencies) are required to submit General Fund entries, government-wide entries, and note disclosures to SCO-FRS for inclusion in the ACFR.

Certain smaller General Fund agencies (minor agencies), as determined by SCO-FRS, are excluded from submitting General Fund entries, government-wide entries, and note disclosures for inclusion in the ACFR. SCO-FRS *will* continue to incorporate financial activity of those minor agencies as reported in the STAR ACTUALS ledger into the General Fund financial statements and will assess the need for ACFR adjusting entries.

If during the course of preparing the ACFR, SCO-FRS identifies that information is needed from a minor agency, SCO-FRS will contact the agency in order to obtain it. If the minor agency only reports activity in the General Fund (that is, they are responsible for no other governmental, proprietary or fiduciary funds), they will not be required to submit any GAAP-based information to SCO-FRS. However, if a minor agency *is* responsible for reporting another GAAP fund, all applicable procedures must be completed in a timely manner.

Major agencies listed in the table below will receive information and regular communication from SCO-FRS to assist them in preparing required materials for the ACFR. **General Fund and government-wide adjusting entries and disclosures are required for the following major agencies:**

Major Agency No.	Agency Name
115	DATCP
145	OCI
155	PSC
165	DSPS
192	Economic Development
225	ECB
245	Historical Society
255	DPI
292	WTCSB
370	DNR
395	DOT
410	DOC
435	DHS
437	DCF
445	DWD
455	DOJ
465	DMA
485	DVA
505	DOA
507	Public Lands
536	SWIB
550	Public Defender
566	DOR Operations *and* Tax Entries*
680	Supreme Court
835	Shared Revenue (DOR and SCO-FRS)**
865	Program Supplements

** Agency 566 should continue to submit two separate General Fund GAAP packets to SCO-FRS – one for DOR agency operations and one for tax entries. Beginning in FY 2014, the agency operations portion of DOR's submission will include the activity in the State's Unclaimed Property program.*
*** For agency 835, DOR should submit GAAP entries but only for the 1xx to 4xx appropriations for which their agency is responsible. SCO-FRS is responsible for making required ACFR adjusting entries for the 5xx appropriations within BU 835.*

Minor state agencies not included in the list on the previous page will ***not*** *receive General Fund reporting information and are* ***not required*** *to submit GAAP information for the General Fund or government-wide statements to SCO-FRS for the ACFR unless specifically requested to do so.* As noted earlier, though, some agencies not required to submit General Fund and government-wide information will still be required to provide GAAP information for other GAAP funds for which they are responsible (e.g. ETF or DFI).

Information used in ACFR reporting will be made available to agencies via STAR or will be provided electronically to them.

GAAP Fund Trial Balances

ACFR trial balances are available to agency GAAP accountants via STAR nVision (Excel-based) reports and must be downloaded by agencies. They contain detailed account information that rolls up to ACFR reporting accounts as well as SCO-FRS adjusting entries. ACFR trial balances are developed for individual GAAP funds and for each General Fund agency recording financial activity in STAR. The format is consistent with the State's ACFR e.g. current and non-current asset and liability classifications, revenue categories, functional expense categories, GAAP-based equity, etc.

The trial balances will include SCO-FRS adjusting entries as they are compiled. SCO-FRS entries will be uploaded to the CAFR ledger on an ongoing basis beginning in spring and continuing through August as information is available. Agency GAAP accountants should periodically download updated versions of the ACFR trial balances that reflect the additional entries made. SCO-FRS will let GAAP accountants know when all entries have been loaded to their GAAP fund trial balances. Agencies can see which SCO-FRS entries have been made by viewing the ACFR Jrnl Report from STAR which is updated daily. SCO-FRS journals are recorded with a source of F02.

Instructional documents for using and understanding the nVision ACFR trial balances are provided to agency GAAP accountants. These documents should be read and reviewed by all accountants involved in preparation of the ACFR. Section IV - 4 discusses trial balances in more detail.

ACFR Reporting Information to be Provided to Agencies

For efficiency and internal control purposes, SCO-FRS analyzes and compiles ACFR information centrally and then distributes it to agencies to be used in preparing entries, disclosures and other items. It is distributed throughout the fiscal year with much information provided in mid to late August. A few reports are not provided until September because information is not available prior to that time. Due to availability and the size of electronic files, agency accountants will receive periodic emails containing individual reports or files rather than one "email package" containing everything. Some reports are sent to all GAAP accountants. To limit the number of files received by agencies, some information is provided only to those accountants whose GAAP funds are impacted.

Detailed reports will be provided to agency GAAP accountants. SCO-FRS staff will assess the need for additional reports and will develop and distribute them as deemed necessary. Some of the more important reports to be provided include:

- Capital Asset Note Disclosure and related entries
- Accounts Payable Report (Detail of AP Unpaid at 6/30)
- Accounts Receivable Report (Detail of AR Unpaid at 6/30)
- GASB 54 Equity, Revenues and Expenditures by Appn. Report
- Inter/Intrafund Transfer Transactions Reports
- Intra-state Charges for Goods and Services Report (potential eliminations)
- STAR Summary Report by GAAP Fund and Business Unit

Excel Forms/Disclosures

Annually, SCO-FRS will email an updated Excel file containing the footnote disclosure forms and example adjusting entry forms to accountants to be used in the GAAP conversion process. For internal control and efficiency purposes, accountants should use the updated electronic files emailed to them although agency-created versions may be accepted but only if they provide required information to SCO-FRS.

Agency Responsibilities

Entries, disclosures, and applicable supporting documentation must be prepared and submitted for all General Fund agencies, with the exception of minor General Fund agencies as noted earlier, to assist in the GAAP conversion process. In addition, each agency responsible for an individual GAAP fund must submit, if required by SCO-FRS, completed financial statements, disclosures and applicable supporting documentation. The information submitted by agencies must satisfy both the *fund* and the *government-wide* reporting requirements.

The ACFR submission materials should be accurate and submitted by established due dates to SCO-FRS. Agencies undergoing audit must copy LAB auditors when submitting items to SCO-FRS. Agencies may be allowed to submit additional refining entries or information to SCO-FRS and LAB after the due dates but should coordinate with SCO-FRS on when and how to do so.

ACFR submission materials are those items that SCO-FRS uses in preparing the ACFR including but not limited to adjusting entries, financial statements, note disclosures, MD&A, and RSI. These ACFR preparation items should not be confused with audit information that may be requested by auditors for audit purposes. There is no need to provide audit information to SCO-FRS. At times, though, SCO-FRS may request additional supporting documentation from agencies.

In most cases, agencies should be submitting GAAP information directly to SCO-FRS. However, in some cases, agencies may have spending authority in a fund or receive revenue for a fund for which they are not responsible for preparing the GAAP financial statements. The agency with spending authority or receiving the revenues should provide adjusting entries in a timely manner to the GAAP accountant who will be preparing the financial statements. However, these entries need to be provided only if significant keeping in mind the spending authority or revenue for the entire GAAP fund. The prior year ACFR or Chapter 20 spending authority for the current fiscal year may provide a useful perspective on the potential impact such entries may have.

Section IV - 2 that follows describes agency procedures in more detail.

Electronic File Submissions to SCO-FRS

State agencies shall submit their GAAP information by email in an electronic format using conventional software such as Microsoft Excel or Word. In addition, journals are also uploaded to the CAFR ledger in STAR.

Agencies should email their ACFR materials to DOADEBFGAAP@wisconsin.gov *and* copy LAB on the same email so they may start audit work.

ACFR Tasks to be Completed During the Fiscal Year

To facilitate the issuance of the ACFR in mid-December, agencies should be completing ACFR-related work, to the extent possible, throughout the fiscal year. Tasks that should be completed on an ongoing basis include:

- Capital assets – add, retire and update assets in STAR AM as events occur during the fiscal year; reconcile to capital outlay expenditures in the ACTUAL ledger; monitor Capital Accounting projects for completion and correct project types
- Transfer reconciliations – reconcile transfers after reports are received from SCO-FRS beginning in January; monitor that required transfers in/out of your GAAP fund have been appropriately made in a timely manner
- Investments – monitor investment activity throughout the year and prepare entries and disclosure after June 30th fair market values are known
- Leases, subscription-based IT arrangements, and installment purchases – identify new leases, SBITAs and installment purchases and update ACFR files/entries/disclosures
- Debt issuance and repayment analysis – prepare entries and schedules as permitted
- Trial balance review – review for odd balances, odd account usage, missing financial activity, etc. Much of this analysis would likely be completed as part of the ongoing monitoring and analysis required by SCO for the ACTUALS ledger and STAR modules.
- Reversing entries – confirm the accuracy of FRS-prepared reversing entries as requested or prepare reversing entries as necessary
- Develop prior period adjustment entry and note disclosure if material errors are identified during the year
- Arrange contracts with outside entities – some agencies contract for external services such as for audit or actuarial services. Agencies should ensure the required contracts or agreements are in place in a timely manner and that appropriate discussions have been held with the contractor regarding the agency's ACFR-reporting needs. Contracts/agreements should include appropriate due dates that allow the agency to meet SCO-FRS submission deadlines.

ACFR Submissions to SCO-FRS and LAB Auditors

SCO-FRS is responsible for preparation and publication of the ACFR in compliance with applicable GASB standards. An important internal control over the compilation process includes a review of the information submitted. To complete the ACFR on a timely basis, agencies and component units must submit their materials to SCO-FRS *and* auditors by the due dates indicated in Section IV - 3.

Agencies should email their ACFR materials to DOADEBFGAAP@wisconsin.gov *and* copy LAB on the same email. LAB should receive the same email and ACFR materials so work may progress in a timely and efficient manner.

Agencies may not delay submitting materials to LAB for audit purposes or negotiate with auditors for later due dates without consent from SCO-FRS because it impedes DOA's ability to receive an audit opinion by the planned opinion date.

Financial Activity Not on STAR

Certain activities are included in the ACFR even though they are not recorded on STAR. State agencies must submit the appropriate information to incorporate off-system activities in the ACFR. The "off-system" financial statements submitted must present account classifications identical to those used by SCO-FRS in the preparation of the ACFR. Section 02-05 of the Wisconsin Accounting Manual provides a list of STAR account codes including those that should be used for ACFR reporting.

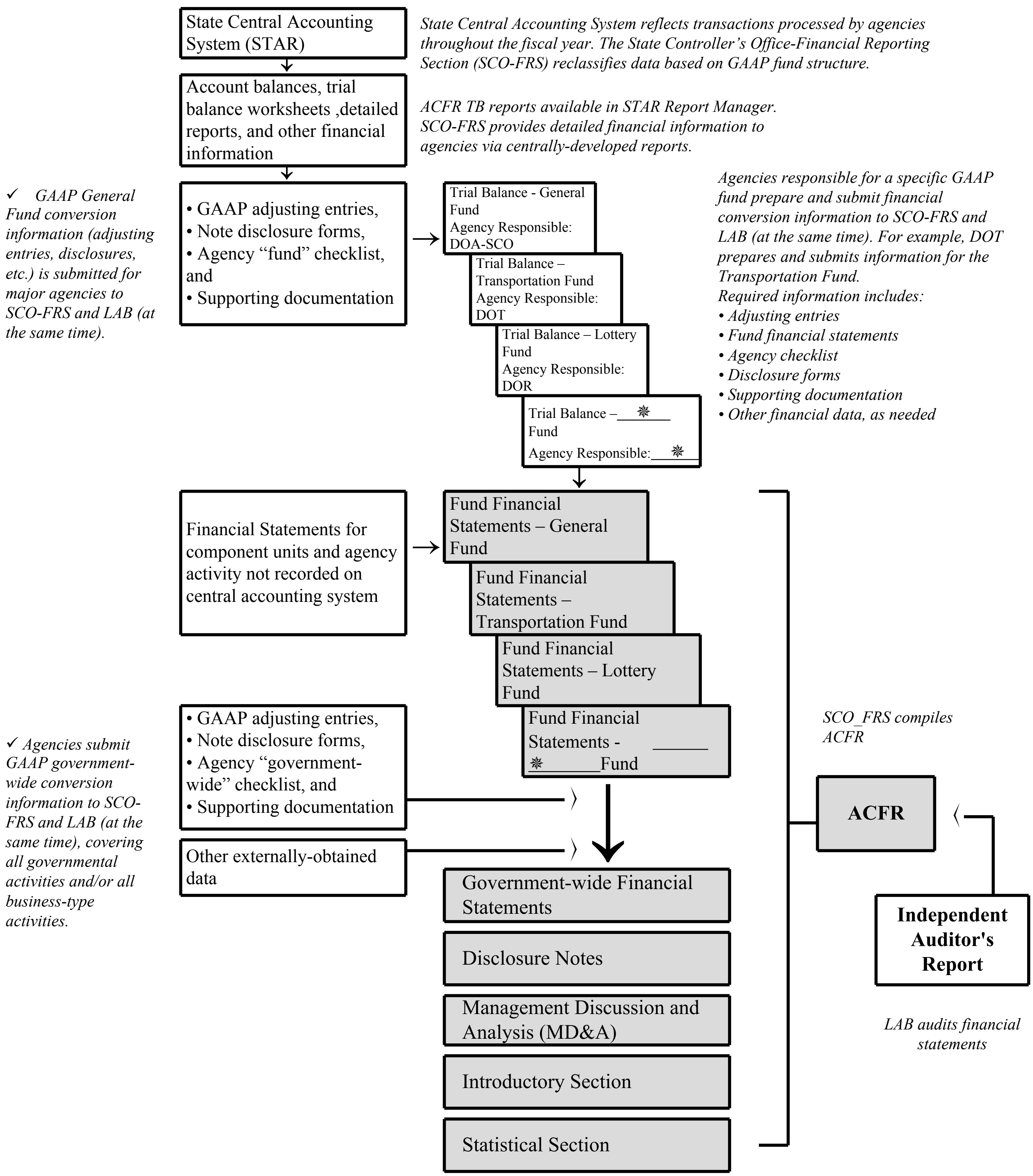
Keep in mind that in certain instances the reporting accounts used by SCO in developing the ACFR are more detailed than what is presented in the final ACFR balance sheet or operating statement. For example, SCO-FRS reporting templates include detailed receivables lines that are not all presented on the face of the statement. This is necessary so SCO-FRS may efficiently capture information needed for ACFR note disclosures and for fund level, as well as government-wide, reconciliations.

Agency GAAP accountants should contact SCO-FRS staff for guidance on the level of detailed needed in ACFR submissions.

Because no information is reported on STAR for off-system funds, trial balances and other reports will not be provided to the responsible agency.

While the University of Wisconsin is not using STAR to record detailed operational transactions, transactional summaries are interfaced to STAR daily. Therefore, for GAAP reporting purposes trial balances will be prepared for UW from STAR.

The flow-chart on the following page provides an overview of the process.



❋ Separate trial balances/financial statements are prepared for remaining funds, see Section III – 6 of GAAP Manual for listing of all GAAP funds.

Procedures to be performed by agencies to include financial activity in the ACFR fall into three broad categories:

A. **General Fund Reporting** If an agency's activities are reflected in the GAAP General Fund, that agency provides the State Controller's Office-Financial Reporting Section (SCO-FRS) with required financial information. SCO-FRS compiles information from all agencies to create the General Fund financial statements. Only agencies considered "Major" as designated in Section IV-1 need to submit ACFR information to SCO-FRS.
B. **Individual Fund Financial Statements** An agency prepares a complete set of financial statements for the ACFR. For example, the DOT is responsible for creating the Transportation Fund financial statements.
C. **Preparing ACFR Entries for Another Agency's Financial Statements** At times, an agency has spending authority in an individual GAAP fund for which another agency prepares the ACFR financial statements. For example, DNR is responsible for preparing financial statements for the Conservation Fund but several other agencies besides DNR have spending authority in that fund. GAAP accountants should provide applicable entries to the GAAP accountant responsible for preparing the financial statements, as necessary. *Only significant entries need to be provided to the responsible GAAP accountant. Accountants should consider expenditures or revenues of the GAAP fund as a whole (not just for their agency) in determining whether entries are significant. Clearly insignificant entries need not be provided.*

Subsection III - 6 "State GAAP Fund Structure", lists State agencies and the GAAP fund statements for which each is responsible. Please contact the staff in SCO-FRS if you have questions about your responsibilities. The discussion that follows summarizes the procedures agencies should follow under each situation.

A. General Fund and Government-wide entries:

1. ***Review agency's prior year GAAP workpapers.*** Agencies should maintain GAAP files that include supporting workpapers and adjusting entries covering each fiscal year for audit and internal purposes. Accountants should reacquaint themselves with the GAAP conversion process by reviewing the file and consider agency or accounting changes that may require a change in procedures/entries for the current year. A focus on cost/benefit should be maintained for work performed to ensure efforts are concentrated in appropriate areas.

2. ***Review current year manual and forms.*** Agencies should review annual updates to the "Uniform GAAP Conversion Policies and Procedures Manual" (the Manual). Each year, the SCO-FRS emails a list of manual revisions/updates to agency accountants. Changes made to the manual address modifications in reporting requirements of the Governmental Accounting Standards Board (GASB) or state law, as well as procedural changes implemented by SCO-FRS. Agencies should incorporate any required processing/reporting changes. The entire GAAP Manual is available on the DOA web site at: https://doa.wi.gov/Pages/StateFinances/State-Controllers-Office-Information-for-state-agencies.aspx listed under Financial Reporting Section (GAAP Reporting).

3. ***Attend training sessions.*** Agency staff directly involved in preparing GAAP financial information should attend training sessions periodically conducted by the SCO-FRS covering State GAAP policies and procedures. Agency staff new to the GAAP conversion process may request additional assistance from a member of SCO-FRS to become familiar with the overall process or for specific questions.

4. ***Review Financial Reporting Packages. The SCO-FRS provides each agency with financial information needed or useful for GAAP Reporting. (See Section IV-1 Conversion Process Overview for more information.) Information is provided electronically. Agency staff should review information provided by SCO-FRS in conjunction with performing their GAAP procedures.***

A. General Fund and Government-wide entries (*continued*):

5. ***Perform applicable procedures included in Manual.*** Agencies should identify and perform the applicable procedures identified in Section V of the Manual. Agencies should retain workpapers and other supporting information that document their process and results. Information submitted to SCO-FRS should be limited to required materials such as entries, disclosures, and high levels of supporting detail.

6. ***Prepare appropriate entries. Following guidance provided in the Manual, agencies should prepare separate adjusting entries for the General Fund statements and the government-wide statements:***

- **Fund Statements**

  a. Prepare individual entries for the General Fund using Journal Uploaders. **General Fund accountants must use the Journal Uploader Tool in Excel so journals may be uploaded and posted to the STAR CAFR ledger.** The Journal Uploaders are customized specifically for ACFR reporting needs and updated annually to incorporate changes necessary for current year reporting. They allow accountants to efficiently record adjusting entries, limit the risk of errors, and compile a composite entry. The Journal Uploader file will be updated and emailed to agency GAAP accountants each year along with instructions for use.

     Sections V and VI of the GAAP Manual provide examples of entries required to present Wisconsin's fund financial statements in accordance with GAAP. Agencies may refer to the Manual for guidance when preparing ACFR entries prior to recording them in the uploader file.

  b. Prepare a composite entry. After recording entries into the Journal Uploader, users refresh a pivot table to summarize individual entries into a composite entry for agency review.

- **Government-wide Statements**

  a. Prepare government-wide entries. **Accountants must use the Journal Uploader file to submit the government-wide entries**. These entries are recorded solely, in a separate file, at the government-wide level and cover more than one governmental fund. For example, if an agency pays for capital assets from both the General Fund and a special revenue fund, only one set of gov-wide adjusting entries is made to add the assets and record annual depreciation expense while also removing capital outlay expenditures for both.

     Section V of the Manual provides examples of ACFR entries required to present government-wide financial statements on a full accrual basis. This primarily impacts agencies with activity in governmental funds, including the General Fund. Agencies may refer to the Manual when preparing ACFR entries prior to recording them in the Journal Uploader file.

     SCO-FRS will determine and record the ACFR capital asset government-wide entries using information from the STAR Asset Management (AM) module. Agency capital asset entries will be limited e.g. entry needed to correctly report construction-in-progress capital assets or capital outlay expenditures. Consideration for correcting inaccurate information in AM will generally be limited to amounts larger than $1.0 million as determined by SCO-FRS. Agencies should make any other government-wide entries required for the ACFR but not made by SCO-FRS.

A. General Fund and Government-wide entries (*continued*):

b. Refresh the Journal Uploader to prepare a composite entry covering governmental activities. After recording individual entries into the uploader, refresh the pivot table to summarize them into a composite entry for review.

7. ***Prepare information for Notes to the Financial Statements.*** Section V of the Manual also refers to required "Notes to Financial Statements". To facilitate preparation of ACFR note disclosures, agencies should review the note disclosure requirements and submit information as appropriate.

   Note disclosure forms are available in the electronic file **Forms20xx-Note Disclosures.xlsx** which is updated and emailed to accountants annually. It is important for agencies to use the most recent version to ensure accuracy of the submitted information. The forms in this workbook cover both the fund and government-wide statements. For those agencies that have investments, there is also a separate Excel workbook for investment related note disclosures titled **Forms20xx-Investment Note Disclosures.xlsx**.

   A separate Excel workbook for capital asset note disclosures titled **20xx Capital Asset Prepopulated.xlsm** will be emailed to GAAP accountants responsible for reporting capital assets. This form is pre-populated with summarized information recorded in STAR AM and used along with AM entries pushed to the CAFR ledger, as the basis for reporting and disclosing capital assets, accumulated depreciation, current depreciation expense, etc.

8. Complete "Agency Procedures Checklist". To document that potential reporting issues were considered when identifying ACFR procedures to be performed, agencies should complete an "Agency Procedures Checklist" for both the fund statements and the government-wide statements.

   - **Fund Statements** Agency accountants should complete a separate fund-level checklist located in **Forms20xx-Note Disclosures.xlsx** for each fund in which they have activity.

   - **Government-wide Statements** For the government-wide level, agencies should complete one checklist located in **Forms20xx-Note Disclosures.xlsx** for all governmental activities and one for all business-type activities (if they have such activities).

9. ***Perform Analytical Review for General Fund.*** To identify potential errors, agencies should compare current year General Fund activity to the prior year ACFR(s) with a focus on material accounts. Significant or unusual changes in amounts or balances should be identified and the reasons documented in the ACFR workpapers in the event SCO-FRS or auditors have questions. Professional judgment should be used in determining what constitutes a significant change. Changes in consistently immaterial accounts should generally be disregarded.

A. General Fund and Government-wide entries (*continued*):

10. • ***General Fund***

Email Journal Uploader files, note disclosures*, checklists and required supporting documentation for the General Fund to SCO-FRS and copy LAB auditors on the email. SCO-FRS does not require copies of detailed documentation or files be submitted. Rather, only high-level supporting documents should be submitted, if necessary. Agencies must retain a copy of submitted materials in their annual ACFR files. Excel or Word files should be submitted to SCO-FRS to the extent possible. Please do not convert files to a PDF format because they are of limited electronic use. Information is due per the timetable in Section IV-3

• ***Government-wide Statements***

Email Journal Uploader files, note disclosures*, checklists and explanatory supporting documentation for the Governmental or Business-type Activities to SCO-FRS and copy LAB auditors on the email. Those covering governmental activities are due on the same day as the last due-date of the agency's governmental funds. Those covering business-type activities are due on the same day as the last due-date of the agency's proprietary funds.

---

* Note: Accountants should not submit forms that do not apply to their activities. To save time and reduce the size of electronic files, accountants should delete the forms that are not applicable before emailing the information to SCO-FRS.

B. Individual GAAP Fund:

1. ***Review agency's prior year GAAP workpapers.*** Agencies should maintain GAAP files that include supporting workpapers and adjusting entries covering each fiscal year for audit and internal purposes. Accountants should reacquaint themselves with the GAAP conversion process by reviewing the file and consider agency or accounting changes that may require a change in procedures/entries for the current year. A focus on cost/benefit should be maintained for work performed to ensure efforts are concentrated in the appropriate areas.

2. ***Review current year manual and forms.*** Agencies should review annual updates to the "Uniform GAAP Conversion Policies and Procedures Manual" (the Manual). Each year, the SCO-FRS emails a list of manual revisions/updates to agency accountants. Changes made to the manual address modifications in reporting requirements of the Governmental Accounting Standards Board (GASB) or state law, as well as procedural changes implemented by SCO-FRS. Agencies should incorporate any required processing/reporting changes. The entire GAAP Manual is available on the DOA web site at: https://doa.wi.gov/Pages/StateFinances/State-Controllers-Office-Information-for-state-agencies.aspx listed under Financial Reporting Section (GAAP Reporting).

3. ***Attend training sessions.*** Agency staff directly involved in preparing GAAP financial information should attend training sessions periodically conducted by the SCO-FRS covering State GAAP policies and procedures. Agency staff new to the GAAP conversion process may request additional assistance from a member of SCO-FRS to become familiar with the overall process or for specific questions.

4. ***Review Financial Reporting Packages.*** The SCO-FRS provides each agency with financial information needed or useful for GAAP Reporting. (See Section IV-1 Conversion Process Overview for more information.) Information is provided electronically. Agency staff should review information provided by SCO-FRS in conjunction with performing their GAAP procedures.

5. ***Perform applicable procedures included in Manual.*** Agencies should identify and perform the applicable procedures identified in Section V of the Manual. Agencies should retain workpapers and other supporting information that document their process and results. Information submitted to SCO-FRS should be limited to entries, disclosures, and high levels of supporting detail.

B. Individual GAAP Fund (continued):

6. ***Prepare appropriate entries***. Following guidance provided in the Manual, agencies should prepare adjusting entries necessary to complete the fund trial balances provided by SCO-FRS and prepare financial statements that conform to GAAP.

   - Individual Fund Statements **Accountants for governmental funds must use the Journal Uploader Tool in Excel** so journals may be uploaded, posted to the STAR CAFR ledger and used to create financial statements. GAAP accountants **for proprietary and fiduciary fund types should use** the Journal Uploader to develop their balance sheet and operating statement unless they have SCO-FRS permission to use an alternative method. Agencies who have used the Journal Uploader file in past years must continue using it. The Journal Uploader is customized specifically for ACFR reporting needs and is updated annually to incorporate changes necessary for current year reporting. It allows accountants to efficiently record adjusting entries, limits the risk of errors, and allows SCO-FRS to post entries to the CAFR ledger so financial statements may be created. The Journal Uploader file will be updated and emailed to agency GAAP accountants each year along with instructions for use.

     Sections V and VI of the GAAP Manual provide examples of entries required to present Wisconsin's fund financial statements in accordance with GAAP. Agencies may refer to the Manual for guidance when preparing ACFR entries prior to recording them in the Journal Uploader file.

   - Government-wide Statements **Accountants must use the Journal Uploader to submit the government-wide entries.** These entries are recorded solely at the government-wide level and cover more than one governmental fund. For example, if an agency pays for capital assets from both the General Fund and a special revenue fund, only one set of gov-wide adjusting entries is made to add the assets and record annual depreciation expense while also removing capital outlay expenditures for both.

     Section V and VI of the Manual provides examples of ACFR entries required to present government-wide financial statements on a full accrual basis. This primarily impacts agencies with activity in governmental funds. Agencies may refer to the Manual when preparing ACFR entries prior to recording them in the Journal Uploader file.

     SCO-FRS will determine and record the ACFR capital asset entries in the trial balance for full accrual fund statements and governmental activities of the government-wide statements using information from the STAR Asset Management (AM) module for all agencies except DOT and UW-System. Agency capital asset entries will be limited to additional ones needed to correct information either missing or inaccurately included in AM as determined by SCO-FRS. DOT is responsible for providing accurate entries pertaining to capital assets not included in STAR AM. Agencies should make any other government-wide entries required but not made by SCO-FRS.

B. Individual GAAP Fund (continued):

7. ***Prepare a composite entry for government-wide entries.*** After recording individual entries into the Journal Uploader, users refresh a pivot table to summarize them into a composite entry for review – one composite entry covering governmental activities and one covering business-type activities. In most cases, agencies will only have governmental activities for which to make government-wide entries.
8. ***If applicable, review entries or financial information submitted by other agencies***. Certain GAAP funds include activity of several agencies. For example, the Department of Natural Resources' Conservation Fund may include financial expenditures of the DATCP. In these cases, the accountant responsible for the GAAP fund should review the entries and supporting documentation submitted to them by other agencies for accuracy. Any questionable matters should be resolved before those entries are incorporated into the trial balance.

9. ***Preparing individual financial statements.***

a. Agencies submitting ACFR entries using the Journal Uploader: After agencies add entries to the Journal Uploader, upload it to the CAFR ledger and edit the journal, nVision reports will be created which combine the ACFR trial balance worksheet and the (unposted) adjusting entries uploaded by the agency. The reports containing the draft statements will be generated daily and available to accountants in the STAR Report Manager. Because accountants must use the uploader for governmental funds and certain proprietary funds, nVision reports will be generated for all those funds in that manner.

b. Accountants for Proprietary and Fiduciary funds who have SCO-FRS permission to not submit ACFR entries via the Journal Uploader: If not using CUTE, agencies may use their own proven method to prepare a statement of net position, operating statement, and statement of cash flows (for proprietary funds). Any statements prepared outside of the standardized STAR CAFR ledger reporting process should be reviewed for accuracy e.g. footed, cross footed, check figures, correct accounts used, etc. Agencies for proprietary and fiduciary funds who have used the Journal Uploader in previous years are required to continue using it. ACFR statements prepared external to the standard CAFR ledger process must be presented using ACFR accounts at the level of detail needed to allow SCO-FRS to compile all financial statements and required note disclosures. For example, deferred inflows/outflows of resources must be presented at the detailed account level (e.g. Deferred Outflows of Resources – Pension Contributions Subsequent to the Measurement Date) on the face of the statement of net position because those amounts are electronically linked from the statement to another SCO-FRS file used to compile the required note disclosure for all governmental and business-type activities. Tip: The Journal Uploader may be used as a reference to identify appropriate ACFR detailed accounts that should be used for proprietary and fiduciary funds even if it will not be used for submitting entries. Section VI of the Manual illustrates the ACFR accounts required by SCO-FRS for financial statements.

   Agencies should update and modify their internal methods annually to ensure the accounts used are consistent with ACFR compilation and presentation needs. Further, statements submitted should be formatted in a professional and user-friendly manner that allows SCO-FRS staff to easily use, view and print them without modification.

B. Individual GAAP Fund *(continued):*

10. ***Prepare information for Notes to the Financial Statements***. Section V of the Manual also refers to required "Notes to Financial Statements". To facilitate preparation of ACFR note disclosures, agencies should review the note disclosure requirements and submit information as appropriate.

    Note disclosure forms are available in the electronic file Forms20xx-Note Disclosures.xlsx which is updated and emailed to accountants annually. It is important for agencies to use the most recent version to ensure accuracy of the submitted information. The forms in this workbook cover both the fund and government-wide statements. For those agencies that have investments, there is also a separate Excel workbook for investment related note disclosures titled Forms20xx-Investment Note Disclosures.xlsx.

    A separate Excel workbook for capital asset note disclosures titled 20xx Capital Asset Prepopulated.xlsm will be emailed to GAAP accountants responsible for reporting capital assets. This form is pre-populated with summarized information recorded in STAR AM and used as a starting point, along with AM entries pushed to the CAFR ledger, as the basis for reporting and disclosing capital assets, accumulated depreciation, current depreciation expense, etc.

11. ***Complete "Agency Procedures Checklist"***. To document that potential items were considered when identifying procedures to be performed, agencies should complete an "Agency Procedures Checklist" for both the individual fund statements and the government-wide statements.
    - Fund Statements Agency accountants should complete a separate fund-level checklist located in Forms20xx-Note Disclosures.xlsx for each fund in which they have activity.
    - Government-wide Statements For the government-wide level, agencies should complete one checklist located in Forms20xx-Note Disclosures.xlsx for all governmental activities and one for all business-type activities (if they have such activities).

12. ***Analytical Review.*** To identify potential errors, agencies should compare current year financial statements to the prior year ACFR(s) with a focus on material accounts. Significant or unusual changes in amounts or balances should be identified and the reasons documented in the ACFR workpapers in the event SCO-FRS or auditors have questions. Professional judgment should be used in determining what constitutes a significant change. Changes in consistently immaterial accounts should generally be disregarded.

B. Individual GAAP Fund (continued):

13. ***Submit information discussed above, retaining copies and supporting documentation for agency files.***
    - ***Individual GAAP Funds***
      Email Journal Uploader files, note disclosures*, checklists and required supporting documentation for the fund to SCO-FRS and copy LAB auditors on the email. SCO-FRS does not require copies of detailed documentation or files be submitted. Rather, only high-level supporting documents should be submitted, if necessary. Agencies must retain a copy of submitted materials in their annual ACFR files. Excel or Word files should be submitted to SCO-FRS to the extent possible. Please do not convert files to a PDF format because they are of limited electronic use. Information is due per the timetable in Section IV-3.
    - ***Government-wide Statements***
      Email Journal Uploader files, note disclosures*, checklists and explanatory supporting documentation for the Governmental or Business-type Activities to SCO-FRS and copy LAB auditors on the email. Those covering governmental activities are due on the same day as the last due-date of the agency's ***governmental*** funds. Those covering business-type activities are due on the same day as the last due-date of the agency's ***proprietary*** funds

*****Note: Agencies should not submit forms that do **not** apply to their activities. To save time and reduce the size of electronic files, accountants should delete the forms that are "not applicable" before emailing the information to SCO-FRS.

C. Preparing Entries for Another Agency's GAAP Financial Statements:

1. ***Determine if your agency's portion of the individual GAAP fund is material to the GAAP fund as a whole.*** To determine the necessity of making entries for another agency's GAAP fund, accountants should consider whether their spending authority is material to the GAAP fund as a whole and what portion of the authority has already been expended. Although there are a number of agencies that have spending authority in another agency's GAAP fund, the "owner" agency typically has the majority of spending authority for the fund. This makes it less likely entries are needed by the "participating" agency. This is especially the case if your agency's spending authority has been fully expended for the fiscal year. The goal is to eliminate unnecessary work by agency GAAP accountants on entries that are immaterial.

   Example: Spending authority for a GAAP fund is $50 million. The "owner" agency possesses $49 million of that spending authority leaving $1.0 million in spending authority split between three other agencies. Of that $1.0 million, $950,0000 has already been expended. Two agencies have spent all of their authorized funds. One agency has $50,000 of unexpended spending authority implying the maximum accrued costs would be less than the general materiality threshold of $100,000. Therefore, no entries would be required of the three participating agencies. *GAAP accountants should email the GAAP accountant responsible for the GAAP fund informing them they will not be providing any ACFR entries.*

   Revenues Collected for another GAAP Fund: In some cases, an agency may collect revenues on behalf of another agency's GAAP fund. For example, DOR often collects tax or other revenue on behalf of other agencies such as DOT or DNR. Generally DOR should provide entries to other GAAP accountants as they "clean up" their revenue accounts unless they are clearly immaterial. Agencies should work together to come to an agreement on what will be provided to maximize GAAP accuracy while minimizing unnecessary effort.

   Participating agencies generally only need to provide entries to the responsible agency. If the account used in the entry impacts a related form, such as for interfund transfers or Due To/Due From Other Funds, that applicable information should also be communicated to the responsible accountant in the email so it may be included in the form submitted with their GAAP fund.

2. ***If significant entries are needed, review agency's prior year GAAP workpapers.*** Agencies should maintain a GAAP file that includes supporting workpapers and adjusting entries covering each fiscal year for audit and internal purposes. Accountants should reacquaint themselves with the GAAP conversion process by reviewing the file and consider agency or accounting changes that may require a change in procedures/entries for the current year. A focus on cost/benefit should be maintained for all procedures performed to ensure work efforts are concentrated in the appropriate areas.

3. ***Email entries to the responsible agency***. After preparing the entries and any applicable forms, agencies should email the information to the responsible agency accountant by the due date noted in the timetable.

Desk Reviews of ACFR Financial Information

During the process of compiling the ACFR, SCO-FRS performs desk reviews of ACFR information submitted by agencies. These reviews assess the reasonableness of financial statements and adjusting entries, as well as the completeness of forms that provide information for the notes to the financial statements. As part of these desk reviews, the FRS performs numerous checks of financial information to assist in the reconciliation and/or overall compilation process.

Some of the more common checks are listed on **Attachment A** to this GAAP Manual Subsection.

Prior to submitting the GAAP conversion information to the Financial Reporting Section, agency accountants should perform those checks that are applicable to their agency's activities. This will reduce the risk of errors in the ACFR and eliminate the need for revisions as a result of desk reviews.

The documentation provided by agencies to SCO-FRS will be used in the review. High level supporting documentation, such as summaries or reconciliations may be useful for the reasonableness review. If additional information is needed, SCO-FRS will contact the GAAP accountant.

Common Desk Review
Checks

- **Checklist**
  - A checklist is provided for both the fund and the government-wide levels (even if no entries are needed).
  - The checklist is completed.

Fund statement information

- **Analytical Review**
  - Agency completed an analytical review and identified reasonable explanations of significant or unusual changes. The explanations should be submitted to FRS with the agency's ACFR submission. Immaterial items may generally be disregarded unless the financial statements clearly contain an error.
  - Verify account titles are consistent with the pro forma statements included in the GAAP Manual. Only ACFR accounts (beginning with W or X) may be used to record entries in the CAFR ledger. The use of the Journal Uploader limits accountants to using proper accounts for a fund. This is done through the use of attributes on the ACFR accounts.
  - Agency explained significant variances in amounts or accounts used in the statements.

- **Balance Sheet/Statement of Net Position**
  - Assets equal liabilities plus fund balance/assets plus deferred outflows equal liabilities plus deferred inflows plus net position.
  - Nonspendable fund balance for inventories and prepaid items equal comparable amounts reported in related asset accounts (i.e., inventories and prepaid items), provided that the prepaid items are not offset by a liability account such as unearned revenue or tax deposits (***governmental funds only)***.

- **Operating Statement**
  - Fund Statements:
    1. Current year's beginning fund balance/net position agrees to last year's ending fund balance/net position (unless a prior period adjustment form is submitted, which explains the difference).
    2. Current year's ending fund balance/net position on the operating statement agrees to ending fund balance/net position on the balance sheet/statement of net position.

- **Statement of Cash Flows** (***proprietary funds***):
  - Beginning cash on the statement of cash flows equals last year's ending cash.
  - Current year's ending cash on the statement of cash flows agrees to ending cash on the statement of net position (including any restricted cash balances).
  - Total net cash provided (used) by operating activities in the "cash flows from operating activities" section equals the net cash provided (used) by operating activities in the "reconciliation of operating income (loss) to net cash provided (used) by operations."
  - Operating income on the statement of cash flows equals operating income on the operating statement.
  - Significant noncash transactions are disclosed on the bottom of the statement of cash flows when the applicable question of the "Agency Procedures Checklist" has an affirmative response.

- **General Fund Composite Entry**
  - A ***General Fund*** composite entry is included and all accounts have been properly posted with debits equaling credits.
  - The total of adjusting entries to fund balance on the composite entry equals the total net adjusting entries impacting all asset/liability accounts on the previous year's composite entry, plus/minus the following:
    1. the change in inventory between the current and prior years, *or*
    2. prior period adjustments reported on the prior period adjustments form

Common Desk Review Checks (*continued*)

Government-wide statement information

- **Adjusting Entries**

  Capital Assets adjusting entry sets up current year acquisitions as assets (for ***governmental funds*** *only).* The credit to the "Capital Outlay" expenditure account from the addition of new assets equals the total of the capital outlay expenditures set up for all of an agency's governmental funds (from the trial balance plus or minus adjusting entries made at the fund level). The credit will be generated by information contained in the STAR AM module which is presumed to be correct. If that credit amount is incorrect, assets are incorrect in AM and an ACFR entry could be needed (if agreed upon by SCO-FRS) OR that additional ACFR entries are needed pertaining to capital outlay expenditures.
  - The credit also equals the amount shown for capital asset additions (less any donations or capital assets received from other state agencies) from the capital asset note disclosure form (Page N15).
  - *Composite Entry*. A government-wide composite entry was provided via the Journal Uploader and all accounts have been properly posted with debits equaling credits.
  - The total of adjusting entries to "Net Position" on the composite entry *equals* the total net adjusting entries impacting all asset, deferred outflow, liability, and deferred inflow accounts per the previous year's composite entry *plus/minus* any gov-wide prior period adjustments reported on the PPA form.

Note disclosure forms

- **Deposit Analysis/Cash and Cash Equivalent Reconciliation:**
  - *Part A of form, Deposits Analysis*. Total cash in Column G "Carrying Amount (Book Balance)" agrees with the reconciliation on Part B of form, Line C "Deposit Accounts".
  - *Part C of form, Cash Reconciliation, Line B*. Interfund cash allocations reported on Line B "Reallocation of Cash" on Page N8 is accompanied by a reconciliation of cash (between funds) that nets to zero.
  - *Part C of form, Cash Reconciliation, Line G*. Total cash and cash equivalents on Line G equals cash and cash equivalents on the balance sheet/statement of net position for ***individual funds***.

- **Due from Other Funds/Due to Other Funds**:
  - *Part A of form, which covers agency's reclassification and accrual adjusting entries to be reconciled by agencies*. For ***General Fund*** agencies, the total amount reported in Part A of the form equals the amounts reported for the respective accounts on the composite entry. For ***individual funds***, the total amounts reported in Part A equal the amounts reported for the total adjusting entries in the respective accounts posted to the trial balance.
  - *Part B, Section 1, of form, which covers on-system reconciled balances with other funds or additional amounts reconciled by FRS*. The amounts reported in B-1 equal beginning due from/due to on the trial balance worksheets (for the ***General Fund***) or the beginning trial balance (for ***individual funds***).
  - *Part B, Section 3 of form "On-System/Reconciled Transactions"*. The State Controller's Office–Capital Accounting Section does a separate reconciliation of amounts due to/from Funds 315/360/363. Agencies with balances due to/from those funds include "reconciled" amounts provided by Capital Accounting in Part B-3 of the form.
  - *Totals*. For the General Fund, the form totals must agree with those found on the trial balance worksheet plus the agency's composite entry. For other funds, these amounts must equal the amounts reported in the fund's financial statements.
  - A fund should not report amounts "due from" or "due to" itself.

- **Investments (**see workbook **Forms20xx-Investment Note Disclosures.xlsx)**
  - *Part A, Investments Reported as Cash Equivalents,* Total Part A should equal the amount of cash equivalents reported in the balance sheet/statement of net position.
  - *Part B, Investments Reported as Investments*, Total Part B should equal the amount of investments reported in the balance sheet/statement of net position.
  - *Part B, Column A, Item (E), Investments Included in Deposit disclosure form*, amounts reported as investments in the balance sheet/statement of net position but that are included in the deposit analysis footnote disclosures (for example, securities such as nonnegotiable certificates of deposit) should equal similarly labeled item on line (D) of the *Deposit Analysis/Cash and Cash Equivalents form*.
  - *Total,* the sum of Part A, Part B and Part B, Column A, Item (E). This amount should be investments reported as cash equivalents and investments in the balance sheet/statement of net position.

Common Desk Review Checks (*continued*)

- **Capital Assets**:
  - Note Disclosure Information – Capital Assets Valuation and Depreciation Policy:
    1. For capital asset projects of ***governmental funds*** financed through Funds 36000 or 36300, the total amount reported for "Completed Construction" appearing on the form agrees with the amount of completed construction provided to agencies by the SCO-Capital Accounting Section.
    2. Total ending balances of capital assets and accumulated depreciation on the disclosure form agree with the Capital Assets and Accumulated Depreciation shown on the fund financial statements (for ***proprietary funds***) or the government-wide composite entry (for ***governmental funds***).
    3. Total beginning balances of capital assets and accumulated depreciation on the form agree with the prior year's respective ending balances. Any changes to the prior year's ending amounts must be made through a prior period adjustment or an adjustment to current year's operations.

- **Installment Purchases:**
  - *New installment purchases in* ***governmental funds****.* A fund entry is made to report "other sources-installment purchases (a revenue-like account), with a corresponding debit to capital outlay expenditures, in the year the asset was acquired.
  - *Note Disclosure Information – Installment Purchases of* ***proprietary funds****.* The "Total Present Value of Net Minimum Installment Payments" agrees with the installment purchase liability reported on the fund's statement of net position.
  - The amounts of capital assets acquired through installment purchases are included as a reconciling item on the Reconciliation of Governmental Funds form.

- **Prior Period Adjustments-Individual GAAP Fund Form**:
  - Section C, "Impact on Beginning of Year Fund Balance/Net Position" line labeled "Fund Balance/Net Position, end of prior fiscal year as reported in prior year ACFR" agrees to the fund balance/net position reported in the prior year's ACFR for the fund.

- **Interfund transfers form**:
  - *Part A of form "Transfers Reconciled by Agencies".* The amounts reported for Part A of form equal the net of the unreconciled transfers (distributed by FRS) <u>plus</u> any agency adjusting entries to the interfund transfer accounts.
  - *Part B of form "Transfers Reconciled by FRS", Section 1.* The amounts reported on form equal the reconciled transfers in and out. These totals correspond to the amounts reported in the "Reconciled" columns on the Transfers Summary Worksheet.
  - *Part B of form "Transfers Reconciled by FRS", Section 4.* The State Controller's Office–Capital Accounting Section provides a separate reconciliation of certain transfers with funds 31500/36000/36300. Agencies with interfund transfers to/from those funds should enter amounts provided by Capital Accounting.
  - *Part C of form "Totals".* For the General Fund, these amounts must equal the transfer amounts reported on the Account Balance Worksheet, net of the agency composite entry (s) to the interfund transfer accounts. For other funds, these amounts must equal the amounts reported in the fund's financial statements as interfund transfers.

- **Intrafund transfers form – General Fund**:
  - *Part A of form "Transfers Reconciled by Agencies".* The amounts reported for Part A of form equal the net of the unreconciled transfers (distributed by FRS) <u>plus</u> any agency adjusting entries to the intrafund transfer accounts.
  - *Part B of form "Transfers Reconciled by FRS".* The amounts reported for Part B of the form equal the reconciled transfers in and out. These totals correspond to the amounts reported in the "Reconciled" columns on the Transfers Summary Worksheet.
- **Subsequent Events**: Complete even if there are no events to report. Form may cover more than one fund.

Proposed timetable for completion of ACFR tasks by SCO and agencies.

Action	Performed by	*Completion Date*
ACFR trial balance reports made available to agencies in nVision reports in STAR (updated twice daily)	SCO-FRS	Spring
Place updated copy of "Uniform GAAP Conversion Policies and Procedures Manual" on the internet. Send a memo to agencies describing procedural changes from the previous year.	State Controller's Office (SCO) - Financial Reporting Section (FRS)	7/15/24
Distribute Final Quarterly Project Classification Report Distribute Final Monthly New Project Classification Reports to agencies with projects.	SCO - Capital Accounting Section SCO – Capital Accounting Section	6/3/24 6/21/24
Last day for agencies to submit changes for project classifications or GAAP fund assignments to SCO-Capital Accounting Section.	Agencies	6/28/24
AP and EX subsystems closed for FY2024	Agencies	7/18/24
Last day for FY2024 adjustments including new expenditures and revenues in STAR (All subsystems and the ACTUALS ledger closed for FY2024)	Non-project agencies Project Agencies DOR Taxes (per WI Stats.)	8/2/24 8/9/24 8/19/24
GL Rolls to New Fiscal Year	SCO-Accounting	9/6/24
Distribute Capital Accounting Construction in Progress/Completed Construction Report for the fiscal year	SCO - Capital Accounting Section	8/2/24
Distribute Capital Accounting Extraction Entries to Agencies	SCO - Capital Accounting Section	9/16/24
Upload Capital Accounting Extraction entries to ACFR Trial Balances	SCO-FRS	9/16/24
Close period 12 in STAR Asset Management for Tier 1 agencies	SCO-FRS	7/26/24
Close period 12 in STAR Asset Management (AM) for Tier 2 agencies (with capital accounting projects)	SCO-FRS	8/7/24
Compile ACFR conversion entries and load into nVision Trial Balances	SCO-FRS	Ongoing in July/August
Obtain updated ACFR trial balance reports in STAR for use in developing GAAP-based financial statements	Agencies	Ongoing until GAAP statements are submitted to SCO-FRS
Distribute electronic files such as capital asset disclosures and final transfers to agencies as STAR data is available.	SCO-FRS	Ongoing in July/August
General Fund Information: Major agencies should complete and return Financial Reporting Packages *(including checklists, note disclosure forms, and adjusting entries, which are unaudited as of this due date)* to SCO-FRS and LAB auditors.	General Fund accountants in major agencies	See Agency Due Date Table in the Appendix for specific dates, by agency.
Individual Fund financial statements: Complete and return Financial Reporting Packages (*including checklists, financial statements, adjusting entries, and note disclosure forms, which are unaudited)* to SCO-FRS and LAB auditors.	GAAP accountants responsible for an individual GAAP funds e.g. DOT for the Transportation Fund	See Agency Due Date Table in the Appendix for specific dates, by agency.
Entries for Other GAAP Funds: Agencies may have spending authority in, or collect revenue for, a GAAP fund for which financial statements are prepared by another agency. The spending/collecting agency should provide entries to the other agency by the due date indicated in schedule. Immaterial entries, i.e. less than $100,000, need not be provided.	Agency accountants *e.g. the DOR tax accountant must provide entries to DOT for the Transportation Fund.*	See Agency Due Date Table in the Appendix for specific dates, by agency.

Action	**Performed by**	***Completion Date***
Government-wide Information (this includes submitting government-wide information related to the GAAP General Fund e.g., capital assets.) Complete and return Financial Reporting Packages *(including checklists, note disclosure forms, and adjusting entries, which are unaudited as of this due date)* to the SCO-FRS and LAB auditors. As noted in the following pages, agencies with debt service funds (DOT) should submit government-wide entries on the same date as their due date for the fund statements.	Agencies	For governmental activities – Unless otherwise noted, government-wide information covering all governmental activities is due the same day as the last due date of the agency's *governmental* funds. For example, an agency's due dates are as follows: • General Fund 9/9 • Governmental Fund B 9/30 The due date for government-wide information (except MD&A) is Sept 30th For business-type activities – Government-wide information covering all business-type activities is due on the same day as the last due date of the agency's *enterprise* funds.
• Complete initial desk reviews of all General Fund GAAP conversion information	SCO-FRS	10/25/24
• Complete and return information for the Management Discussion and Analysis (MD&A)	Agencies	11/4/24
• Complete initial desk reviews of individual GAAP funds	SCO-FRS	11/11/24
• Complete DRAFT Financial Section of ACFR, except for the MD&A. Provide the Legislative Audit Bureau (LAB) with copy. Track subsequent adjustments.	SCO-FRS	11/19/24
• Complete DRAFT MD&A and provide to LAB	SCO-FRS	12/2/24
• Complete Introductory and Statistical Sections and provide to LAB	SCO-FRS	12/4/24
• Receive and incorporate final LAB adjustments	LAB/SCO-FRS	TBD
• Provide LAB with FINAL draft ACFR	SCO-FRS	TBD
• Receive and incorporate Auditors Report (opinion) in to ACFR	LAB/SCO-FRS	TBD
• Load ACFR to the internet, distribute notifications	SCO-FRS	12/12/24
• Provide Capital Finance with General Purpose External Financial Statements	SCO-FRS	12/16/24

Agency Due Dates: Agencies should submit all information by the due dates listed in the Agency Due Dates Table located in the Appendix. Unless otherwise noted**, government-wide information** for governmental activities is due on the same day as the last due date for all governmental GAAP funds of the agency.

"Minor Agencies" need not provide GAAP information for the General Fund or for Government-wide statements. If applicable, those agencies are still required to submit information for their special revenue, enterprise and fiduciary GAAP funds by the due date listed. Further, in some cases, SCO-FRS will rely on STAR ACTUALS information as being materially correct for certain GAAP funds. Agencies are not required to submit GAAP information for those funds.

Materiality Considerations when Determining Entries for Other GAAP Funds: In the event an agency is responsible for providing accrual entries for an individual GAAP fund for which statements are prepared and submitted by another agency, accountants should email the accrual entries directly to the responsible agency by the due date noted. For example, if DATCP determines a significant entry is required for the Conservation fund, they should provide the entry to the DNR GAAP accountant responsible for preparing the DNR GAAP financial statements.

Accountants should consider whether the entries are significant to the GAAP fund by reviewing the prior year GAAP statements presented in the ACFR and considering the percentage of spending authority an agency has been given in relation to the spending authority for the GAAP fund as a whole. If an agency has immaterial spending authority in a GAAP fund and most of that spending authority has been expended during the fiscal year, completing ACFR entries serves no useful GAAP reporting purpose. Such entries need not be made. If no entries are required, accountants should communicate that to the responsible GAAP accountant. In certain cases, FRS has already determined that no entries are needed.

Agency Accrual Entries Related to Building Trust (360) and Capital Improvement (363) Funds: The DOA Division of Facilities Development (DFD) manages most building projects via Funds 36000 and 36300. The SCO Capital Accounting GAAP accountant is able to determine the accounts payable accrual entries required for those projects. In some cases, however, agencies make payments on projects reflected in funds 36000/36300. As a result, agency GAAP accountants need to determine if accounts payable accrual entries are needed for GAAP reporting purposes. Because of the timing of the close of the A/P module in STAR (later in July) most accrual entries should be in the STAR ACTUALS ledger for the year just ended and only limited accruals will be needed. Entries need not be made for immaterial items.

Distribution of DOR-collected Revenues for GAAP Reporting Purposes: DOR collects and distributes cash revenue to a number of agencies/GAAP funds throughout the year. The DOR tax accountant will provide revenue entries to agency GAAP accountants, as necessary, to account for those transactions not recorded to the appropriate accounting string on STAR by designated cutoff dates.

Use of Journal Uploader Templates in Excel Files: Agency accountants must submit their ACFR entries using the Journal Uploader file unless SCO-FRS permits them to use an alternative reporting method.

Where to Submit Information: GAAP information should be emailed to DOADEBFGAAP@wisconsin.gov and copy LAB auditors on the email so they receive the same information at the same time.

Funds Not Reported on STAR: Some GAAP funds are reported in the ACFR but there is no financial activity reported on STAR. In that case, agencies use their own sources of information as the starting point for the financial statements rather than a STAR-based ACFR Trial Balance.

Externally Audited GAAP Funds or Component Units: External CPA firms audit some funds or component unit financial statements and LAB relies on the work of those auditors. To meet the due-date requirements, draft financial statements and accompanying disclosure information should be submitted by the due date indicated in the Appendix.

Agency Due Dates Table					
Agency No.	Agency Name	GAAP Fund No.	GAAP Fund Name	Due Date	Comments
115	Dept of Ag, Trade and Consumer Protection	100	General Fund	September 6, 2024	
115	Dept of Ag, Trade and Consumer Protection	241	Working Lands	N/A	FRS will use STAR ACTUALS for GAAP reporting.
115	Dept of Ag, Trade and Consumer Protection	257	Agricultural Chemical Cleanup	N/A	FRS will use STAR ACTUALS for GAAP reporting.
115	Dept of Ag, Trade and Consumer Protection	259	Agrichemical Management	September 20, 2024	
115	Dept of Ag, Trade and Consumer Protection	261	Agricultural Producers Security	September 20, 2024	
115	Dept of Ag, Trade and Consumer Protection	212 272 274		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
115	Dept of Ag, Trade and Consumer Protection	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
144	Financial Institutions	100	General Fund	N/A	Minor Agency – no submission required
144	Financial Institutions	750	College Savings Program Trust	N/A	Starting in FY20 this fund is no longer in the ACFR with the implementation of GASB 84.
144	Financial Institutions	775	Tuition Trust	September 2, 2024	
145	Commissioner of Insurance	100	General Fund	September 6, 2024	
145	Commissioner of Insurance	531	Local Govt Property Insurance	September 27, 2024	
145	Commissioner of Insurance	532	State Life Insurance	September 27, 2024	
145	Commissioner of Insurance	533	Inj Patients & Families Compensation	September 20, 2024	
145	Commissioner of Insurance	171	Insurance Co. Liquidation Account	September 20, 2024	
145	Commissioner of Insurance	996	WHCLIP	July 1, 2024	Component Unit GAAP statements prepared by OCI.
155	Public Service Commission	100	General Fund	September 6, 2024	
155	Public Service Commission	239	Police and Fire Protection	September 27, 2024	
155	Public Service Commission	268	Wireless 911	N/A	FRS will use STAR ACTUALS for GAAP reporting.
155	Public Service Commission	255	Universal Service	September 27, 2024	
155	Public Service Commission	235		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
165	Safety & Professional Services	100	General Fund	September 6, 2024	
190	State Fair Park Board	100	General Fund	N/A	Minor Agency – no submission required
190	State Fair Park Board	151	State Fair Park	September 27, 2024	
190	State Fair Park Board	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
192	Wisconsin Economic Development	100	General Fund	September 20, 2024	SCO-FRS will prepare entries
192	Wisconsin Economic Development	248	Economic Development [248/248]	September 20, 2024	SCO-FRS will prepare statements
192	Wisconsin Economic Development	274		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
225	Educational Communication Board	100	General Fund	September 6, 2024	
225	Educational Communication Board	278	WI Public Broadcast Foundation	October 15, 2024	Blended component unit.
225	Educational Communication Board	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
235	Higher Education Aids Board	100	General Fund	N/A	Minor Agency – no submission required
245	Historical Society	100	General Fund	September 6, 2024	
245	Historical Society	264	Historical Legacy Trust	N/A	FRS will use STAR ACTUALS for GAAP reporting.
245	Historical Society	266	History Preservation Partnership Trust	September 6, 2024	
245	Historical Society	387	Historical Society	September 6, 2024	
245	Historical Society	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
245	Historical Society	212		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
250	Medical College of Wisconsin	100	General Fund	N/A	Minor Agency – no submission required
255	Dept. of Public Instruction	100	General Fund	September 20, 2024	
255	Dept. of Public Instruction	374/ 375		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
255	Dept. of Public Instruction	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
285	University of Wisconsin System	150	University of Wisconsin (**Major Fund**)	November 1, 2024	UW's GAAP fund includes financial activity reported in 150, 511 and 512.
285	University of Wisconsin System	212, 274, 255, 383		August 23, 2024	FRS will include entries required for these GAAP funds in the Trial Balance worksheets prepared for the UW and the individual GAAP funds listed.
285	University of Wisconsin System	259		N/A	Activity of UW is immaterial to the GAAP Fund. No entries needed for UW's portion.
285	University of Wisconsin System	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
285	UW Foundation	998		11/21/2024 DRAFT 11/28/2024 FINAL	Component Unit – send statements by due date w/plan to submit earlier in subsequent years.
292	Tech. College System Board	100	General Fund	September 6, 2024	
320	Clean Water	100	General Fund	N/A	Minor Agency – no submission required
320	Clean Water	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
320	Clean Water	573	Environmental Improvement (**Major Fund**)	October 4, 2024	Send draft statements by due date. Provide final audited information by October 31. Agency should also provide MD&A.

Agency No.	Agency Name	GAAP Fund No.	GAAP Fund Name	Due Date	Comments
360	Lower Wisconsin Riverway (Tourism)	100	General Fund	N/A	Minor Agency – no submission required
360	Lower Wisconsin Riverway (Tourism)	212		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
370	Dept. of Natural Resources	100	General Fund	September 27, 2024	
370	Dept. of Natural Resources	212	Conservation	October 11, 2024	
370	Dept. of Natural Resources	213	Heritage State Parks/Forest	August 23, 2024	
370	Dept. of Natural Resources	217	Waste Management	N/A	FRS will use STAR ACTUALS for GAAP reporting.
370	Dept. of Natural Resources	274	Environmental	October 4, 2024	
370	Dept. of Natural Resources	277	Dry Cleaner Environ Responsibility	September 13, 2024	
370	Dept. of Natural Resources	272	Petroleum Inspection (special revenue)	September 6, 2024	Fund 272 relies on information from DOT.
370	Dept. of Natural Resources	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
370	Dept. of Natural Resources	573		August 9, 2024	If significant entries are needed, provide to applicable GAAP accountant.
373	Fox River Navigational System Authority	100	General Fund	N/A	Minor Agency – no submission required
373	Fox River Navigational System Authority	212		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
375	Lower Fox River Remediation Authority	100	General Fund	N/A	Minor Agency – no submission required
380	Dept. of Tourism	100	General Fund	N/A	Minor Agency – no submission required
380	Dept. of Tourism	211		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
380	Dept. of Tourism	212		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
385	Kickapoo Reserve	100	General Fund	N/A	Minor Agency – no submission required
385	Kickapoo Reserve	212		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
395	Dept. of Transportation	100	General Fund	September 6, 2024	
395	Dept. of Transportation	211	Transportation (**Major Fund**)	October 11, 2024	Agency should provide MD&A.
395	Dept. of Transportation	311	Transportation Revenue Bonds –Debt Service	September 27, 2024	Agency should submit all TRB-related info (fund and Gov-wide) on this date.
395	Dept. of Transportation	365	Transportation Revenue Bonds-Capital Projects	September 27, 2024	Agency should submit all TRB-related info (fund and Gov-wide) on this date.
395	Dept. of Transportation	GW	Government-wide Adjustments – for funds 311 and 365 that relate to debt	September 27, 2024	Agency should submit all TRB-related info (fund and Gov-wide) on this date.
395	Dept. of Transportation	587	Transportation Infrastructure Loan	September 20, 2024	
395	Dept. of Transportation	GW	Government-wide Adjustments – for capital assets and funds 100 and 211	October 22, 2024	Agency should provide infrastructure information for MD&A and RSI.
395	Dept. of Transportation	272	DOT receives entry from DOR and then DOT provides entries to the DNR GAAP accountant. DOT's entries must consider the impact the DOR entry has on the DNR entries.	September 4, 2024	DOT should provide entry to DNR GAAP accountant within one day of receipt of fund 272 info from DOR. DOR's due date to send info to DOT is 9/3/24. DOT should be cognizant of DNR's Fund 272 due date so DNR has adequate time to finalize their statements.
395	Dept. of Transportation	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
410	Dept. of Corrections	100	General Fund	September 27, 2024	
410	Dept. of Corrections	153	Institutional Farm Operations	October 11, 2024	
410	Dept. of Corrections	154	Correctional Canteen Operations	October 11, 2024	Starting in FY 2022 this fund will be reported as part of the General Fund for the ACFR. Any entries to reclass detailed fund 15400 to 10000 should be completed by the due date.
410	Dept. of Corrections	166	Badger State Industries	October 4, 2024	
410	Dept. of Corrections	772	Inmate & Resident	October 4, 2024	
410	Dept. of Corrections	389	Benevolent	N/A	FRS will use STAR ACTUALS for GAAP reporting.
410	Dept. of Corrections	274		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
410	Dept. of Corrections	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
425	Employment Relations Comm	100	General Fund	N/A	Minor Agency – no submission required
427	Labor & Industry Review	100	General Fund	N/A	Minor Agency – no submission required
427	Labor & Industry Review	227			No GAAP entries needed – activity is immaterial to the GAAP fund.
432	Board on Aging and Long-term Care	100	General Fund	N/A	Minor Agency – no submission required
433	Child Abuse and Neglect Prevention Board	100	General Fund	N/A	Minor Agency – no submission required
433	Child Abuse and Neglect Prevention Board	223	Children's Trust	N/A	FRS will use STAR ACTUALS for GAAP reporting.

Agency No.	Agency Name	GAAP Fund No.	GAAP Fund Name	Due Date	Comments
435	Dept of Health Services	100	General Fund	September 20, 2024	
435	Dept of Health Services	100	Medical Assistance Trust (Statutory Fund 280)	September 20, 2024	Provide accrual entries to FRS, if necessary
435	Dept of Health Services	100	Hospital Assessment (Statutory Fund 282)	September 20, 2024	Provide accrual entries to FRS, if necessary
435	Dept of Health Services	100	Critical Access Hospital Assessment (Statutory Fund 284)	September 20, 2024	Provide accrual entries to FRS, if necessary
435	Dept of Health Services	141	Mendota Mental Health Institution	October 11, 2024	
435	Dept of Health Services	142	Winnebago Mental Health Institution	October 4, 2024	
435	Dept of Health Services	143	Northern Develop Disability Center	October 11, 2024	
435	Dept of Health Services	144	Central Develop Disability Center	October 4, 2024	
435	Dept of Health Services	145	Southern Develop Disability Center	October 4, 2024	
435	Dept of Health Services	772	Inmate & Resident [*/772]	September 13, 2024	
435	Dept of Health Services	274			No GAAP entries needed – activity is immaterial to the GAAP fund.
435	Dept of Health Services	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
437	Dept of Children and Families	100	General Fund	September 27, 2024	
437	Dept of Children and Families	788	Support Collection Trust	October 1, 2024	
437	Dept of Children and Families	235		August 9, 2024	If significant entries are needed, provide to applicable GAAP accountant.
438	Board for People with Developmental Disabilities	100	General Fund	N/A	Minor Agency – no submission required
445	Dept of Workforce Development	100	General Fund	September 27, 2024	
445	Dept of Workforce Development	100	Unemployment Integrity (Statutory Fund 298)	September 27, 2024	Provide accrual entries to FRS, if necessary
445	Dept of Workforce Development	214	Unemployment Interest Payment	September 20, 2024	
445	Dept of Workforce Development	224	Self-Insured Employment Liability	September 27, 2024	
445	Dept of Workforce Development	226	Work Injury Supplemental Benefits	September 20, 2024	
445	Dept of Workforce Development	227	Workers Compensation	September 27, 2024	
445	Dept of Workforce Development	229	Uninsured Employers	September 20, 2024	
445	Dept of Workforce Development	540	Unemployment Reserve (**Major Fund**)	October 4, 2024	Agency should provide MD&A.
455	Dept. of Justice	100	General Fund	September 6, 2024	
455	Dept. of Justice	521		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
465	Dept. of Military Affairs	100	General Fund	September 6, 2024	
465	Dept. of Military Affairs	251	Military Family Relief	September 13, 2024	
465	Dept. of Military Affairs	272		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
465	Dept. of Military Affairs	274		N/A	No GAAP entries needed – activity is immaterial to the GAAP fund.
465	Dept. of Military Affairs	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
475	District Attorneys	100	General Fund	N/A	Minor Agency – no submission required
485	Dept. of Veterans Affairs	100	General Fund	September 6, 2024	
485	Dept. of Veterans Affairs	152	Homes for Veterans	October 4, 2024	
485	Dept. of Veterans Affairs	582	Veterans Trust	October 4, 2024	
485	Dept. of Veterans Affairs	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
490	WI Housing & Economic Development Authority	994	WI Housing & Economic Development Authority	October 15, 2024	Component Unit – send draft statements by due date. Provide final audited information by October 31.
492	WI Economic Development Corporation Authority	992	WI Economic Development Corporation Authority	October 15, 2024	Component Unit – send draft statements by due date. Provide final audited information by October 31.
495	UW Hospital & Clinic Authority	990	UW Hospital & Clinic Authority	October 15, 2024	Component Unit – send draft statements by due date. Provide final audited information by October 31.
505	DOA – SCO-FRS	100	General Fund	N/A	Responsible for Compilation of GAAP General Fund [includes Statutory Funds 100, 280, 282, 284, 286, 291, 293, 295, 297, 298]
505	DOA – SCO-FRS	312	Annual Appropriation Bonds	September 20, 2024	FRS creates fund statements and gov't-wide entries from entries provided by Capital Finance
505	DOA – SCO-FRS	313	2009 Annual Appropriation Bonds	September 20, 2024	FRS creates fund statements and gov't-wide entries
505	DOA – SCO-FRS	279	Recycling and Renewable Energy	September 13, 2024	FRS will prepare GAAP statements for this DNR fund.
505	DOA – SCO-Asset Management Section	780	Bank & Insurance Company Deposits	September 13, 2024	
505	DOA – SCO-Asset Management Section	756	Local Government Pooled Invest	September 20, 2024	
505	DOA – Capital Finance Office	312	Annual Appropriation Bonds	July 26, 2024	Entries and disclosures to FRS
505	DOA – Bur of Fin Mgmt	100	General Fund	September 27, 2024	
505	DOA – Bur of Fin Mgmt	235	Utility Public Benefits	September 6, 2024	
505	DOA – Bur of Fin Mgmt	250	State Capitol Restoration	N/A	FRS will use STAR ACTUALS for GAAP reporting.
505	DOA – Bur of Fin Mgmt	269	Land Information	September 6, 2024	

Agency No.	Agency Name	GAAP Fund No.	GAAP Fund Name	Due Date	Comments
505	DOA – Bur of Fin Mgmt	161	Technology Services	October 11, 2024	
505	DOA – Bur of Fin Mgmt	162	Fleet Services	September 27, 2024	
505	DOA – Bur of Fin Mgmt	163	Financial Services	September 27, 2024	
505	DOA – Bur of Fin Mgmt	164	Facilities Operations and Maintenance	October 11, 2024	
505	DOA – Bur of Fin Mgmt	165	Risk Management	September 27, 2024	
505	DOA – Bur of Fin Mgmt	167	Human Resources Services	September 27, 2024	
505	DOA – Bur of Fin Mgmt	272		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
505	DOA – Bur of Fin Mgmt	255		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
505	DOA – Bur of Fin Mgmt	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger or notify the GAAP accountant if they cannot be made.
505	DOA – Bur of Fin Mgmt	573		August 9, 2024	If significant entries are needed, provide to applicable GAAP accountant.
505	DOA – Capital Accounting	363	Capital Improvement Fund	October 4, 2024	
505	DOA – Capital Accounting	GW	Government-wide Adjustments	October 11, 2024	Capital Accounting should also provide all applicable information to FRS for debt and capital assets note disclosures and MD&A.
505	DOA – Capital Accounting	CIP	Provide construction in progress reports to all agencies reporting financial activity in Funds 360 and 363	August 2, 2024	Construction in progress reports provide information on end-of-year construction-in-progress assets as well as capital assets that were completed during the fiscal year.
505	DOA – Capital Accounting	Extraction Entry Data Files	Confirm that data files, for beginning balances and reversing entries, are available to SCO-FRS for developing extracted proprietary fund entries for ACFR trial balance reports.	January/February	Capital Accounting should make available all applicable electronic files to SCO-FRS for use in developing ACFR trial balance entries.
	DOA – Capital Accounting	Extraction Entry Data Files	Confirm that data files, for current year ACTUALS and capital accounting adjusting entries, are available to SCO-FRS for developing extracted proprietary fund entries for ACFR trial balance reports.	September 6, 2024	Capital Accounting should make available all applicable electronic files to SCO-FRS for use in developing ACFR trial balance entries.
505	DOA – Capital Accounting	Extraction Reports	Provide reports to agencies with activity extracted from Funds 315, 360 and 363	September 6, 2024	Financial activity of proprietary funds is removed/extracted from Cap Acctg governmental funds for UW, SFP, FOM; BSI and Correctional Farms at DOC; Mendota, Winnebago, Northern, Central and Southern at DHS; Vets Homes and Vets Trust at DVA. Starting in FY2019 SCO-FRS now includes extraction entries in the ACFR trial balance reports. Agency accountants should not duplicate these entries.
505	DOA – Capital Accounting	Extracted Fund Debt Schedules	Provide breakout between current and noncurrent debt for extracted funds	September 6, 2024	Starting in FY 2019: SCO-FRS will use Capital Accounting debt service schedules to determine ACFR trial balance entries to report current and noncurrent portions of debt for extracted funds.
507	Commissioner of Public Lands	100	General Fund	September 6, 2024	
507	Commissioner of Public Lands	381	Agricultural College	September 6, 2024	Will use STAR for GAAP financial statements - agency should submit investment disclosures each year
507	Commissioner of Public Lands	374	Common School	September 20, 2024	Also includes Fund 375 (Common School Income). Also submit government-wide materials.
507	Commissioner of Public Lands	383	Normal School	September 13, 2024	
507	Commissioner of Public Lands	385	University	September 6, 2024	Will use STAR for GAAP financial statements - agency should submit investment disclosures each year
510	Elections Commission	100	General Fund	N/A	Minor Agency – no submission required
510	Elections Commission	220	Election Administration	N/A	FRS will use STAR ACTUALS for GAAP reporting.
515	Dept. of Employee Trust Funds	100	General Fund	N/A	Minor Agency – no submission required
515	Dept. of Employee Trust Funds	475	Reimbursed Employee Expense	September 13, 2024	
515	Dept. of Employee Trust Funds	476	Life Insurance	N/A	Not in ACFR per ETF &LAB beginning in FY2019
515	Dept. of Employee Trust Funds	477	Local Retiree Life Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	478	Retiree Life Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	406	Income Continuation Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	407	Duty Disability	September 13, 2024	
515	Dept. of Employee Trust Funds	408	Long-term Disability Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	402	Health Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	405 & 416	Accumulated Sick Leave	September 13, 2024	
515	Dept. of Employee Trust Funds	409	Milwaukee Retirement System	September 13, 2024	
515	Dept. of Employee Trust Funds	403	Local Retiree Health Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	404	Retiree Health Insurance	September 13, 2024	
515	Dept. of Employee Trust Funds	401	WI Retirement System	September 13, 2024	
515	Dept. of Employee Trust Funds	479	Wisconsin Deferred Compensation	September 13, 2024	
521	Ethics Commission	100	General Fund	N/A	Minor Agency – no submission required
525	Office of the Governor	100	General Fund	N/A	Minor Agency – no submission required
536	Investment Board	100	General Fund	September 6, 2024	
536	Investment Board		ETF stand-alone GAAP statements and investment disclosures as of December 31st	Late February/early March	Provide Core and Variable Trust Fund (i.e. investment) statements and required disclosures to ETF GAAP Accountant
536	Investment Board		Footnotes for WRS investments as of December 31st adjusted to remove SIF balances for inclusion in the ACFR	June 28, 2024	Email to SCO-FRS
536	Investment Board		Footnotes for SIF (Fund 399)	October 4, 2024	Email to SCO-FRS

Agency No.	Agency Name	GAAP Fund No.	GAAP Fund Name	Due Date	Comments
536	Investment Board		Footnotes for other separately managed (non-WRS) investments, including UW-System, as of June 30th	September 27, 2024	Email to SCO-FRS
540	Office of the Lieutenant Governor	100	General Fund	N/A	Minor Agency – no submission required
550	Public Defender Board	100	General Fund	September 6, 2024	
566	Dept. of Revenue	100	General Fund – DOR Operations (including Unclaimed Property program)	September 6, 2024	
566	Dept. of Revenue	100	General Fund Utility Taxes	September 13, 2024	
566	Dept. of Revenue	100	General Fund – Taxes	September 27, 2024	
566	Dept. of Revenue	100	Tax Abatement Amounts for Note Disclosure	October 4, 2024	
566	Dept. of Revenue	219	Investment & Local Impact	N/A	FRS will use STAR ACTUALS for GAAP reporting.
566	Dept. of Revenue	521	Lottery	September 27, 2024	
566	Dept. of Revenue	211 239 248 272 277	DOR reports are run after August 31st and then entries are developed for other agencies. A series of work must be done at DOR before the entries may be completed which drives the completion date.	September 3, 2024	The DOR Tax GAAP accountant provides entries to applicable agency GAAP accountants. The entries are typically revenue-related.
575	Secretary of State	100	General Fund	N/A	Minor Agency – no submission required
585	State Treasurer – Agency Operations	100	General Fund	N/A	Minor Agency – no submission required
625	Circuit Courts	100	General Fund	N/A	Minor Agency – no submission required
660	Court of Appeals	100	General Fund	N/A	Minor Agency – no submission required
665	Judicial Commission	100	General Fund	N/A	Minor Agency – no submission required
670	Judicial Council	100	General Fund	N/A	Minor Agency – no submission required
680	Supreme Court	100	General Fund	September 6, 2024	
680	Supreme Court	238	Mediation	N/A	FRS will use STAR ACTUALS for GAAP reporting.
765	Legislature (includes Senate, Assembly, LAB, Leg Council, LFB, LRB, LTSB)	100	General Fund	N/A	Minor Agency – no submission required
835	Shared Revenue and Tax Relief (DOR)	100	General Fund	September 13, 2024	Agency 835 has three distinct sets of appropriations. One set is related to **DOR** Shared Revenue, Tax Relief and Property Tax appns (1xx to 3xx). The second is related to **DOA** (Municipal Services - Payments in Lieu of Taxes appns (5xx). The third is related to **DOR** County and Local Sales Tax (4xx), see fund 777 below. The DOR GAAP accountant should determine if GAAP entries are needed for the appropriations for which their agency is responsible. SCO-FRS will complete GAAP entries for activity related to municipal services.
835	Shared Revenue and Tax Relief (DOR)	777	Local Sales Tax Collections	September 13, 2024	Starting in FY2020, County and Local Sales Tax is a custodial fiduciary fund under GASB 84. Appropriations 4xx in BU 835 in detailed fund 100 in STAR will be used as the starting point. The DOR GAAP accountant should determine if GAAP entries are needed for this appropriation and send them to SCO-FRS who will make the adjustments in STAR.
835	Municipal Services	100	Services billing information to SCO-FRS	April 1, 2024	DOA-BFM should provide information to SCO-FRS by the due date noted. FRS will determine and make required entries in the ACFR trial balances.
835	Shared Revenue and Tax Relief (DOR)	239		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
835	Shared Revenue and Tax Relief (DOR)	521		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
855	Miscellaneous Appropriations	100	General Fund (excluding Cancelled Draft appropriations)	N/A	Minor Agency – no submission required
855	Miscellaneous Appropriations	100	General Fund – Cancelled Draft appropriations	August 1, 2024	FRS will determine and include required cancelled draft entries in Trial Balance Worksheets
855	Miscellaneous Appropriations	211 272		August 23, 2024	If significant entries are needed, provide to applicable GAAP accountant.
865	Program Supplements	100	General Fund	September 6, 2024	
866	Public Debt	315	Bond Security & Redemption	October 4, 2024	
866	Public Debt	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
867	Building Commission	100	General Fund	N/A	Minor Agency – no submission required
867	Building Commission	360	Building Trust Fund	September 27, 2024	
867	Building Commission	360 and/or 363		July 26, 2024	If significant entries are needed, ensure they are made in the STAR ACTUALS ledger otherwise notify the Cap Acctg accountant of required ACFR entries
875	Budget Stabilization	100	General Fund (Statutory fund 286)	September 6, 2024	FRS will determine and make required entries.

A trial balance is a list of account balances based on double entry accounting (debits & credits). The working trial balances distributed by SCO-FRS provide the framework for accumulating data for GAAP-based financial statements. These ACFR trial balances include ACTUALS & CAFR ledger balances as well as any pending, but not yet posted CAFR ledger adjustments. ACFR trial balances are generated for all 'on-system' GAAP funds. So called 'off-system' funds either do not record activity in STAR or may not use that data directly.

Only 'major' General Fund agencies, as determined by SCO-FRS, are required to annually submit GAAP information for the General Fund and Government-wide Statements. Trial balances are provided only to major agencies. Section IV-1 – Conversion Process Overview provides a listing of the major General Fund agencies.

Certain individual GAAP funds are also exempted from the requirement to submit GAAP information. Such funds report limited activity and historically these require few, if any, agency adjustments to be converted to a GAAP basis. SCO-FRS adjustments are sufficient to convert ACTUALS activity to materially correct GAAP statements. SCO-FRS notifies agencies annually about changes to the list of such funds and minor General Fund agencies.

Source of Data for Various Trial Balance Account Classifications

The following account types, consisting of 7-digit numeric codes are used in the STAR ACTUALS ledger.

Type	Account	STAR Numbering
A	Asset	1******
L	Liability	2******
Q	Equity	3******

Type	Account	STAR Numbering
R	Revenue	4****** - 6******
E	Expenditure	7****** - 9******

CAFR trees in STAR roll up accounts into hierarchical groupings (nodes). Nodes enable the trial balances to summarize activity based on the desired presentation in the ACFR and enable the development of certain note disclosures.

Because accounting standards differ for different types of GAAP funds, separate account trees exist for the governmental, proprietary, and fiduciary fund types. The tree names are: CAFR_ACCOUNTS_GOVT, PROP & FID, respectively. These may be viewed by STAR users with the Tree_Viewer role in production by navigating to:
Main Menu > Tree Manager > Tree Viewer.

Balance Sheet/Statement of Net Position Accounts – All Fund Types

Balance sheet accounts are generally summarized and reported in the ACFR in a manner that is consistent with how they are recorded in STAR. However, some adjustments are still required to convert to from a statutory to a GAAP basis. 'Equity', for example, must be reclassified from a handful of somewhat more generic budgetary accounts to one of several GAAP net position accounts which are often based on legal restrictions, or the character of net assets, like capital assets or prepayments.

Another example of a necessary reclassification of a balance sheet account balance is that SIF interest receivables must be reclassified as cash equivalents for accrued interest due from the State investment pool. Although these earnings are not paid out from SIF until mid-July, they are considered cash equivalents of the receiving fund at June 30. Where material, both cash and receivables are adjusted on the trial balance.

At times a <u>*negative cash*</u> balance (credit) may exist. After making all other entries that affect cash, agency accountants for *individual* GAAP funds should restore the cash balance to zero (debit to get to zero) and credit "Interfund Payables" for the amount that cash is negative. FRS will record the "Interfund Receivable" in an appropriate fund at the end of the ACFR process. *Note*: Accountants for *General Fund* agencies <u>*should not*</u> make entries for negative cash balances. Rather, SCO-FRS will make any necessary entry at the end of the reporting process.

Enterprise and Internal Service funds are required to present a classified statement of net position for the ACFR. ACFR trial balances will include current and noncurrent asset and liability accounts as initially determined by SCO-FRS. Proprietary fund accountants should review these classifications and make ACFR adjusting entries needed to correctly distinguish between the current and noncurrent portions of assets and liabilities.

The account tables provided below and throughout this section are a broadly illustrative summary of how STAR accounts are grouped; however, some minor deviations may exist in the trees currently employed in STAR. Please consult the STAR tree viewer for the most accurate & up-to-date reference on how accounts are summarized for the ACFR.

Balance Sheet Account	Balance Sheet Code on STAR	Current or Noncurrent
Assets		
Cash and Cash Equivalents	1000000 – 1199999	Current
Receivables: Other Receivables	1350000 - 1499999 & 1590000 - 1599999	Current
Due from Other Funds	1500000 – 1579999	Current
Due from Component Units	1580000 – 1589999	Current
Interfund Receivables	1600000 – 1699999	Current
Due from Other Governments	1700000 – 1759999	Current
Prepaid Items	1800000 – 1849999	Current
Restricted Cash	1850000 – 1859999	Current
Restricted Investments	1860000 – 1869999	Current
Restricted Other Assets	1870000 – 1879999	Current
Other Assets	1880000 - 1899999 & 1910000 - 1999999	Current
Investments	1200000 – 1299999	Noncurrent
Receivables: Student Loans	1310000 - 1315999	Noncurrent
Receivables: Misc Loans	1316000 - 1320999 & 1340000 - 1345999	Noncurrent
Receivables: Veterans Loans	1321000 - 1322999 & 1324000 - 1329999	Noncurrent
Receivables: Mortgage Loans	1323000 - 1323999 & 1330000 - 1339999	Noncurrent
Receivables: Loans to Local Govts	1346000 - 1349999	Noncurrent
Advances to Other Funds	1900000 - 1909999	Noncurrent
Receivables: Taxes	1300000 - 1309999	Temporary*

* Taxes do not exist, for ACFR reporting purposes, in proprietary funds. If these accounts are used in the ACTUALS ledger, they will need to be cleared out via an ACFR adjustment; hence, the temporary label.

(continued)

Balance Sheet Account	Balance Sheet Code on STAR	Current or Noncurrent
Liabilities		
Accounts Payable/Other Accrued Liabilities **	2000000 – 2149999, 2155000, & 2160000 - 2299999	Current
Due to Other Funds **	2150000 & 2300000 - 2439999	Current
Due to Component Units	2440000 - 2449999	Current
Interfund Payables	2450000 - 2499999	Current
Due to Other Governments	2500000 - 2599999	Current
Tax and Other Deposits	2700000 - 2799999	Current
Unearned Revenue	2800000 - 2849999	Current
Interest Payable	2850000 - 2879999	Current
Short-Term Notes Payable	2880000 - 2899999	Current
Advances from Other Funds	2900000 - 2900999	Noncurrent
Tax Refunds Payable	2600000 - 2699999	Temporary*

* Taxes do not exist, for ACFR reporting purposes, in proprietary funds. If these accounts are used in the ACTUALS ledger, they will need to be cleared out via an ACFR adjustment; hence, the temporary label.
** Account 2150000 (State Withholding) will be a "Due To Other Funds" for all funds except the general fund, where it will be an Accounts Payable. An adjusting entry will be made to eliminate the payable for the General Fund under the concept that GAAP fund cannot owe itself.

As discussed earlier in this section, the ACTUALS ledger primarily presents equity as a generic undesignated balance. Encumbrance balances, a factor in budgetary reporting, are not presented in the ACTUALS ledger. AFR reporting requires encumbrance activity from the Commitment Control ledger to be factored in, along with ACTUALS activity. Because encumbrances do not exist in the ACTUALS ledger, they do not need to be adjusted for.

- **Governmental funds report fund balance by GASB 54 categories of non-spendable, restricted, committed, assigned, and unassigned. Each fund's net fund balance (equity) is reclassified to a pre-determined 'default' classification. Equity pertaining to prepaid and inventory assets is also reclassified as <u>nonspendable</u>. Default fund balance categories are listed by governmental GAAP fund in Section V-16 Equity.**
- **Proprietary funds report three categories of net position (equity) - <u>restricted</u> (for one of several purposes dependent on the nature of the fund), <u>unrestricted</u>, and <u>net investment in capital assets</u>.**
- **Fiduciary funds will report equity as <u>restricted</u> (for one of several purposes dependent on the nature of the fund).**

Equity Governmental Funds		
STAR Account	**Account Category***	**Trial Balance Account Categories ****
3600000 - 3999999	Temporary - ACTUALS EQUITY	Fund Balance - Nonspendable, Fund Balance - Restricted, Fund Balance - Committed, Fund Balance - Unassigned depending on the fund type and guidance in Section V-16.

Equity Proprietary Funds		
STAR Account	**Account Category***	**Trial Balance Account Categories ****
3600000 - 3999999	Temporary - ACTUALS EQUITY	Net Position - Unrestricted

(continued)

Equity Fiduciary Funds		
STAR Account	**Account Category***	**Trial Balance Account Categories ****
3600000 - 3999999	Net Position Held in Trust	Net Position Held in Trust (Restricted)

* - These are the categories that FRS will use when initially classifying equity accounts on the Trial Balance worksheet. This classification will subsequently be adjusted by FRS through journal entries.

** - These are the categories that equity will ultimately end up in on the Trial Balance worksheet after FRS has made reclassification entries. They are the categories that agencies will use as a starting point when creating their ACFR financial statements.

Revenues - Governmental Funds. Revenues and other financing sources of governmental funds are classified according to the revenue codes below:

Revenues Governmental Funds	
Classification	**Account**
Taxes - General Fund – Income*	4003000-4004999, 4013000-4014999, 4020000-4029999
Taxes - General Fund – Sales and Use*	4000000-4002999, 4010000-4012999
Taxes - General Fund – Public Utility*	4005000-4005999, 4015000-4015999
Taxes - General Fund – Other*	4007000-4009999, 4017000-4019999, 4030000-4459999, 4470000-4499999
Taxes - Fuel and Other**	4006000-4006999, 4016000-4016999, 4460000-4464999
Taxes - Other Dedicated***	4465000-4469999
Intergovernmental	4500000-4599999
Licenses and Permits	4600000-4999999
Charges for Goods and Services	5000000-5699999
Investment and Interest Income	5800000-5889999
Fines and Forfeitures	5900000-5919999
Gifts and Donations	5890000-5899999
Miscellaneous	
Tobacco Settlement	5929000
Other	5920000-5928999, 5930000-5999999, 6580000-6799999, 6900000-6999999

* Only reported in the general fund
** Only reported in the transportation fund
*** Only reported in other governmental funds

Other Financing Sources	
Classification	**Account**
Long-term Debt Issued	6000000-6099999, 6200000-6399999
Long-term Debt Issued, Refunding Bonds	6100000-6199999
Premium from Sale of Bonds	6400000-6499999

There are other revenue accounts in STAR for transfers in, which are discussed later in this section. Additionally, participant and employer contributions (STAR accounts 5700000 – 5799999) are only reported in fiduciary funds. Any activity reported in these accounts for governmental funds will need to be reclassified via an ACFR adjusting entry.

Expenditures - Governmental Funds. Expenditures of governmental funds are divided into four major classifications. These classifications are 1) current expenditures, 2) capital outlay, 3) debt service, and 4) intergovernmental.

1) *Current Expenditures* benefit the current fiscal period and are broken down by function, which generally correspond to agency numbers. Exceptions include expenditures to purchase capital assets (which are considered capital outlay) and expenditures that relate to one function but are administered by an agency of a different function. For example, the Public Service Commission (Commerce function) administers the Police and Fire Protection fund whose expenditures by nature are classified as belonging to the Intergovernmental Shared Revenue function. This category includes everything *but* capital outlay, debt service and intergovernmental shared revenue expenditures.

Sometimes the activities of a fund are carried out by various agencies in divergent functions. For example, by legislative mandate the Environmental fund's activities are performed by agencies in several different functions. Since, by its nature, this fund's purpose is most closely associated with the Environmental Resources function it is reported in that function on the financial statements.

The following table shows the general relationship between agency numbers and the functions used to categorize current expenditures on the financial statements.

Functional Expenditure Categories	
Function	**Agency Numbers**
Commerce	100 series
Education	200 series
Transportation	395
Environmental Resources	300 series (except 395)
Human Relations and Resources	400 series
General Executive	500 series
Judicial	600 series
Legislative	700 series
Tax Relief and Other General Expenditures	800 series (except for agency 835 1xx appns)
Intergovernmental Shared Revenue	Agency 835, appropriations 1xx

Funds listed below report a functional classification that is an exception to the general rules above:

Fund Number and Name	Expenditure Functional Category
239 - Police and Fire Protection	Intergovernmental Shared Revenue
315 - Bond Security and Redemption	Tax Relief and Other General
360 - Building Trust	*
363 - Capital Improvement	*
365 - Transportation Revenue Bonds	*
381 - Agricultural College	Education
374 and 375 - Common School	Education
383 - Normal School	Education or General Executive, depending on the type of expenditure made
385 - University	Education

* = These capital project funds primarily report expenditures as capital outlay; however, they do use all of the various functional expenditure categories, as well, depending on the nature of the work.

2 - Capital outlay expenditures relate to the purchase of capital assets benefiting current *and* future periods. Expenditures coded from 8200000 to 8494000 are categorized as either capital outlay expenditures or lease expenditures. For budgetary purposes, these are reported in the CAT0007 capital assets category. In the ACFR, (presuming the transactions were correctly coded), capital *outlay* expenditures for a fiscal year are reclassified to capital assets in that year's ACFR.

For capital projects GAAP funds, all expenditures except for debt service expenditures and transfers will be classified as capital outlay. GAAP accountants should review and reclassify financial activity, as appropriate.

The table below shows the 8200000 to 8494000 account series. All the codes listed, except the highlighted *lease* expenditure codes, are categorized as capital outlay expenditures on the ACFR trial balance. The way to identify lease expenditures is to look for "Lease" in the account description.

Account	Description	Account Type	Category	ACFR Classification
8200000	Land	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8220000	Land - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8240000	Land Improvements	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8244000	Land Acq Prof Service 1099 Rpt	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8248000	Land - Public Lands Payment	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8249000	Land - Public Lands to BCPL	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8250000	Buildings & Attached Fixtures	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8270000	Bldgs & Attach Fixt Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8300000	Equip & Furniture (Non-wood)	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8310000	Furniture – Wood	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8320000	Equip & Furniture- Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8340000	Trains	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8345000	Trains - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8350000	IT Equipment	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8355000	IT Equipment - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8360000	Computer Software - Purchase	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8361000	Computer Software Cap Pass thru	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8365000	Computer Software - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8370000	Vehicles - Passenger	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8375000	Vehicles - Passenger – Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8380000	Trucks & Other Vehicles	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8385000	Trucks & Other - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8390000	Aircraft	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8395000	Aircraft - Lease	Expenditure	CAT0007 - Cat Capital Assets	Functional Expenditures
8400000	Library Books & Related Materi	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8450000	Livestock	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8470000	Equipment For Resale	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay
8494000	Capl Activity Allocation/Trnsf	Expenditure	CAT0007 - Cat Capital Assets	Capital Outlay

3 - Debt service expenditures benefit past, present and future periods. This category (divided into principal, interest, and 'other') is typically only used by debt service & capital projects funds. Debt service is reported in account codes 7855000, 7858000, 7862000, 7866000, and 9000000 (budgetary allotment line 5).

L*ease* expenditures relate to contractual payments for a leased item (that is also reported as a right to use capital asset). The ongoing lease payments are *not* capitalized. However, the entire value of the leased asset *is* capitalized in the first year of the lease through a series of ACFR entries. With the implementation of GASB 87 in FY 2022, expenditure codes relating to leases (8220000, 8270000, 8320000, 8345000, 8355000, 8365000, 8375000, 8385000, and 8395000) for governmental funds at the fund level are now recorded similar to other debt service payments with the payment being split between principal and interest. This method is similar for SBITAs under GASB 96 in FY 2023, with expenditures relating to software reported in account codes 7430000, 7435000, 7435001, 7485000, 7486000, 7810000, 7888000, 7650001, 7740000, 8060000, and 8060001.

4 - Intergovernmental expenditures are transfers of state resources (such as shared revenues) to other governmental units. These cannot be assigned to a specific function.

Revenues - Proprietary Funds Revenues of proprietary funds are primarily classified by source as defined in Section 02-03 of the Wisconsin Accounting Manual. Certain revenues do not easily fit under the categories shown on the proprietary operating statement. For example, licenses and permits revenue is normally considered a governmental fund type revenue, which typically would not be included on a proprietary operating statement. These revenues are shown on the trial balances under the category of "charges for goods and services." If this is inappropriate for a particular fund, the administering agency should reclassify the revenue.

Revenues on the trial balances are categorized as either operating or nonoperating. SCO-FRS classifies all investment and interest, gift and donation, and miscellaneous revenue as non-operating on the trial balances. Where the default operating/ non-operating classification is incorrect, agencies GAAP accountants should make a reclassification entry.

The determination of whether revenue should be considered operating or nonoperating is based on analysis of the type of revenue and normal situations under which the source code is used. The specifics of the nature of a fund or the fund type may warrant a different classification. For example, interest income may be incidental to most proprietary funds and properly recorded as nonoperating income. However, to a proprietary fund that makes loans it should be classified as operating.

Grants and contributions that are restricted for the purchase or construction of capital assets may be coded to revenue code 4599000 Fed Aid – Acquire Capital Assets or 5899000 Gifts for Construction/Purchase in the ACTUALS ledger. These codes are shown on the trial balance as Capital Contributions. Dependent on the source code used to record the capital contribution in the ACTUALS ledger, agencies may need to make an ACFR entry to reclassify the revenue to the proper category.

Operating Revenues - Proprietary Funds	
Revenue Type	**Account**
Charges for Goods and Services (includes licenses and permits and fines/forfeitures revenue)	4600000-5699999 & 5900000-5919999
Participant and Employer Contributions	5700000-5799999

(continued)

Nonoperating Revenues - Proprietary Funds	
Revenue Type	**Account**
Operating Grants (includes federal aid)*	4500000-4598999
Investment and Interest*	5800000-5857999 & 5858001-5889999
Gifts and Donations	5890000-5898999
Miscellaneous (not related to operations)	5920000-5999999, 6580000-6799999, 6900000-6999999

* Agencies should reclassify grants, investment and interest income to operating, as appropriate

Capital Contributions - Proprietary Funds	
Revenue Type	**Account**
Capital Contributions	4599000-4599999 & 5899000-5899999

The amounts reported under these three classifications should equal the reporting unit's total revenues, with the exception of transfer transactions, which are separately identified and reported, as discussed later. *Note*: Revenue source codes 4000000-4499999 (taxes) and 6000000-6499999 (bond proceeds) should not be used by proprietary funds.

Expenses - Proprietary Funds. Expenses of proprietary funds are based on expenditures recorded in the ACTUALS ledger and are classified into operating or nonoperating categories on the ACFR trial balance. The classification is made on a statewide account basis rather than on the nature of the individual GAAP funds. **It is the agency's responsibility to review these amounts and reclassify expenses as *operating* or *nonoperating* if that category is more appropriate.**

Operating Expenses - Proprietary Funds	
Expense Type	**Account Codes**
Personal Services	7000000-7299999
Supplies and Services	7300000-7854999, 7880000-8098999, 8100000-8199999, 8702000-87025999
Lottery Prizes	8701100-8701999
Capital Outlay & Leases*	8099000-8099999, 8200000-8479999, 8490000-8499999
Depreciation	No account in ACTUALS ledger; only ACFR account X2DEPRC
Benefit Expenses	0000030-0000050 & 8600000-8699999
Interest Expense	7855000-7859999, 7861000-7864999, 7866000-7868999
Other Expenses	5858000, 7870000-7879999, 8500000-8599999, 8700000-8701099, 8702600-8799999

* This is a temporary classification. Purchases of capital assets in this category should be capitalized rather than expensed. Further, payments for leases should be used to reduce the outstanding lease liability.

Nonoperating Expenses - Proprietary Funds	
Expense Type	**Account Codes**
Other: Grants Disbursed	8800000-8999999
Other: Other Expenses	7865000-7865999, 7869000-7869999, 9600000-9699999, 9760000-9789999, 9800000-9999999

It is each agency's responsibility to review these accounts and reclassify expenses to a different account if that account is more appropriate. For example, the Lottery fund has traditionally recorded some activity to the Grant account series (8******); these need to be reclassified to Property Tax Credit expenses.

The figures that are reported under these expense classifications should equal the reporting unit's total expenses, except for transfer transactions, which are separately identified and reported, as discussed later.

Fiduciary Funds – Real and Nominal Accounts. The fiduciary fund statement of fiduciary net position is quite similar to the balance sheet presentation described on pages 1 to 4. The operating statements however is quite dissimilar to those of other fund types. The statement of changes in fiduciary net position reports additions and deductions rather than revenues and expenses. Many of the accounts used are unique to individual funds or treated differently depending on the particular fund. In addition, the statement is arranged in a different format from a typical operating statement. As a result, it is impractical to include a summary of "additions" and "deductions" that accurately lists and classifies the nominal accounts used on this statement.

The financial reporting section will individually work with each involved agency to ensure that the statement is correctly compiled. GAAP Manual Section VI – Forms and Samples includes a model Statement of Changes in Fiduciary Net Position (see page F6) which provides a useful framework for most private purpose or investment trust funds. Considering that the ETF fiduciary funds are effectively off system (different fiscal year end, audited separately, developed from ETF's stand-alone ACFR), there are relatively few other fiduciary funds, facilitating the one-off approach.

Transfer Transactions. Transfer transactions of all fund types are classified based on the following codes:

Transfer Transactions - All Fund Types				
Account	**Description**	**Account Type**	**Classification**	**Type**
0000010	NonBud Interfund Transfers Out	E	Interfund	Transfer Out
0000020	NonBud Intrafund Transfers Out	E	Intrafund*	Transfer Out
6500000	Interfund Transfers In	**R**	Interfund	Transfer In
6511000	Interfund Transfers Out	**R**	Interfund	**Transfer Out**
6521000	Interfund Transfer Out Escrow	**R**	Interfund	**Transfer Out**
6530000	Interfund Transfer In Debt Srv	**R**	Interfund	Transfer In
6550000	Interfund Transfer In Federal	**R**	Interfund	Transfer In
6580000	Interfund - GPR Earned Revenue	**R**	Interfund	Transfer In
6800000	Intrafund Transfers In	**R**	Intrafund*	Transfer In
6810000	Intrafund Transfers (+/-)	**R**	Intrafund*	Transfer In
6830000	Intrafund Trans In CIF Interst	**R**	Intrafund*	Transfer In
6850000	Intrafund Trans In Fed Revenue	**R**	Intrafund*	Transfer In
6860000	Intrafund Trans In PR Lapsed	**R**	Intrafund*	Transfer In
6865000	Intrafund Trans In GPR Earned	**R**	Intrafund*	Transfer In
9500000	Interfund Transfers Out	E	Interfund	Transfer Out
9501000	Interfund Trans In BTF/CIF	E	Interfund	**Transfer In**
9510000	Interfund Trans Out Principal	E	Interfund	Transfer Out
9515000	Interfund Transfers Out - Fed	E	Interfund	Transfer Out
9520000	Interfund Trans Out Interest	E	Interfund	Transfer Out
9700000	Intrafund Transfers Out	E	Intrafund*	Transfer Out
9750000	Intrafund Trans Out Fed Revenue	E	Intrafund*	Transfer Out
9780000	DVA Loan Bal Intrafund Transfr	E	Intrafund*	Transfer Out
9793000	Fed Disallow & Cost Swap (A7)	E	Intrafund*	Transfer Out
9794000	Intrafund Allocation/Match Tra	E	Intrafund*	Transfer Out

* Intrafund transfers is a temporary classification on the trial balance. Ultimately intrafund transfers must net to zero in the GAAP financial statements.

General Purpose Revenue Subsidies (GPR Interfund Transfers)

Certain GAAP funds, including the University of Wisconsin System, Institutional Farm Operations and several Care & Treatment Centers, receive annual GPR subsidies. These subsidies are reported in the ACFR as "Interfund Transfers Out" of the GAAP General Fund and "Interfund Transfers In" of the recipient funds.

The GAAP trial balance reports, which are generated from STAR, partially reflect the transfer of the GPR subsidies from the GAAP General Fund to the appropriate individual GAAP funds. Before GAAP conversion adjustments are made, the individual GAAP funds are already reporting the fiscal year GPR expenditures and related June 30 accruals (e.g., accounts payable).

Additional GAAP conversion entries are needed to:

1. Record the "Interfund Transfers In", which should be equal to total GPR expenditures,
2. Increase "Cash and Cash Equivalents" since cash was initially reduced by the amount of the expenditures (excluding the amount of receivables, prepayments, and payables), and
3. Reflect a "Due to/from Other Funds" for the amount of receivables, prepayments, and payables currently reflected in the GPR appropriations.

The chart displayed below summarizes the adjustments needed to correct the reported treatment of GPR supplements:

Per STAR System (Trial Balance)			Should be (Theoretical)			Required GAAP Conversion Adjustment		
Individual GAAP Fund:								
Expenses	100		Expenses	100		Cash and Cash Equivalent	80	
Accounts Receivable	10		Accounts Receivable	10		Due from Other Funds	20	
Accounts Payable		25	Due From Other Funds	20		Interfund Transfer In		100
Due to Other Funds		5	Due to Other Funds		5			
Cash and Cash Equivalents		80	Accounts Payable		25			
			Interfund Transfer In		100			
GAAP General Fund:								
--None--			Interfund Transfer Out	100		Interfund Transfer Out	100	
GPR Expenditure are reported in the individual fund rather than the General Fund.			Cash and Cash Equivalent		80	Cash and Cash Equivalent		80
			Due to Other Funds		20	Due to Other Funds		20

SCO-FRS will determine the required GAAP conversion adjusting entries for each affected GAAP fund and include the entries on the trial balance provided to agencies.

Corrections/Adjustments to GPR Appropriations

Agencies can make limited adjustments to GPR interfund transfers as long as the amount of the transfer does not exceed the amount of budgetary authority in the appropriation. Adjustments are allowed to fix miscoding due to timing problems and to reallocate activity in situations where the proper code isn't known when the transaction was booked.

Revenue and Expense Changes for the Government-wide Statement of Activities

Revenues on the statement of activities must be classified as either "Program Revenue" or "General Revenue." Descriptions of these two types of revenues are as follows:

Program Revenue:

Charges for Services - This has an expanded definition for the government-wide statements. This category includes charges for goods and services, participant contributions, licenses and permits, and certain investment income, fines & forfeitures, and miscellaneous revenues.

Program-specific Capital Grants and Contributions - Includes grants, contributions and restricted interest that are primarily restricted for capital purposes – that is, to be used for the purchase, construction or renovation of capital assets associated with a specific program.

Program-specific Operating Grants and Contributions - Includes grants, contributions and restricted interest that may be used either for operating or capital purposes at the discretion of the reporting government.

General Revenue -- all other revenue, including:

Taxes (by major type) - All taxes

All other non-tax revenues - including interest, grants and contributions not meeting criteria established for program revenues

SCO-FRS will classify revenues on the statement of activities based primarily on the account codes used to record transactions in the STAR ACTUALS ledger. This will be used in conjunction with how accounts are classified in the fund statements/component unit condensed financial information **(see chart on following page)**. An agency's use of the correct account codes to record revenue transactions in the ACTUALS ledger should reduce, if not eliminate entirely, the need for an agency to submit adjusting entries that *reclassify* revenue.

Classification of Revenues on the Statement of Activities

Per State ACTUALS Ledger Chart of Accounts		Per ACFR Statement of Activities
Account Codes	***Major Revenue Class:***	***Account Classification***
4000000-4499999	Taxes	Taxes (by major tax type)
4500000-4590000	Intergovernmental	Operating Grants, Contributions, Restricted Interest (1)
4599000	Intergovernmental	Capital Grants, Contributions, Restricted Interest
4600000-4999000	Licenses and Permits	Charges for Services
5000000-5699999	Charges for Goods and Services	Charges for Services
5700000-5799999	Participant and Employer Contributions (generally insurance premiums or retirement contributions collected by the Department of Employee Trust Funds)	Charges for Services
5800000-5889999	Investment and Interest Income	Charges for Services – *if paid by a user and restricted to a loan program reported as an Enterprise fund or a Component unit;* Operating/Capital Grants, Contributions and Restricted Interest – *if designated for an endowment or a permanent (2), or restricted to an insurance or lottery program reported in an Enterprise fund or a Component unit;* General Revenues – Interest and Investment Earnings – *if <u>not</u> designated for an endowment or a permanent fund, or <u>not</u> restricted investment earnings of an insurance, lottery or loan program reported in an Enterprise fund or a Component unit.*
5890000-58970000	Gifts and Donations	Operating Grants, Contributions, Restricted Interest (3)
5899000	Gifts and Donations	Capital Grants, Contributions and Restricted Interest
5900000-5999999	Other Revenues:	
5920000-5933999	Miscellaneous Revenues	General Revenues – Miscellaneous – *for governmental*
5934000-5939999	Miscellaneous Revenues	Charges for Services – *for Enterprise funds or*
5940000-5999999	Miscellaneous Revenues	*Component units*
5900000-5909999	(Fines & Forfeitures – not Fund 744)	Charges for Services
5900000-5909999	(Fines & Forfeitures – Fund 744)	Contributions to Permanent Fund Principal
5910000-5919999	(Fines & Forfeitures)	Charges for Services
6000000-6999999	Other Financing Sources:	
	• Proceeds from Sale of Bonds	Eliminated through full accrual adjusting entry
	• Interfund Transfers In	Transfers In (4)
	• Intrafund Transfers In	Self eliminating with Intrafund Transfers Out
	• Clearing accounts	Residual amount included with General Revenues – Miscellaneous

(1) If any of these revenue codes were used to record an intergovernmental grant for the purchase or construction of capital assets, a reclassification entry would be needed. Ideally, revenue code 4599000 or 5899000 should be used to record these types of grants.
(2) The permanent funds generally use the same revenue source codes for recording investment and interest income as all other funds. Revenue to be included under this category will be determined based on the fund number used.
(3) If a permanent fund receives a donation that cannot be spent, but is to be invested to provide earnings that are expendable, the gift should be shown as "Contributions to Permanent Fund Principal" in a manner similar to General Revenues. If a fund receives a donation to its term or permanent endowment, the revenue should be shown as "Contributions to Term or Permanent Endowments."
(4) Transfers between fiduciary funds and either governmental or business-type activities must be reclassified as external transactions.

Adjustments Needed for the Government-wide Statements

Reclassify Revenues Inappropriately Recorded on STAR

The SCO-FRS will generally classify revenues on the Statement of Activities based on the account codes used to record transactions on STAR (as shown on the chart on the previous page). Special codes have been devised to ensure that agencies have the capability to correctly code revenues on-system. If these codes are not used, or if errors have been made in the original coding, entries will be needed to reclassify revenue in a Government-wide entry.

Report Donated Collection Items as Revenues/Expenses

When donated assets (such as works of art and historical treasures) are added to noncapitalized collections, agencies should prepare an entry to recognize program expenses and revenues for the Statement of Activities equal to the value of the item donated. The entry to report such donated collection items follows:

Debit:	Functional Expenses (*Identify function of agency*)	XXX	
Credit:	Operating Grants and Contributions		XXX
	<To reflect on the statement of activities the current year's donations of collection items for noncapitalized collections.>		

Identify "Special Items" – Rarely Used and Needs SCO-FRS Approval

Special items are significant transactions or other events ***within the control of management*** that are ***either*** unusual in nature ***or*** infrequent in occurrence.

Agencies identifying a potential special item should contact an SCO-FRS staff member to determine whether it should be reported as such. If an entry is warranted and approved by SCO-FRS, the agency should prepare a government-wide entry to reclassify the transaction to a "Special Item" on the statement of activities. The entry would be as follows:

If entry reflects a reclassification of expenses:

Debit:	Special Item – ___________ (*Identify purpose*)	XXX	
Credit:	Functional Expenses (*Identify function*)		XXX
	<To reclassify special item.>		

If entry reflects a reclassification of revenues:

Debit:	_________ Revenues (*Identify source*)	XXX	
Credit:	Special Item – ___________ (*Identify purpose)*		XXX
	<To reclassify special item.>		

Background

These processes went into effect beginning FY 2019 - Most financial activity is recorded in the ACTUALS ledger using detailed fund codes which allow the use of STAR trees to appropriately roll up financial activity to the correct budgetary or GAAP reporting funds. However, financial activity for the three Capital Accounting funds (Fund 315 Bond Security and Redemption, Fund 360 Building Trust, and Fund 363 Capital Improvement) is recorded on a budgetary fund basis in the ACTUALS ledger. GAAP Financial activity from those funds that belongs proprietary GAAP funds, is extracted from the Capital Accounting (CA) funds and adjusting entries created for ACFR reporting purposes. The CA entries are referred to as 'extraction entries' because they extract activity from statutory funds and allocate it to existing proprietary funds.

Each year CA staff in the State Controller's Office provide agency accountants with extraction entries and other reports for affected GAAP funds. Prior to FY 2019, agency GAAP accountants were responsible for making entries in their ACFR trial balances used to prepare the GAAP statements submitted to the Financial Reporting Section (FRS) of the State Controller's Office. Agency GAAP accountants also make additional entries and disclosures pertaining to the CA activity e.g. entries to reconcile interfund transfers or Due To/Due Froms, but these are not usually considered 'extraction entries' per se because they are not directly derived from CA reports or files.

GAAP Funds that Report Extracted Capital Accounting Financial Activity

Financial activity is extracted from CA funds for the following GAAP funds:

Fund No.	GAAP Fund Name	Agency
14100	Mendota Mental Health Institute	DHS
14200	Winnebago Mental Health Institute	DHS
14400	Central Wisconsin Disability Center	DHS
14500	Southern Wisconsin Disability Center	DHS
14300	Northern Wisconsin Disability Center	DHS
15000	University of Wisconsin-System	UW System
15100	State Fair Park	State Fair Park
15200	Veterans Homes	DVA
15300	Institutional Farm Operations	DOC
16400	Facilities Operations and Maintenance	DOA
16600	Badger State Industries	DOC
58200	Veterans Trust Fund	DVA

Presentation of Capital Accounting Extraction Entries on SCO-FRS ACFR Trial Balances

Beginning in FY 2019, FRS will obtain electronic data from CA that is needed to develop the extraction entries. After confirming the entries are consistent with CA reports, FRS will upload them to STAR for inclusion in the ACFR trial balances. This uniform process across the affected agencies permits FRS to reconcile beginning balances earlier in the year, smooths the workload, and lessens the burden on agency GAAP accountants. Because the CA extraction entries will be included in the ACFR trial balances, agency accountants should not record them again or duplication errors will occur. Agency accountants should analyze the CA entries, and other relevant information, to determine if any additional ACFR adjustments are necessary.

Reconciliation with the Completed Construction/Construction in Progress (CIP) Report

Capital Accounting's Construction in Progress (CIP) Report includes information, at a project level, to indicate whether a project was completed or is still "in progress" at the end of the fiscal year. This report is based on information agencies provide to CA during the fiscal year. Projects that agencies indicated were completed during the year are, presumably, added to STAR AM as they are completed, and a final agency verification done once the CIP Report is received.

SCO-FRS' entries included in the ACFR trial balances will use information from the CIP report to identify the amount of completed capital assets from CA projects that should have been added to STAR AM during the year. Because those capital assets are being captured via the entries pushed into the CAFR ledger from STAR AM, SCO-FRS will make an entry to eliminate duplicate completed capital assets included in the extraction entries.

The CIP report will also be used to identify the amount of ending CA CIP to be reported in the ACFR financial statements. To determine the required entry, which will reconcile the agency financials to the CA CIP Report, FRS will analyze additions and adjustments that occurred during the year as reflected in the extraction entries. When this adjustment is added to the beginning CA CIP entry, the total CIP amount should match the ending CIP balance reported in the CA CIP Report.

Additionally, SCO-FRS will make an entry for completed construction corresponding to the amount reported in the CIP report. Conceptually this would be a credit to CIP.

Because the nature of the entries may vary from agency to agency, SCO-FRS will reach out to agency accountants, as necessary.

Agency Managed Capital Projects

If an agency also has internally-managed capital projects that are in-progress as of the end of the fiscal year, agency GAAP accountants should make an entry to appropriately report that portion of the in-progress capital assets in the ACFR financial statements. The capital asset note disclosure should also be updated by the agency GAAP accountant.

Adjusting Entries to be Included in Extraction Entries/ACFR Trial Balance

The CA extraction entries in the ACFR Trial Balance will include the following SCO-FRS entries (agencies must not duplicate these):

1) re-establish prior year ending balance sheet amounts;
2) reversing entries related to the prior year accruals and certain project reclassifications;
3) record current year activity from the ACTUALS ledger, and;
4) record CA accruals and other adjusting entries for ACFR reporting purposes;
5) eliminate duplicate completed construction assets (see section V-7 Capital Assets, Procedure page 15) *and* to report CA ending CIP; and
6) an entry to reclassify debt into Short Term and Long Term categories.

ACFR Journal Report

The nVision CAFR Journal Report (available in STAR) will include the extraction entries uploaded by SCO-FRS and is an efficient way to obtain and review ACFR entries. A journal source of 'F01' will be used to record the extraction entries. In addition, the JRNL_LN_REF field in the ACFR Journal Report will reflect the originating statutory fund (315, 360, or 363) permitting additional analysis by agency accountants.

Communication to Agencies with Extraction Entries

Capital Accounting staff will email an ACFR reporting package to affected agencies. Agency accountants should use the CA package, in conjunction with the nVision CAFR Journal Report, to analyze the accuracy of the annual financial activity and the necessity of any additional ACFR entries.

The extraction entries will be uploaded to the CAFR ledger by SCO-FRS and the entries reflected in the ACFR trial balance reports. This will occur shortly after agency accountants receive the CA package. SCO-FRS will notify agencies when the extraction entries have been uploaded to the CAFR ledger.

If agency accountants identify significant issues with the extraction or the SCO-FRS entries, they should communicate their concerns to SCO-FRS staff. SCO-FRS staff will work with agency staff, and Capital Accounting staff as necessary, to identify the best way to address the issue while considering efficiency and materiality.

Summary of Entries

Description of Entry	Who Makes the Entry	Source of Information for Entry
Establish beginning balances for CA extractions	SCO-FRS	Prior Year CA Extractions
Make reversing entries for CA extractions	SCO-FRS	Prior Year CA Extractions
Record current year activity from the ACTUALS ledger	SCO-FRS	CA Extractions File for current year
Record CA accruals and other adjusting entries	SCO-FRS	CA Extractions File for current year
Eliminate duplicate completed construction assets	SCO-FRS	CA Extractions File, CA Completed Construction/CIP Report, prior year ending capital asset information
Record ending CIP in CA projects	SCO-FRS	CIP Report, prior year ending capital assets information
Record ending CIP for agency-managed projects	Agency GAAP accountant	Agency internal records

SECTION:	IV – Processing Procedures	**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION:	6 – Late Transactions	**REVISION DATE:**	May 22, 2019
SUBJECT:		**PAGE:**	1 of 2

STAR nVision reports containing the ACFR trial balances are updated daily and are directly available to ACFR accountants. Accountants should periodically download updated trial balances as they create ACFR statements so they are working with the most up-to-date information.

STAR ACTUALS Ledger Close Dates

Wisconsin's ACTUALS ledger closes in August rather than June 30th or shortly thereafter for several reasons. First, the later closing date allows certain tax revenues collected through August 15th to be reported as revenues for *budgetary purpose* for the fiscal year ended June 30th, as required by Wisconsin statutes. In addition, allowing transactions to be recorded after June 30th provides time for all state agencies to record additional expenditures or revenues pertaining to the fiscal year, to "clean up" reporting, and to finalize financial activity on-system. By closing a few weeks after June 30th, the ACTUALS ledger is more accurate as a starting point for the Annual Fiscal Report (AFR), a budgetary report, and the ACFR.

Once the ACTUALS ledger has closed for an agency, the ACTUALS balances will no longer change. The date your agency closes is largely dependent on whether the STAR project costing module is used. Non-project agencies close earlier than project agencies. DOR is expected to be closed last to allow for final tax-related transactions to be posted to the ACTUALS ledger in accordance with state statutes. Specific ACTUALS close dates are established by the State Controller and posted to the SCO website.

Including Late Transactions in ACFR Trial Balances

An iterative approach in obtaining ACFR trial balance reports ensures complete and accurate GAAP-based statements while providing the maximum amount of time to complete the work. To ensure timely completion of the ACFR, SCO-FRS makes initial ACFR trial balances available to agencies in late winter/early spring through STAR nVision reports. Thus, agency ACFR accountants may start downloading and analyzing the trial balances at that time. Since financial transactions continue to be reported in the STAR ACTUALS ledger after the nVision trial balances begin running, and SCO-FRS continues to upload adjusting entries to the CAFR ledger, an iterative approach must be used. That is, the 'late' transactions must be included in the trial balance to obtain complete financial activity for the fiscal year. The late transactions are added to the ACFR trial balances by daily automated STAR processes. Agencies may simply download an updated version of the ACFR trial balance containing the most recently added information.

Late transactions are those transactions posted after ACFR trial balances are first available in STAR and include:

1. Financial transactions or adjustments posted to the ACTUALS ledger after June 30th
2. SCO-FRS adjusting entries posted to the CAFR ledger for the fiscal year ended June 30th
3. Asset Management (AM) adjusting entries posted to the CAFR ledger for the fiscal year ended June 30th

Agencies may record activity and post journals to the ACTUALS ledger until their agency is closed for the fiscal year. Thus, transactions with an accounting date of 6/30 may be posted after 6/30 in the fiscal year just ended.

SCO-FRS adjusting entries are uploaded/added to the ACFR trial balances as they are completed starting in late winter and continuing into July, August and possibly in to September for a few funds. Final AM entries are posted to the CAFR ledger once SCO-FRS has run the final depreciation for the fiscal year and closed AM. This occurs in late July for Tier 1 AM agencies and in August for Tier 2 AM agencies.

SECTION: IV – Processing Procedures		**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION: 6 – Late Transactions		**REVISION DATE:**	May 22, 2019
SUBJECT:		**PAGE:**	2 of 2

ACFR-related information is developed by SCO-FRS and provided to agencies throughout the year with some provided in August and after the ACTUALS ledger is closed for the year. These reports (e.g. transfer reports, AP and AR detailed reports, capital asset note disclosures, etc.) provide agencies with information they need to complete or confirm their ACFR adjusting entries.

Journal Uploader Templates in Excel files are provided to agency ACFR accountants in late spring/early summer so they may start recording their adjusting entries in anticipation of uploading the uploader file to the CAFR ledger. After SCO-FRS and agency entries have been uploaded and the ACTUALS ledger has closed for the fiscal year, updated nVision reports will reflect the ACTUALS + adjusting entries that comprise the ACFR financial statements for that GAAP fund or General Fund agency.

The illustration below shows how STAR ACTUALS ledger information for an entire fiscal year is included in ACFR financial statements:

July 1 to June 30	July 1st until the ACTUALS Ledger Closes for the FY in mid/later August	**Close of Fiscal Year ACTUALS until CAFR ledger closes**
Transactions & Financial Activity (Periods 1 through 12) in ACTUALS ledger	June transactions posted in ACTUALS ledger after 6/30 (period 12) Period 996 adjustments in ACTUALS AM transactions pushed to CAFR ledger for fiscal year ended June 30 (period 12) SCO-FRS ACFR adjusting entries are made in CAFR ledger (period 995, 996, 997)	**Agencies upload ACFR adjusting entries to the CAFR ledger using Journal Uploader files**

SCO-FRS monitors year-end financial activity to identify if additional ACFR entries may be required or to confirm that entries already made remain accurate when considering the impact of all late transactions.

SCO-FRS will notify agencies when all SCO-FRS ACFR adjusting entries are made on the ACFR trial balances.

Agency accountants with questions regarding year-end reporting entries, processes or ACFR trial balances should contact SCO-FRS staff.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION:		**REVISION DATE:**	May 21, 2019
SUBJECT:	Index	**PAGE:**	1 of 2

CASH AND CASH EQUIVALENTS

Cash includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental entity may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. Cash in lock boxes or on hand at June 30 but not receipted for at that date should also be reported as cash.

Cash equivalents are short-term, highly liquid investments that are both: (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under this definition. Original maturity means the original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a treasury note purchased three years ago does not become a cash equivalent when its remaining term is three months. Typical examples of items considered to be cash equivalents are Treasury bills, commercial paper, certain certificates of deposit, and cash management pools.

Activity Included in State's Cash and Cash Equivalents

The State's policy is that "Cash and Cash Equivalents" include bank accounts, petty cash, contingent funds, each GAAP Fund's share in the Investment Pool Fund, and certificates of deposit and other investments with a maturity date within 90 days of the date acquired/purchased by a GAAP fund.

Accordingly, the State's cash and cash equivalents includes the following activity already recorded on STAR:

- Investment Pool Fund (including June accrued interest),
- State Treasurer's cash balance, and
- Petty cash and contingent funds.

In addition, cash and cash equivalents should include any cash and deposits meeting the definition of cash and cash equivalents that are in the custody of the agency but recorded **off system**.

The **Investment Pool** (Statutory Fund 39900) functions as the State's cash management pool by pooling idle cash balances of all State funds. In the ACFR, the Investment Pool is not reported as a separate fund; rather, each GAAP fund's share in the pool is reported as a cash equivalent of that specific fund. The 12th month (June) earned interest is distributed to the appropriate funds on STAR in July. For the ACFR, SCO-FRS will make an entry to report June earned interest as a cash equivalent for the General Fund, University of Wisconsin and for GAAP funds reporting net earnings of $100,000 or more for June. Prior to FY 2012, SCO-FRS made an entry for June interest for all GAAP funds. As noted, entries will only be made to certain GAAP funds.

State Treasurer's cash is the residual amount of a fund’s cash that has not been invested in the State Investment Pool. Shares in the investment pool must be purchased or sold in increments of $1,000. Any moneys remaining after the daily purchase or sale of pool shares are designated as treasurer’s cash.

US Bank is the official bank of the State of Wisconsin. Because of the early cutoff for receipts on June 30, not all of the moneys that are actually in custody of US Bank, are included in Treasurer's cash as of this date. Therefore, agencies may be required to make adjusting entries to recognize this cash on the financial statements.

Petty cash funds and **contingent funds** are also reported as Cash and Cash Equivalents. Petty cash funds are generally established from general purpose revenues, while contingent funds are generally established from segregated or program revenues. These items consist of cash and deposits in authorized/approved financial institutions.

Cash and cash equivalents recorded on the state central accounting system (i.e., the state investment pool, cash in the custody of the state treasurer, petty cash funds, contingent funds) will be reported on the trial balances distributed to agencies. For those GAAP funds extracted from a statutory segregated fund, additional adjusting entries may be necessary to report Cash and Cash Equivalents in the proper fund.

Cash overdrafts in an individual GAAP fund will be reported as "Interfund Payables" on that fund's financial statements. The GAAP fund that is covering the overdraft will report "Interfund Receivables", accordingly. Cash that is extracted or transferred in from another fund to a fund with a cash deficit must be applied to the interfund payables account. However, funds with a cash deficit should report petty cash and contingent funds as "Cash and Cash Equivalents" on the balance sheet at their book value.

Except for the reporting of "off system" cash and cash equivalents and except for those entries to cash and cash equivalents specifically described in the Manual, agencies must consult with the State Controller's Office-Financial Reporting Section (SCO-FRS) prior to providing other adjusting entries to this account.

DEPOSIT DISCLOSURES

GASB Statement 3, as amended by GASB Statement 40, requires footnote disclosure of certain information on the State's deposits with financial institutions. The purpose of the deposit disclosure is to help users of the State's financial statements assess the degree of risk incurred by the State in its deposit activities.

The State's deposits include all interest bearing and non-interest bearing deposits with financial institutions and nonnegotiable certificates of deposit. (See page 3 of 3 for discussion on nonnegotiable CD's.)

It is the State's policy to disclose the degree and level of safety for its deposits in accordance with the requirements of GASB Statement 3 as amended by GASB Statement 40. GASB Statement 40 requires various disclosures relating to deposits in financial institutions:

- The amount of uninsured bank balance classified in the following categories of custodial credit risk:

  a. Uncollateralized.

  b. Collateralized with securities held by the pledging institution.

  c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

For purposes of categorizing the State's deposits, depository insurance will include: (1) Federal depository insurance funds, such as those maintained by the FDIC which currently insures up to $250,000 (2) the State Public Deposit Guarantee Fund (Wis. Stat. Chapter 34) which currently insures up to $400,000 above the amount of federal insurance, and (3) any multiple financial institution collateral pool that insures public deposits.

In applying both federal and State insurance coverage, it is the State's policy that all deposits in a financial institution will be added together and the insurance coverage will be applied to the aggregate per financial institution.

Because of the complexity of applying the three risk categorization criteria to the State's deposits, agency personnel reporting deposits must provide the specific information required for the deposit footnote. ***Therefore, all agencies responsible for GAAP funds and any agency reporting within a GAAP fund who has custodial responsibility for cash and cash equivalents must complete the deposit footnote disclosure form.***

Certain investments, for example, commercial paper, banker's acceptances and certain repurchase agreements may be reported as cash and cash equivalents in the balance sheet in accordance with GASB Statement 9, Footnote 5. It is the State's policy that although these investments may be reported as cash and cash equivalents, they will be included as investments in the investment disclosure and risk categorization footnote.

Nonnegotiable certificates of deposit (CD's) are time deposits that are placed directly with financial institutions and that generally are subject to a penalty if redeemed before maturity. There is no piece of paper that, if lost or stolen, would affect the State's right to its asset. The instrument exposes the State directly to the issuer risk of the deposit. Therefore, regardless of the classification of these CD’s in the balance sheet (e.g., cash and cash equivalents, or investments), nonnegotiable CD's will be included in the deposit footnote required by GASB Statement 3.

Money market *accounts* (in contrast to money market *funds*, which are discussed in the “Investments Section of this Manual) are simply deposits that pay interest at a rate that is set to make the accounts competitive with money market mutual funds. These money market accounts will be included like any other deposit account for purposes of the ***deposit footnote disclosure*** and classified in categories of credit risk depending on whether balances are insured or collateralized.

In addition to the custodial credit risk disclosures listed above, GASB 40 requires governments to describe deposit policies related to custodial credit risk. SCO-FRS will provide the State's overall policy for deposits. Agencies that have their own specific policies governing custodial credit risk of deposits shall provide a separate description of the policy with the deposit footnote disclosure form.

The State's deposits may also be exposed to risk if held in foreign currency. GASB 40 requires disclosure of foreign currency risk. Agencies with deposits in foreign banks must provide a summary of the U.S. dollar balances of such deposits organized by currency denomination.

The SCO-FRS will compile and summarize the information, and apply the insurance coverage and collateralization coverage to the deposit information.

Specific instructions on completing the form, including additional definitions, accompany that form.

CASH AND CASH EQUIVALENTS

The State Controller's Office, Financial Reporting Section (SCO-FRS) will provide the "Cash and Cash Equivalent" amount on the GAAP trial balances based on information reported in STAR. This amount consists of:

- The GAAP fund's share of the State Investment Pool,
- The GAAP fund's share of State Treasurer's cash, and
- Petty cash/contingent/change funds.

State agencies should typically not adjust cash and cash equivalents unless they are reporting off-system cash or preparing an entry as discussed in the Manual. Therefore, s*tate agencies must contact the SCO-FRS prior to recording any other type of entry to the "Cash and Cash Equivalents" account that is not specifically addressed herein.*

State Investment Pool

The SCO-FRS will record the appropriate entries to reflect each GAAP fund's share of the State Investment Pool. In addition, the individual fund's share of any pool earnings through June 30 which have not been distributed by that date will be reflected as a cash equivalent for GAAP funds that have net earnings of $100,000 or more, the General Fund, and the University of Wisconsin. Agencies are **not** required to make any GAAP conversion entries for this item.

State Treasurer's Cash

The SCO-FRS will record the appropriate entries to reflect each GAAP fund's share of Treasurer's cash. Because of the early cutoff on June 30, not all of the moneys that are actually in custody of the official State bank are reflected in Treasurer's cash as of this date. SCO-FRS will provide a listing of June 30 deposits. Agencies are required to research and adjust for bank deposits of $100,000 or more that were not recorded on the State's books due to the early cutoff. **The required adjustment should debit Cash**. The credit will depend on the fiscal year and the type of receipts being held by the bank. Below are examples of the types of adjustments needed:

- Fiscal Year XX collections that are recorded as receipts in Fiscal Year Y and reclassified as Fiscal Year XX receivables during the throwback period. In this case the revenue is recorded in the proper year, but the receivable needs to be eliminated because the cash is at the bank at fiscal year end. Credit the appropriate receivable account.

- Fiscal Year XX collections recorded as receipts in Fiscal Year Y that have not been throwback to the proper year. In this case the revenues are not correct. The credit for this adjustment should be to the appropriate revenue source type (tax, intergovernmental, charges for goods and services, etc.). In addition, a reversal will be needed in the subsequent year.

- Moneys received in Fiscal Year XX, but relate to Fiscal Year YY. These deposits should typically be recorded as unearned revenue.

- Collections are inappropriate -- either a wrong payee or an overpayment. If a deposit has been made in error or for more than the billed amount the account credited should be accounts payable (or some other more specific payable).

The above examples may not be all inclusive. In case of questions, contact the SCO-FRS. Because the possible credits are so numerous, specific entries are not provided.

Contingent/Petty Cash/Change Funds

Contingent, petty cash and change funds are reported as an asset of the statutory fund to which they relate. Adjusting entries to properly reflect these funds in the balance sheet of a particular GAAP fund will depend on how the particular cash fund was established, and the type of GAAP fund involved.

In reallocating a petty cash/contingent fund between GAAP funds, an agency will have to consider the source of the moneys when the fund was initially established to determine the credit for the entry. If the fund was established through program revenues or segregated revenues (usually contingent funds), the agency should prepare the following entry:

Debit:	Cash and Cash Equivalents	XXX	
Credit:	Fund Balance/Retained Earnings		XXX

If the fund was established through general purpose revenue (usually petty cash funds), the agency should prepare the following entry:

Debit:	Cash and Cash Equivalents	XXX	
Credit:	Due to Other Funds		XXX

Agencies preparing the above entry should notify the agency responsible for the GAAP fund from which these funds were extracted. The latter agency should prepare a corresponding entry that debits a fund equity account or "Due from Other Funds", and credits "Cash and Cash Equivalents".

Unreplenished Payments in Petty Cash/Contingent Funds

Agencies with material unreplenished payments at year end will have to prepare an adjusting entry to reflect the replenishment to cash in the proper fiscal year. Based on a review of historical data, adjustments to replenish petty cash or contingent funds will be considered material if the adjustment is $100,000 or more. Agencies should review the unreplenished payments for all petty cash/contingent funds at June 30. **If in the aggregate the amount of unreplenished payments total less than $100,000 for a fund, the agency is not required to prepare the adjusting entry for ACFR purposes based on the fact that it is not material. If they exceed $100,000, agencies must prepare the entry.**

The debit of this entry will depend on which year the expenditures are charged to when the contingent fund is ultimately replenished.

Debit:	Accounts Payable	XXX	
Credit:	Cash and Cash Equivalents		XXX
	<To reflect unreimbursed invoices of the contingent fund at June 30, XX that will be replenished in July FY XX with FY XX funds.		
Debit:	Expenditures	XXX	
Credit:	Cash and Cash Equivalents		XXX
	<To reflect unreimbursed invoices of the contingent fund at June 30, XX, that will be replenished with FY YY funds.>		

Off-System Cash and Cash Equivalents

State agencies are required to report all off-system cash and cash equivalents at June 30th in the ACFR financial statements. The entry should be included in the CUTE file provided to SCO-FRS and follow applicable guidance provided in Section V-32 *Reversing and Re-establishing Entries* of this manual.

Cash and Cash Equivalents Reconciliation - Part C of Form

To assist in the reconciliation of cash and cash equivalents, all agencies that have custody of cash, cash equivalents and deposits must complete **Part C** of the **"Deposit Analysis/Cash and Cash Equivalents"** form within the note disclosure workbook. Specific instructions for completing the form follow it.

Reallocation of Cash and Cash Equivalents Between GAAP Funds

Agencies responsible for GAAP funds extracted from a statutory fund may have to prepare adjusting entries to reallocate "Cash and Cash Equivalents" between GAAP funds. If such reallocations are made (and listed on Part C, Line B of the form), the agency must provide the detail on the form including entry number and name of fund receiving or providing cash. If more than one entry or fund is involved, the agency must prepare a cash reconciliation that details the reallocating entries. This reconciliation will help ensure that these entries net to zero overall. A sample reconciliation spreadsheet is available upon request.

DEPOSIT DISCLOSURES

Agency personnel responsible for bank deposits must determine the carrying amount (book balance) and the bank balance for the June 30 deposits. Agencies should complete **Part A** of the **"Deposit Analysis/Cash and Cash Equivalents"** form and provide the specific deposit information required by that form. Specific instructions for completing the form follow it.

The SCO-FRS will compile and summarize the information, and apply the insurance coverage and collateralization coverage to the deposits based on the State's policy discussed in the policy sub-section. Consistent with GASB Statement 3, as amended by GASB Statement 40, the following deposit footnote disclosures will be made:

- The amount of total *bank balance* (not the book balance) and the uninsured bank balance classified in these three categories of credit risk:

  (a) Uncollateralized.

  (b) Collateralized with securities held by the pledging institution.

  (c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

- Cash deposit policies pertaining to custodial credit risk and foreign currency risk.

- Details of material foreign deposits organized by foreign currency denomination.

To properly disclose the State's deposits, the definitions and applications of several terms are provided:

Deposits - include the State's cash on deposit with financial institutions (e.g., interest bearing and non-interest bearing checking and savings accounts), certain cash equivalents (as defined in the Policy section) and nonnegotiable certificates of deposit.

Bank Balance - the deposits that have been "collected" by the financial institution. It should not be confused with the carrying amount (***Book Balance***) of deposits on the State's or agency's accounting records. For example, cash in transit that have not cleared the financial institution would not be considered part of the bank balance but would be part of the carrying amount (book balance).

Insured - deposits insured by federal (the FDIC) or state (State Public Deposit Guarantee Fund) depository insurance. The FDIC currently insures up to $250,000 while the Public Deposit Guarantee Fund insures up to $400,000 above federal coverage. Both the federal and State insurance coverage will be applied to the aggregate of all deposits in an individual financial institution.

An individual financial institution may consist of several branch banks. For example, assume an entity had savings accounts in Valley Bank of Madison, Valley Bank of McFarland, Valley Bank of Middleton and the Valley Bank of Marshall. Further, assume that the Valley Banks of McFarland and Middleton were branch banks of the Valley Bank of Madison.

Under the above assumptions, the Valley Banks of Madison, McFarland and Middleton would ultimately be considered one financial institution; therefore, all deposit accounts in the three banks would be added together and the insurance coverage would be applied to the aggregate bank balance. The Valley Bank of Marshall is considered a separate financial institution; therefore, all deposit accounts in that bank would be added together and the insurance coverage applied to the aggregate.

However, the SCO-FRS will apply the insurance coverage centrally, based on deposit detail submitted by agencies and bank affiliate information obtained from the FDIC website. **Agencies should, therefore, report the required deposit information for each bank location individually**.

Collateral - security pledged by a financial institution to a governmental entity for its deposits. Collateral typically is pledged when the deposits exceed depository insurance (uninsured deposits).

"Held in the State's name" - implies that certain custodial procedures are in place that identify the State's right to the securities in the event of default. This phrase does not mean that the collateral security has been registered in the State's name as this would represent a purchase of that security.

Credit Risk - the risk that another party to a deposit will not fulfill its obligations. Credit risk can be associated with the financial institution holding deposits.

Nonnegotiable - are not capable of being legally transferred from one person to another, either by delivery or by delivery and endorsement.

VALUATION AND REPORTING OF INVESTMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* provides guidance covering the reporting of investments. GASB Statement 31 provisions apply (a) to all investments held by a governmental external investment pool, and (b) other specified investments held by all other governmental entities other than external investment pools, defined benefit pension plans, and IRC Section 457 deferred compensation plans. GASB Statement 31 defines an investment as a security or other asset acquired primarily for the purpose of obtaining income or profit. Generally, this includes debt and equity securities and other instruments that pay money to a government relating to the period over which that government holds the instrument.

GASB Statement 31 (a) introduces the concept of fair value reporting, (b) requires calculation and reporting of changes in those fair values and (c) mandates additional footnote disclosures. Due to the technical complexity of the provisions contained in GASB Statement 31, the GASB has issued a question and answer guide "Guide to Implementation of GASB Statement 31" (the Guide), which clarifies, explains and elaborates on topics addressed in GASB Statement 31.

GASB Statement 72, Fair Value Measurement and Application, introduced changes to the definition and application of fair value reporting and mandates some additional disclosures regarding 1) the valuation <u>techniques</u> used to determine reported fair value, and 2) the <u>inputs</u> used to those methods. Each agency holding investments not under control of the State of Wisconsin Investment Board (SWIB) should refer to GASB Statement 31 and the Guide for reporting investment activity as well as GASB Statement 72.

The GASB issued its Statement 52, *Land and Other Real Estate Held as Investments by Endowments*, in November 2007. GASB Statement 52, effective beginning with the State's Fiscal Year 2009, establishes standards for accounting and financial reporting for land and other real estate held as investments by permanent and term endowments, and permanent funds. GASB Statement 52 requires land and other real estate held by endowments and permanent funds be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. <u>The provisions of GASB Statement 52 do not apply to quasi-endowments or lands granted by the federal government in connection with a state being admitted to the United States</u>.

The standards established by GASB Statement 31 apply to all governmental entities that have investments in the following:

- *Interest-earning investment contracts* – these include time deposits with financial institutions (such as CDs), repurchase agreements, and guaranteed and bank investment contracts (GICs and BICs).

- *Open-ended mutual fund* – an SEC-registered investment company that issues shares of its stock to investors, invests in an investment portfolio and stands ready to redeem its shares.

- *Closed-end mutual fund* – a SEC-registered investment company that issues <u>limited</u> number of shares to investors which are then <u>traded</u> as an equity security.

- *Debt securities* – a security that represents a creditor relationship with an entity. Includes among other items, U.S. Treasury securities, U.S. government agency securities, municipal securities, corporate bonds, convertible debt, commercial paper, negotiable certificates of deposit, etc.

- *Equity securities* – a security that represents an ownership interest in an entity. Includes common, preferred or other capital stock, unit investment trusts, and closed-end mutual funds.

- *Options contracts* – a contract giving the buyer (owner) the right, but not the obligation, to purchase from (call option) or sell to (put option) the seller (writer) of the contract a fixed number of items (such as shares of equity securities) at a fixed or determined "strike" price on a given date or at any time on or before a given date.

- *Stock warrants* – certificates entitling the holder to acquire shares of stock at a certain price within a stated period.

- *Stock rights* – rights given to existing stockholders to purchase newly issued shares in proportion to their holding at a specific date.

- *Land and other real estate held by* endowments - including permanent and term endowments, and permanent funds. (does not apply to quasi-endowments or lands granted by the federal government in connection with a state being admitted to the United States).

The state holds investments for its own benefit and as an agent for other parties. Major investment programs conducted for the benefit of the State include the State Investment Fund (Accounting Fund 39900), the Fixed and Variable Retirement Trust Funds, the Property and Life Insurance Funds, the Historical Society Fund, and other various funds such as the Environmental Improvement Fund.

Consistent with GASB Statement 31, investments represent securities or other assets held for the production of income in the form of interest, dividends, etc. Investments may be acquired by purchase, accepted for payment of goods or services, or received as a gift. Investments are generally long-term securities typically held to maturity and redeemed. It is the State's policy that investments having a maturity date greater than 90 days of the date acquired/purchased will be classified as an investment on the balance sheet.

Valuation Bases for Investments

Investments held by the State will be reported at fair value (Exhibit 1 provides a summary of valuation standards for investments specified in GASB Statement 31) except in the following general situations:

- Participating interest-earning investment contracts
- Money market investments and certain participating interest-earning investment contracts (the "one-year option" and the "ninety-day rule")
- Investment positions in SEC 2a7-like pools

GASB Statement 31, its Guide, and GASB Statement 59 (which provides, among other things, updated guidance on what constitutes an investment position in SEC 2a7-like pools) should be reviewed in determining whether investments held fall into the above mentioned exceptions to fair value reporting. In addition, the Guide provides specific situations when a government holds an investment but which clearly was not intended to be covered by GASB Statement 31 (Exhibit 3 provides a listing of common situations not covered by GASB Statement 31).

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If market price is available, fair value equals market price. Otherwise, fair values are estimated or calculated. Possible sources of fair value for investments that are market traded include prices published in the financial press, computerized pricing sources, or securities custodians or third party investment managers.

GASB Statement 31, Statement 72, and the Guide should also be reviewed to determine market price, or if such price is not determinable, how to estimate or calculate fair value. GASB Statement 59, paragraph 5 supersedes GASB Statement 31, paragraph 12 and defines how to calculate fair value for an investment in a 2a7-like pool. For example, how should fair value be determined on a security when it is "thinly traded" or quoted market prices are not available? How should fair value be estimated for investments that carry a below-market interest rate?

The fair value of land and real estate investments often is determined by a periodic appraisal of the property. In periods in which an appraisal is not obtained, the extent to which changes in the real estate market may have affected the value of the real estate should be considered and the fair value adjusted accordingly. Alternatively, other methods may be used to determine the fair value of land and other real estate, for example, an estimate based on the present value of estimated expected future cash flow.

ACCOUNTING AND FINANCIAL REPORTING OF INVESTMENTS

All investment income, including changes in the fair value of investments, will be reported as revenue in the operating statement. Investment income includes interest and dividend income, realized gains and losses on the sale of investments, and changes in the fair value of investments the State holds. That is, all elements of investment income will be presented as an aggregate amount.

Because the GASB has adopted fair value measurement to investments, GASB Statement 31 requires that the change in the fair value of investments be included as a component of revenue. The increase or decrease in the fair value of investments may be calculated using either the specific identification method or the aggregate method (Exhibit 2 illustrates calculation of the fair value increase or decrease computation). The SCO-FRS should be consulted if questions or concerns arise regarding this calculation.

GASB Statement 52 requires changes in fair values for land and other real estate investments be reported as investment income.

- Classification of Investments as Current Assets or Noncurrent Assets in the Classified Balance Sheet of Proprietary Funds

Current Asset Classification

Investments not reported as cash equivalents should be considered a current asset when they are readily marketable and were acquired principally for the purpose of selling them within one year, or were acquired in the past and will be converted into cash within one year. These investments are directly related to current working capital requirements. That is, the investments are held temporarily in place of cash and can be readily converted to cash when current financing needs make such conversion desirable. Included in this definition are previously acquired investments (e.g., long-term bonds or notes that mature within one year of the balance sheet date) that will be converted to cash within one year.

Noncurrent Asset Classification

Investments should be classified as noncurrent if: (1) they meet the criteria of noncurrent investments, (2) they are included in the list of noncurrent investments discussed below, (3) they meet the criteria of a restricted investment, or (4) the "purpose of acquiring the investment" suggests that a noncurrent classification is more appropriate.

1. **Criteria of Noncurrent Investments**

The criteria of a noncurrent investment is that: (1) they are not directly related to working capital requirements, (2) they are held for many years, and (3) they are not acquired with the intent of disposing them in the near future (i.e., within one year of the balance sheet date).

2. **List of Noncurrent Investments (not all inclusive)**

Generally, the following investments and other assets (list is not all inclusive) are considered noncurrent because they typically are not related to working capital requirements, are generally acquired as part of a long-range program or policy, or are restricted to their use by legal or contractual requirements such as a revenue bond indenture.

- Investments reported as restricted assets,
- Bonds (not marketable),
- Preferred and common stock (not marketable),
- Long-term notes,
- Seized debt securities that the government holds as evidence or as a potential fine,
- Contractor's deposits of debt securities,
- Real estate held for investment purposes,
- Investments in joint ventures,
- Equity securities accounted for under the equity method,
- Long-term securities placed in an irrevocable trust that meets the requirements of a legal or in-substance defeasance,
- Loans receivable arising from real estate lending activities,
- Securities and other instruments not held for investment purposes,

3. **Investments Reported as Restricted Assets**

Restricted investments are those whose use is restricted by legal or contractual requirements. Restrictions (constraints) on the investment use can be imposed either externally by creditors or internally by law. For example, restrictions on the use of investments are made because of a mandate by bond indentures such as revenue bonds or for renewals and replacements (accumulations of investments for unforeseen repairs and replacement of assets originally acquired with bond proceeds).

4. **Purpose of Acquiring the Investment**

In addition, when determining the appropriate classification of an investment, consideration should be given to the "purpose for acquiring the investment." For example, certain securities related to the State's insurance funds are readily tradable; however, the investment strategy for those securities is not to actively trade them but to "match" the security with the liability(s) associated with the insurance fund.

To illustrate, investments of the Injured Patients and Families Compensation Fund were acquired to "match" the liability(s) for its actuarially determined "Future Benefits and Loss Liabilities." The intent is to not dispose of them in the near future. Keeping with the underlying "purpose of acquiring the investment" theory, these investments would be considered noncurrent for presentation in the balance sheet. However, a portion of these investments could be presented as current to reflect those securities and other investment assets that will be sold or consumed within one year. Other funds that have an "investment strategy" that "matches" an obligation include the State Life Insurance Fund and the Lottery.

The "purpose of acquiring the investment" approach is consistent with the underlying theory relating to investments reported as restricted assets. Although these investments are not in the "purest sense" restricted, they do relate to a long-term obligation specific to that fund.

- Classification of Investment Income as Operating Revenue – Proprietary Funds

Revenues generated by a proprietary fund can be classified as either operating or nonoperating for presentation within the Statement of Revenues, Expenses, and Changes in Fund Equity (the operating statement). Generally, operating revenues are those that are generated as the direct result of a proprietary fund's principal ongoing operations. Typically, they consist primarily of user charges for goods and services.

Determining what activities of a proprietary fund are to be considered principal ongoing operations and, therefore, classifying revenues generated from that activity as operating revenues, may be unclear in certain industries. This is especially applicable when a fund is actively investing in securities that generate income.

For example, a public entity risk pool's principal ongoing operation (the primary purpose) typically is risk financing rather than investing. In these circumstances, earnings from investments – investment income – would be classified as nonoperating revenue. Conversely, an activity created to provide loans to homeowners should classify interest revenue received on loan repayments as operating revenue because providing loans to a targeted population is the principal operation of that activity.

It is the State's policy that the classification of investment income as operating or nonoperating revenues will be made at the agency/fund level based upon the principal ongoing operational activities of the fund.

- Amortized Cost, Realized Gains and Losses, and Amortization of Premiums and Discounts

GASB Statement 31 permits certain investments to be reported using cost-based measures, e.g., amortized cost. Examples are one-year money market and ninety-day debt security investments. Therefore, investments that are reported using cost-based measures, the State will continue its historical reporting of realized gains and losses and the amortization of premiums and discounts. The straight-line method of amortization will continue to be used.

State Investment Fund (SIF)

The State of Wisconsin Investment Board (SWIB) manages this fund. It functions as a cash management "pool" by pooling idle cash balances of participating local units of government (external portion) and State funds (internal portion). The external portion, that portion associated with local units of government, satisfies the GASB Statement 31 definition of an external investment pool. The remaining portion of the SIF, that portion consisting of commingled funds of various State agencies and component units, is considered an internal investment pool for GASB Statement 31 purposes.

- **External Investment Pool**

As defined in GASB Statement 31, an external investment pool commingles (pools) moneys of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio(s); one or more of the participants is not part of the sponsor's reporting entity. A portion of the SIF consists of funds of participating local units of governments in the Local Government Pooled Investment Fund (LGPIF). The participating local governmental units are not considered part of the State's reporting entity and, therefore, the LGPIF is considered an external investment pool.

GASB Statement 31 requires that the LGPIF be reported as a separate investment trust fund, classified as a fiduciary fund, and accounted for using the economic resources measurement focus and the accrual basis of accounting.

- **Internal Investment Pool**

The provisions of GASB Statement 31 require investments in an internal investment pool to be allocated based upon the equity interest that each State agency or fund and component unit holds in the pool. Further, investment income and losses must also be allocated to the participating funds and component units also based upon their respective equity interest in the pool. In addition, GASB Statement 31 requires that the equity position of each fund or component unit should be reported as assets in those funds or component units. Therefore, based on the provisions of GASB Statement 31 and consistent with the historical reporting of this pool in prior years, each participating agency, fund and component unit will report its position in the internal investment pool as "Cash and Cash Equivalents."

FIDUCIARY ACTIVITIES (CUSTODIAL INVESTMENTS)

GASB Statement 31 does not apply to securities and other instruments if they are not held for investment purposes, either for itself or for parties for which it serves as investment manager or other fiduciary. Examples include contractor's performance deposits, securities held in trust as bank regulator, and worker's compensation. For the State, these investments generally consist of securities held in compliance with statutory requirements and then returned to their owner or transferred to another program. Investments held by the State in a custodial capacity include those of the Unclaimed Property Program, and the Bank and Insurance Company Deposits Fund.

Consistent with GASB Statement 31 and because of the custodial focus of these programs, it is the State's policy that these investments will continue to use the investment valuation basis historically used by the programs and that the investments will be classified as an "Other Asset" in the State's ACFR.

Despite the balance sheet presentation as an Other Asset, it is the State's policy that these securities are subject to the GASB Statement 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, and GASB Statement 40, *Deposit and Investment Risk Disclosures*, disclosures for investments and will be included in the investment footnote and risk categorization.

- Unemployment Insurance Taxes (Unemployment Reserve)

Deposits with the U.S. Treasury for unemployment compensation are not considered investments. Therefore, it is the State's policy that unemployment insurance taxes on deposit with the U.S. Treasury will not be included in the investment footnote disclosures.

INVESTMENT FOOTNOTE DISCLOSURE

Consistent with the provisions of GASB Statement 31 and GASB Statement 72, the State will disclose in the notes to the financial statements the following information about its investments when applicable:

- The technique used to value the reported investments; such techniques fall under the hierarchical categories of:
    - Market Approach (most common)
    - Cost Approach, or
    - Income Approach
- The level(s) of inputs used in the valuation technique described above. The levels described by the GASB include:
    - Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities
    - Level 2 inputs - inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly
    - Level 3 inputs - unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security
- Description of the methods and assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices (a market approach using level one inputs)
- The policy for determining which investments, if any, are reported at amortized cost
- Any income from investments associated with one fund that is assigned to another fund
- For any investments in external investment pools:
    - If the pool is not registered with the SEC, a brief description of the regulatory oversight of the pool and whether the fair value of the position in the pool is the same as the value of the pool share
    - Involuntary participation in the pool
    - The methods used and assumptions made in determining fair market value if such information cannot be obtained from the pool sponsor

Consistent with the provisions of GASB Statement 40, the State will disclose in the notes to the financial statements the following information about its investments when applicable:

- Custodial credit risk
- Credit risk (credit rating), including concentration of credit risk
- Interest rate risk, including fair values sensitive to changes in interest rates
- Foreign currency risk
- Investment policies applicable to risks

GASB Statement 40 does not modify the fair value reporting requirements of GASB Statement 31.

Except for certain component unit presentations subject to GASB Statement 14, the disclosure requirements of GASB Statement 40 apply to all investments that are reported on the face of the State's financial statements. It applies to investment transactions of all funds, including those for which the State is a custodian and that are reported in an agency, trust, or other fund-such as deferred compensation plan assets and pooled amounts invested on behalf of the State. However, deposits with the U.S. Treasury for unemployment compensation are not considered investments and not subject to GASB Statement 40.

In addition to the GASB Statement 40 footnote disclosure requirements, permanent and term endowments, and permanent funds reporting land and other real estate as investments should provide disclosures for the methods and significant assumptions used to estimate fair value. This disclosure should be provided in Attachment E, Investment Policy, Item No. 1, General Investment Policy of the Footnote Disclosure Information – Investments form.

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

An exception-based disclosure requirement is adopted by GASB Statement 40 for reporting custodial credit risk. Disclosure of custodial credit risk is required only when a government has investments that are uninsured, unregistered, and are held by either (1) the counterparty in the State's name, or (2) by the counterparty or agent but not in the State's name.

Custodial credit risk applies to all investments in securities that are in both paper and book entry form. A security is a transferable financial instrument that evidences ownership or creditorship. Investments without a transferable financial instrument that evidences ownership or creditorship are not securities.

Securities that often are held by or pledged to governments include U.S. Treasury bills, notes and bonds; federal agency and instrumentality obligations, including asset-backed securities; corporate debt instruments, including commercial paper; corporate equity instruments; ***negotiable*** CDs; banker's acceptances; shares of closed-end mutual funds; and shares of unit investment trusts. Securities do not include investments made directly with another party (for example, limited partnerships), real estate, or direct investments in mortgages and other loans. Additional investments not considered securities for custodial credit risk disclosures include:

- open-end mutual funds
- annuity contracts
- guaranteed investment contracts (GICs)
- securities underlying reverse repurchase agreements

Credit Risk (Credit Rating) including Concentration of Credit Risk

Credit Risk (Credit Rating)

GASB Statement 40 requires the disclosure of information on credit risk, which is defined as "the risk that an issuer or other counterparty to an investment will not fulfill its obligations."

GASB Statement 40 specifically mandates that governments present credit ratings for their investments held in debt securities, whether held directly or indirectly (i.e., through positions in external investment pools, money-market funds, bond mutual funds, or similar pooled investments of fixed-income securities). That is, governments are required to disclose the credit quality of investments in debt securities as described by nationally recognized rating agencies such as Fitch Ratings, Moody's Investors Service, and Standard & Poor's. If a rating is not available, that fact should be disclosed.

Debt securities are instruments representing a creditor relationship with an enterprise. Debt securities include U.S. government securities, municipal securities, corporate bonds, convertible debt, commercial paper and securitized debt instruments. Unlike equity securities, debt securities have a maturity date attached.

The requirement to disclose credit ratings does not apply to debt securities of the U.S. government or obligations of U.S. government agencies that are explicitly guaranteed by the U.S. government.

Concentration of Credit Risk

Credit risk also can arise in the wake of a failure to adequately diversify investments. To alert statement users of this potential risk, GASB Statement 40 requires disclosure of the concentration of credit risk which is defined as positions of 5 percent or more of total investments based on the prescribed level of detail. Concentration of credit risk applies to all investments except investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments.

In the case of mutual funds, external investment pools, and other similar pooling arrangements, the term issuer should be understood as referring to the fund itself. The fund or pool is a distinct entity. Do not confuse the rating of the fund or pool with ratings that may exist for the investment company manager, pool sponsor, or issuer(s) of the underlying debt securities in the fund's portfolio. GASB's Implementation guide for statement 40 clearly requires (questions 20-23) that even if a fund is only permitted to invest in AAA rated US Government bonds, for the purposes of this disclosure if the fund is not rated, it should be disclosed as not rated.

As a hypothetical example; a mutual fund could be created by the investment bank Goldman Sachs (hypothetically a single A rated bank) and the fund could invest entirely in short term U.S. Government Bonds (Hypothetically AAA Rated). The mutual fund may or may not engage a rating agency to provide a rating – if S&P gives the fund a AA rating, then the AA rating should be used for disclosure purposes, but if no rating agency ratings exist for the fund, it should be disclosed as unrated, even though the issuer and underlying investments may have their own ratings.

Interest Rate Risk including Fair Values Sensitive to Interest Rate Changes

Interest Rate Risk

Interest rate risk arises from investments in debt instruments and is defined as "the risk that changes in interest rate will adversely affect the fair value of an investment." That is, the longer the period for which an interest rate is fixed, the greater the potential variability in fair value resulting from changes in interest rates. In addition to debt securities, investments in mutual funds, external investment pools, or other pooled investments that do not meet the definition of a 2a7-like pool are also required to disclose interest rate risk information.

Debt securities are instruments representing a creditor relationship with an enterprise. Debt securities include U.S. government securities, municipal securities, corporate bonds, convertible debt, commercial paper and securitized debt instruments. Unlike equity securities, debt securities have a maturity date attached.

Interest rate risk is demonstrated by disclosing the length of time that a debt security is outstanding. GASB Statement 40 requires disclosure of this risk in one of five ways:

- Segmented time distribution
- Specific identification
- Weighted average maturity
- Duration
- Simulation model

The State's preferred disclosure method to demonstrate interest rate risk is the segmented time distribution method. Segmented time distribution method groups investment cash flows into sequential time periods in tabular form. However, if one of the alternate methods is used, for example weighted average to maturity, the weighted average to maturity results may be reported under the segmented time distribution method. Agencies using a method other than segmented time distribution should contact the SCO-FRS.

Fair Values Sensitive to Interest Rate Changes

GASB Statement 40 also requires additional disclosures for investments in debt instruments whose fair values are "highly sensitive" to changes in interest rates. For debt investments that are highly sensitive to changes in interest rates, the State will provide (1) a description of the interest rate sensitivity, and (2) contract terms such as coupon multipliers, benchmark indices, and embedded options.

Foreign Currency Risk

Foreign currency risk is "the risk that changes in exchange rates will adversely affect the fair value of an investment." When a government holds investments denominated in a currency other than the U.S. dollar, it exposes itself to the risks associated with currency fluctuation. GASB Statement 40 requires that governments holding investments denominated in a foreign currency disclose the value of such investments in U.S. dollars.

Simply investing in a mutual fund that holds a portion of its investments as foreign investments does not create a foreign currency risk that needs to be disclosed. Most mutual funds hold foreign investments; however, the funds are denominated in US dollars. Investments denominated in foreign currency are to be disclosed.

The Governmental Accounting, Auditing, and Financial Reporting Handbook (2012 version) states, "The disclosure of foreign currency risk does not apply to… positions in international mutual funds (the name of which may be sufficient to alert financial statement users of the potential of foreign currency risk)." It would not be practical to identify or disclose the name of all mutual funds that hold international investments; therefore, the State will only disclose investments denominated in foreign currency, as required by GASB Statement 40.

Policy Disclosure

GASB Statement 40 requires that a government disclose all of its policies relevant to each of the different types of risks (i.e., credit risk, interest rate risk, foreign currency risk), but only for those types of risks actually faced by the government. If a government does not have a policy that covers one or more of the risks it is facing, that fact must itself be disclosed.

OTHER INVESTMENT CONSIDERATIONS

Negotiable Certificates of Deposit and Certain Investments

Negotiable certificates of deposits (CDs) will be treated as an investment for purposes of footnote disclosures. That is, regardless of how negotiable CDs are presented in the balance sheet (e.g., cash and cash equivalents, or investments) they must be included as an investment for footnote disclosure purposes. Negotiable CDs are securities that are subject to custodial credit risk depending upon who holds the securities and how they are held. They are normally sold in $1.0 million units & can be traded in a secondary market. *These are rarely used in practice.* In contrast, 'regular' CDs such as those obtained at banks or credit unions, are non-negotiable i.e. they are not traded in a market.

Certain investments, for example, commercial paper, banker's acceptances and certain repurchase agreements may be reported as cash equivalents in the balance sheet in accordance with GASB Statement 9, Footnote 5. It is the State's policy that these investments, while reported as cash equivalents, will be included as investments in the investment disclosure and risk categorization footnote.

Money Market Accounts

Money market accounts are simply deposits that pay interest at a rate that is set to make the accounts competitive with money market mutual funds. These money market accounts will be included like any other deposit account for purposes of the *deposit footnote disclosure* and classified in categories of risk depending on whether balances are uninsured or unregistered.

“Other” Investments

For purposes of presenting investments by type as required by GASB Statement 3 some agencies have sizable portions of their investment portfolios classified as "Other" investments. It is not appropriate to present material amounts of investments in this manner. Therefore, agencies should classify their investments in the appropriate investment type group as indicated on the footnote disclosure form.

Despite their nondescript presentation as ‘other investments’, SCO will nonetheless require some more detailed description of items included as other investments. It might be determined that these could be appropriately lumped in with another investment category or SCO may wish to more closely scrutinize the fair value techniques used for these assets.

INVESTMENT DERIVATIVE INSTRUMENTS

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governments. A key provision of the statement is that investment derivative instruments covered within its scope are reported at fair value.

Financial Statement Reporting for Investment Derivative Instruments

For investment derivative instruments, the fair value of the instrument is reported in the balance sheet. Further, the annual changes in those fair values are flowed through the operating statement consistent with the requirements of GASB Statement No. 53. Because investments held by the State are generally already reported at fair value, no additional reporting requirements are necessary to comply with the standard.

Disclosures for Investment Derivative Instruments

For derivatives that are investments, the State will disclose the credit risk information described below (as well as include those derivatives in the summary information disclosure). Otherwise, governments will apply the disclosure requirements for investments set forth in GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

Credit risk—if a derivative exposes it to credit risk, the State will report: 1) The credit quality rating of the firm, 2) The maximum potential loss if the firm fails to fulfill its obligations, 3) The collateral or other security supporting the derivatives, and 4) Significant concentrations of credit risk with a particular firm or group of firms. GASB Statement No. 53 further requires a note disclosure that includes summary information about a government’s investment derivative instruments. Information presented in the summary should include: the fair value, notional amount, reference rate, and embedded options.

For additional information and a flowchart providing guidance on application of GASB Statement 53, see *Section 44 - Derivative Instruments* of the GAAP Manual.

Derivative Instruments: Application of Hedge Accounting Termination Provisions

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. For additional information providing guidance on application of GASB Statement 64, see Section 44 - Derivative Instruments of the GAAP Manual.

Exhibit 1

Summary of Valuation Standards

For Investments Specified in GASB Statement 31

Investments held by governmental entities except external investment pools, defined benefit pension plans, and IRC 457 deferred compensation plans.	**Appropriate accounting method.**
• Marketable equity securities(including unit investment trusts and closed-end mutual funds	Report at fair value
• Marketable option contracts, stock warrants, and stock rights	Report at fair value
• Interest-earning investment contracts	• Nonparticipating contracts (for example, certificates of deposits) should be reported not at fair value but rather at cost, assuming the value of the investment is not affected by the financial institution's credit standing or other relevant factors • Participating interest-earning investment contracts that mature beyond one year of their acquisition date should be reported at fair value • Participating interest-earning investment contracts that mature within one year or less at the date of their acquisition may be reported at amortized cost, assuming the investment is not affected by the financial institution's credit standing or other relevant factors
• Debt securities	Report at fair value. **Exception:** Money market investments that mature within one year or less at the date of their acquisition may be reported at amortized cost, assuming the investment is not affected by the financial institution's credit standing or other relevant factors
• Open-end mutual fund	Report at fair value based on the fund's current share price
• External investment pools that are not SEC-registered (including governmental pools, and nongovernmental pools, except 2a7-like pools)	Report at fair value based on the fair value per share of the pools underlying portfolio. If the governmental entity cannot obtain sufficient information from the pool sponsor to determine the fair value of the investment in the pool, the best estimate of its fair value should be made and the basis for the estimate should be disclosed in a note to the financial statements
• 2a7-like pools	Report the investment based on the net asset value per share provided by the pool
• Land and other real estate	Pension plans, OPEB plans, external investment pools, IRS Section 457 deferred compensation plans, permanent and term endowment funds and Permanent Funds should report land and other real estate held as an investment at fair value. All others report land and other real estate held as an investment using a cost-based measure.

Exhibit 2
Calculation of Increase or Decrease In Fair Value

Year 1 (Fiscal Year Y)

Specific Identification Method

	Cost	A Beginning fair value	B Purchases	C Sales	D Subtotal*	E Ending fair value	F Change in fair value**
Security 1	$ 100	$ 100	--	--	$ 100	$ 120	$ 20
Security 2	520	540	--	--	540	510	(30)
Security 3	200	240	--	$ 250	(10)	0	10
Security 4	330	--	$ 330	--	330	315	(15)
		$ 880	$ 330	$ 250	$ 960	$ 945	$ (15)

*Column D = Columns A + B - C
**Column F = Column E - Column D

Aggregate Method

Fair value at June 30, *FY* Y	$ 945
Add: Proceeds of investments sold in year *FY* Y	250
Less: Cost of investments purchased in year *FY* Y	(330)
Less: Fair value at June 30, *FY* X	(880)
Change in fair value of investments	$ (15)

Year 2 (Fiscal Year Z)

Specific Identification Method

	Cost	A Beginning fair value	B Purchases	C Sales	D Subtotal*	E Ending fair value	F Change in fair value**
Security 1	$ 100	$ 120	--	$ 110	$ 10	$ 0	$ (10)
Security 2	520	510	--	--	510	550	40
Security 3	330	315	--	$ 330	(15)	0	15
Security 4	310	--	$ 310	--	310	300	(10)
		$ 945	$ 310	$ 440	$ 845	$ 850	$ 35

*Column D = Columns A + B - C
**Column F = Column E - Column D

Aggregate Method

Fair value at June 30, *FY* Z	$ 850
Add: Proceeds of investments sold in year *FY* Z	440
Less: Cost of investments purchased in year *FY* Z	(310)
Less: Fair value at June 30, *FY* Y	(945)
Change in fair value of investments	$ 35

Exhibit 3
Types of Transactions (Investments) Not Covered by GASB Statement 31

Although it is not feasible to list all transactions (investments) that are not covered by GASB Statement 31, the following are more common situations not covered by GASB Statement 31.

- Seized debt securities that the government holds as evidence or as a potential fine
- Contractors' deposits of debt securities
- Investments in joint ventures
- Equity securities accounted for under the equity method
- Long-term securities placed in an irrevocable trust that meets the requirements of a legal or in-substance defeasance
- Loans receivable arising from real estate lending activities
- Securities and other instruments not held for investment purposes
- Receivables that do not meet the definition of a security
- Equity securities (including unit investment trusts and closed-end mutual funds), option contracts, stock warrants, and stock rights that do not have readily determinable fair values
- Short sales of securities
- Investments in component units
- Restricted stock
- Trade accounts receivable arising from sales on credit

FINANCIAL REPORTING OF INVESTMENT AMOUNTS

The investment asset amounts included on the CAFR trial balances will be based on information reported in the STAR ACTUALS ledger. In addition, investment income will be classified as non-operating income on the trial balances.

Adjustments to investments should not be made unless the entry is accounting for off-system investment activity. It is the agency/fund's responsibility to reclassify investment income as operating if the reclassification is appropriate. The SCO-FRS should be consulted prior to recording adjusting entries to the investments to discuss the appropriateness of the entry.

Investments reported in the classified balance sheet of proprietary funds will be presented as either a current asset or a noncurrent asset based upon the FRS policy included in the preceding investment *policy* sub-section.

GLOSSARY OF TERMS – See **Attachment A** at the back of this section for terms contained in this discussion.

INVESTMENT DISCLOSURE

Consistent with the provisions of GASB Statement 40 and Statement 72, the State will disclose in the notes to the financial statements the following information about its investments:

- Custodial credit risk *(primary Investment Form)*
- Credit risk (credit rating) *(Attachment A to Investment Form)*, including concentration of credit risk *(Attachment C to Investment Form)*
- Interest rate risk *(primary Investment Form)*, including fair values sensitive to interest rate changes *(Attachment D to Investment Form)*
- Foreign currency risk *(Attachment B to Investment Form)*
- Valuation techniques used & the GASB hierarchy level for inputs used in those techniques (*Attachment A to Investment Form*)
- Investment policies applicable to valuation and risks *(Attachment D to Investment Form)*

Completion of the Investment Footnote Disclosure Form

The investment disclosure form serves as a tool to assist agencies in complying with complex GASB reporting requirements. All GAAP funds and agencies reporting investments on their GAAP financial statements are required to complete the form, and all applicable attachments, unless other arrangements have been made with SCO-FRS. In certain cases, agencies may find it more efficient to use alternative methods to provide investment disclosures. Agencies should contact SCO-FRS to discuss whether those methods will provide the required information for inclusion in the ACFR prior to implementing an alternative method.

SWIB manages fixed and variable investment portfolios reported as part of the ETF GAAP funds as well as the State Investment Fund (SIF) portfolio. In addition, SWIB manages investments for UW System, OCI's State Life Insurance and Injured Patients and Families Compensation funds, Historical Society's Historical Trust fund, and DFI's Tuition Trust fund. SWIB's expertise in investment management and reporting allows them to efficiently and effectively compile investment disclosures in compliance with GASB standards as part of their services to state agencies. SWIB may submit ACFR investment disclosures for the ETF, OCI, Historical Society, and DOA GAAP funds, as well as the SIF, in an alternative manner e.g. Word documents or Excel tables. (OCI's funds, the Historical Society Trust, UW System and Tuition Trust funds managed by SWIB are referred to as "separately managed funds" in the ACFR. At times, the presentation of the investment disclosure information will differ from stand-alone financial statements that may be issued by the agencies for which SWIB provides investment services. In that case, SWIB should identify if differences should exist and modify the information submitted for ACFR reporting to be consistent with ACFR reporting needs.

GAAP Fund	Provider of ACFR Note Disclosure	Format of Disclosures
ETF GAAP Funds managed as part of the Fixed and Variable Retirement Trust Funds	SWIB	Word documents, Excel tables
State Investment Fund*	SWIB	Word documents, Excel tables
State Life Insurance Fund	SWIB	Word documents, Excel tables
Historical Society Fund	SWIB	Word documents, Excel tables
Tuition Trust Fund	SWIB	Word documents, Excel tables
University of Wisconsin System	SWIB	Word documents, Excel tables
Lottery Fund	DOR	ACFR Note Disclosure
Unclaimed Property Program Fund	DOR	ACFR Note Disclosure
Bank and Insurance Company Deposits Fund	SCO Cash Management Unit	ACFR Note Disclosure
Wisconsin Public Broadcasting Foundation (blended component unit)	ECB	ACFR Note Disclosure

*Technically, the SIF is not a GAAP fund but rather a mechanism for tracking investments in a portfolio that is split between GAAP funds. Nonetheless, GASB disclosure requirements still exist and shall be made for ACFR reporting purposes.

- *Component Unit Investment Disclosures*

Investment disclosures are not required to be presented in Wisconsin's ACFR for discretely presented component units. However, disclosures must be included for blended component units consistent with their presentation as a GAAP fund in the ACFR. Therefore, the responsible state agency should provide the required investment disclosures for blended component units.

The GASB's 2013-2014 *Comprehensive Implementation Guide-2004*, Question 4.33.3, states in part, "There are no requirements to change the recognition, measurement, or disclosure standards applied in a nongovernmental component unit's separate financial statements." The GASB's intent is not to make those component units reporting on a basis of accounting other than that promulgated by the GASB to comply with the footnote disclosure requirements of GASB Statement 40. Therefore, those component units reporting on a basis of accounting (e.g., not for profit, insurance industry standards, etc.) other than that promulgated by GASB will not be required to provide investment note disclosure information based on GASB Statement 40.

Reported (Fair Value) Amount

For each investment type agencies should enter the reported (fair value) amount into Column A, Part A of the Investment Form if investments are reported as cash and cash equivalents or Part B if investments are reported as investments.

CUSTODIAL CREDIT RISK

The State will capture the information needed to disclose custodial credit risk through completion and submittal of the Investment Form, Column B by agencies reporting investments.

All agencies reporting investments should complete Column B of the Investment Form as follows:

- Column B-1 - *Insured or Held in the State's Name*: enter the reported (fair value) of securities by investment type.

- Columns B-2 - *Uninsured, Unregistered*: enter the reported (fair value) of securities by investment type depending on how the security is held, i.e., in the State's name or not in the State's name.

Specific instructions accompany the investment form.

- *Custodial Credit Risk Additional Guidance*

Information on how a security is held may be obtained from an investment officer, external investment advisers and managers, or a custodian acting as an agent.

Certificates of Deposit (CDs) – *negotiable* certificates of deposit are securities and should be treated as an investment for disclosure purposes. *Nonnegotiable* certificates of deposit are time deposits and should be treated as a deposit for disclosure purposes (such as those in banks or credit unions).

Money Market Accounts – are deposits that pay interest and should be treated like any other deposit account for purposes of custodial risk.

Bank Investment Contracts (BICs) – along with other investment contracts are deposits with financial institutions, and should be analyzed as a deposit for custodial credit risk.

Guaranteed Investment Contracts (GICs) – are not exposed to custodial credit risk because they are direct contractual investments and not securities.

Mutual Funds and Unit Investment Trusts – shares in closed-end mutual funds and unit investment trusts are securities and should be analyzed for custodial credit risk. Open-end mutual funds are not securities, they are direct contractual relationships, and are exempt from custodial credit risk.

Reverse Repurchase Agreements – securities for reverse repurchase agreements are not exposed to custodial credit risk because those securities are held by the buyer-lender.

External Investment Pools – generally, investments in external investment pools are not subject to custodial credit risk.

Valuation Techniques and Inputs

Information needed to disclose investment valuation policies, including techniques and inputs (both related to GASB 72), should be provided in Column C of the main disclosure as well as on the supplemental text on Attachment E, Question 2.

Historically, apart from the WRS and other investments for which SWIB provides the investment disclosures, the vast majority of the State's other investments receive valuations based on market and dealer quotes for equities and fixed income securities, and Net Asset Values (NAV) for mutual funds and other pooled investment vehicles. In some situations, such as the State's permanent trusts, pricing services have also been employed to determine fair value.

In Column C of the main disclosure, for each reported investment type, a valuation technique/input should be selected to disclose how fair value was determined. If a non-traditional technique or input was used, select 'other' and explain on Attachment E.

On Attachment E the broker, custodian, or pricing service employed to value investments should be disclosed. SCO-FRS may wish to analyze broker policies on securities valuation if there is reason to suspect that such information is needed for the GASB Statement 72 disclosures. Additionally, this space can be used to explain the valuation techniques and inputs. It is ***not*** necessary to elaborate on valuation if all investments which fall under the GASB 72 disclosure requirements are valued using market prices for identical securities for equities and fixed income securities or when reporting NAV for mutual funds, money market funds or exchange traded funds.

All GAAP funds and agencies reporting investments shall complete Attachment E and submit this information along with the other required disclosure forms. Specific instructions of form completion and illustrative disclosures accompany Attachment E.

Credit Risk including concentration of Credit Risk

Credit Risk (Credit Ratings)

The State will capture the information needed to disclose credit risk through completion and submittal of the Investment Form, Attachment A – Credit Ratings for an Investment Type by agencies reporting investments.

GAAP funds and agencies reporting investments shall complete Attachment A and submit this information along with the other required disclosure forms. Specific instructions are included on and accompany Attachment A. Disclosure of credit ratings is required to be made as of the date of the financial statements, that is, at fiscal year-end (June 30th) except for investments pertaining to ETF GAAP funds which are reported as of December 31st.

An investment type may have multiple security issues with multiple dollar values; therefore, the additional columns to provide the fair value and credit ratings of those securities should be used. If a security is not rated by any of the rating agencies, then its value should be entered into the value column and an X into the unrated column. For example, bond mutual funds (with the exception of money funds or some ultra-short duration money-market-like bond mutual funds) seldom contract with a ratings agency to obtain a credit rating. Investments in such funds should be reported as unrated, even if information is available about the average credit rating of the funds' underlying investments. GASB standards do ***not*** exist allowing use of an average credit rating of a portfolio of investments to be reported as representative of an issuer's credit rating.

A security may not be rated by all three credit rating agencies, therefore, the credit ratings that have been issued for that security should be entered. Though all available ratings should be keyed on the form, only the lowest rating is disclosed.

- *Acquiring Credit Risk Rating*

The following steps may be used to acquire the credit ratings of a security:

- The investment manager, custodial agent or other individual or organization (such as a counterparty, a counterparty's trust department or a third party administrator) may be contacted,

- If the debt security is in paper form and is in the custody of your agency the security document may be reviewed for any credit ratings,

- The credit rating agency (S&P, Moody's and Fitch) may be accessed at its web site on the internet. Credit rating information at these web sites can be acquired by using either the issuer (for example State of Wisconsin) or the CUSIP number of the security. The CUSIP is a unique nine-character identification number given to each class of security approved for trading in the U.S., to facilitate clearing and settlement. These numbers are used when any buy and sell orders are recorded.

- *Credit Risk Additional Guidance*

External investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities are required to disclose credit quality ratings.

If a debt investment is unrated (for example, a guaranteed investment contract - a GIC) the disclosure form should indicate that it is unrated - this is the case even if the issuer's rating or the ratings of the investments are known. Mutual funds are exempt from credit quality disclosure if they are not bond/fixed income funds. Additionally, many mutual funds are not rated and should be disclosed as non-rated, even if their holdings are highly rated. Money market-like funds which are exclusively holding very short-term government bonds, are one of the few types of funds with credit ratings.

Credit quality modifiers should not be disclosed. For example, if a debt security is rated AA- or Aa+, only AA or Aa should be entered in the disclosure form.

Repurchase agreements are not subject to credit risk disclosures if the <u>securities</u> <u>underlying</u> the repurchase agreement are exempt from credit risk disclosures. Securities underlying repurchase agreements often take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government which are not considered to have credit risk. Therefore, the securities underlying the repurchase agreement must be reviewed to determine applicability of credit risk disclosure.

Bankers' acceptances constitute an irrevocable primary obligation of an accepting bank, a contingent obligation of the drawer, and an obligation of any institution that has endorsed the acceptance. Bankers' acceptances are required to have their credit risk disclosed.

Concentration of Credit Risk

The State will capture the information needed to disclose concentration of credit risk through completion and submittal of the Investment Form, Attachment C – Concentration of Credit Risk by agencies reporting investments.

GAAP funds and agencies reporting investments shall complete Attachment C and submit this information along with the other required disclosure forms.

Specific instructions of form completion accompany Attachment C.

Interest Rate Risk including Fair Values Sensitive to Interest Rate Changes

Interest Rate Risk

The State will capture the information needed to disclose interest rate risk (maturity on debt securities) through completion and submittal of the main Investment Form, Column (C) by agencies reporting investments.

For each investment type determine the maturity of the security and enter the corresponding reported (fair value) amount of the security into the appropriate time period [Column (C) of the Investment Form] (specific instructions accompany the form). For example,

> Assume a fund reported $10.0 million of corporate bonds consisting of one $5.0 million security maturing in the next year and another $5.0 million security maturing in six years. Accordingly, at June 30th, $5.0 million would be entered into the "1 to 5 years" column and $5.0 million would be entered into the "6 to 10 years" column.

Determination of a reported (fair value) and maturity date of a security within an investment type can be accomplished by reviewing each security and identifying its value and maturity date. These values are entered into the appropriate column in the schedule of maturities on the investment form. Alternatively, other methods, e.g., weighted average maturity, specific identification, duration and simulation may be used to disclose interest rate risk.

However, if one of the alternate methods is used, for example weighted average to maturity, the weighted average to maturity results may be reported under the segmented time distribution method. For example,

> Assume a mutual bond fund owns many debt investments with differing maturities (however, the maturity date of the *fund* is not fixed). The fund could use the weighted average to maturity method which results in an average maturity of 8.5 months. The resulting 8.5 months to maturity may be reported using the segmented time distribution as an investment with a maturity of "Less than 1 year."

Agencies using a method other than segmented time distribution should contact the SCO-FRS.

Fair Values Sensitive to Interest Rate Changes

The State will capture the information needed to disclose fair values sensitive to interest rate changes through completion and submittal of the Investment Form, Attachment D - Fair Values Highly Sensitive to Interest Rate Changes by agencies reporting investments.

GAAP funds and agencies reporting investments should complete Attachment D and submit this information along with the other required disclosure forms. Specific instructions are included on and accompany Attachment D.

- *Fair Values Sensitive to Interest Rate Changes Additional Guidance*

Factors that may influence the determination of whether investment fair values are sensitive to interest rate changes include the term-to-maturity of the investment, the likelihood of exercise of any embedded options, and whether caps or floors may be reached.

Examples of investments that may be sensitive to interest rate changes include (not all-inclusive):

- Asset-backed securities such as mortgage pass-through securities issued by Fannie Mae, Ginnie Mae and Freddie Mac.
- Structured notes such as range notes and index amortizing notes, step-up notes and bonds, and variable-rate investments with coupon multipliers.
- Collateralized mortgage obligations (CMOs) may or may not be considered investments sensitive to interest rate changes depending upon the type of tranche held.

Values of sensitive investments change frequently (e.g. daily). Bonds that change once a year based on a change in rate or schedule are not considered highly sensitive. Agencies determining that a fund may hold investments sensitive to interest rate changes should contact the SCO-FRS for additional assistance.

FOREIGN CURRENCY RISK

The State will capture the information needed to disclose foreign currency risk through completion and submittal of the Investment Form, Attachment B – Foreign Currency Investments by agencies reporting investments.Therefore, all GAAP funds and agencies reporting investments should complete Attachment B and submit this information along with the other required disclosure forms. Specific instructions of form completion accompany Attachment B.

INVESTMENT POLICY APPLICABLE TO RISKS

The State will capture the information needed to disclose the investment policy applicable to risks through completion and submittal of the Investment Form, Attachment E – Investment Policy by agencies reporting investments.

All GAAP funds and agencies reporting investments shall complete Attachment E and submit this information along with the other required disclosure forms. Even if the fund does not have a policy that covers one or more of the risks it is facing, Attachment E must be completed (so it is known no policy exists).

Specific instructions of form completion and illustrative disclosures accompany Attachment E.

****

Attachment A
Glossary of Terms

Bank Investment Contract (BICs)

A general obligation instrument (a contract) issued by a bank. BICs along with other investment contracts should be analyzed as to their custodial credit risk because they are deposits with financial institutions.

Certificates of Deposit (CDs)

Negotiable certificates of deposit are normally sold in 1 million dollar units and can be traded in a secondary market and should be treated as investments for disclosure purposes.

Nonnegotiable certificates of deposit are time deposits. Regardless of how these instruments are presented in the financial statements (often times presented as investments) they should be treated as deposits for disclosure purposes.

Concentration of Credit Risk

The risk of loss attributed to the magnitude of a government's investment in a single issuer.

Credit Risk

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

Custodial Credit Risk

The risk, that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

CUSIP

Committee on Uniform Securities Identification Procedures. A unique nine-character identification number for each class of security approved for trading in the U. S. to facilitate clearing and settlement. These numbers are used when any buy and sell orders are recorded.

Duration

A measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. There are three common types of duration used to report interest rate risk-Macaulay duration, modified duration, and effective duration.

Foreign Currency Risk

The risk that changes in exchange rates will adversely affect the fair value of an investment.

Attachment A
Glossary of Terms
(Continued)

Interest Rate Risk

"The risk that changes in interest rates will adversely affect the fair value of an investment." Interest rate information provides disclosures about potential fair value losses from future changes in prevailing market interest rates. Investments with interest rates that are fixed for longer periods are likely to be subject to variability in their fair values as a result of future changes in interest rates.

Issuer

An issuer is the entity that has the authority to distribute a security or other investment. A *bond issuer* is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, *issuer* refers to the entity invested in, not the investment company-manager or pool sponsor.

Investment

A security held for the production of income in the form of interest and dividends.

Money Market Account

Simply deposits that pay interest at a rate that is set to make the accounts competitive with money market funds. These money market accounts should be treated like any other deposit account.

Money Market Funds

A type of mutual fund that invests in short term debt obligations of corporations and governments. Money market funds typically invest in Treasury bills, commercial paper, banker's acceptances, negotiable CDs, repurchase agreements and short-term debts of U.S. Government agencies.

Mutual Fund

A pool of money that is managed on behalf of investors by a professional money manager. Securities typically invested in are stocks, bonds, or other securities specific to investment objectives.

Open-end mutual fund generally does not issue certificates, instead, it sends out periodic statements showing deposits, withdrawals, and dividends credited to an investor's account. Investments in open-end mutual funds are not subject to custodial risk disclosures.

Closed-end mutual funds issue certificates and the securities are traded on a stock exchange. Investments in closed-end mutual funds are subject to custodial credit risk disclosures.

Position(s)

The cumulative holdings of a particular investment. The amount of a security either owned or borrowed by an individual or a dealer. An investor's security holdings in an account or portfolio.

Security

A transferable financial instrument that evidences ownership or creditorship. Securities that often are held or pledged to state and local governments include U.S. Treasury bills, notes and bonds; federal agency and instrumentality obligations including asset-backed securities; corporate debt instruments, including commercial paper; corporate equity instruments; negotiable CDs; bankers' acceptances; shares of closed-end mutual funds; and shares of unit investment trusts.

Debt securities are instruments representing a *creditor* relationship with an enterprise. Debt securities include U.S. government securities, municipal securities, corporate bonds, convertible debt, commercial paper, and securitized debt instruments. Unlike equity securities, debt securities have a maturity date attached.

Equity securities are securities representing *ownership* interests such as common, preferred or other capital stock. They also include rights to acquire or dispose of ownership interests at an agreed-upon or determinable price such as warrants, rights and call options or put options. Convertible debt securities and redeemable preferred stocks are not treated as equity securities.

Segmented Time Distribution

Groups investment cash flows into sequential time periods in tabular form. For example, investment types could be categorized as those that mature less than 1 year, 1 to 5 years, and so on.

Specific Identification

This method for presenting interest rate risk does not compute a disclosure measure but presents a list of the individual investments, their carrying amounts, maturity dates and any call options.

Tranche

A portion of a bond offering delineated by maturity, credit quality or other risk characteristics.

Weighted Average Maturity

This disclosure expresses investment time horizons – the time when investments become due and payable – in years or months, weighted to reflect the dollar size of individual investments.

General

National Council on Governmental Accounting Statement No. 1 requires significant inventory amounts be reported in a government's financial statements. GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* indicates that inventories or supplies should be written down if they are affected by physical deterioration or obsolescence.

Materials and supplies in inventory are current assets of a governmental fund, but they are not considered current financial resources. Materials and supplies are also considered current assets for proprietary and fiduciary funds and the government-wide financial statements under the accrual basis of accounting.

Inventories reflect the value of materials and supplies on hand for future use or resale. Inventory includes significant operating supplies, raw materials, work-in-process and finished goods used in, or resulting from, manufacturing or other production processes.

Inventories To Be Reported

Responsibility for controlling inventories belongs to each state agency. Each agency reports the value of inventories on hand as of each fiscal year end. Inventories to report include:

- Significant supplies and materials used in operations such as fuel oil or road salt.
- Food stocks and medical care items used in educational, treatment, or correctional facilities. These types of operations may have significant inventory amounts due to the number of people served.
- Raw materials and work-in-process on hand for use in manufacturing or other production processes and finished goods.
- Forms, pamphlets and other materials on hand for distribution to the public or office forms on hand in warehouses or other centralized distribution points, if significant.
- Metered postage unused at June 30th shall be included in inventory as opposed to being treated as a prepaid item.

Items kept in supply cabinets or closets where they are readily accessible for daily use by employees may be considered consumed, and need not be inventoried for financial reporting purposes. Further, items placed on racks or other locations accessible to the general public may be considered consumed and need not be inventoried for financial statement purposes.

As noted, inventory that has deteriorated or is obsolete should be written down. This may include items that were purchased in prior years for use in operations but that, in reality, are rarely used or may not be used ever. The items are kept in the event they will be needed but don't effectively fall into the category of a current asset for financial reporting purposes.

Physical Counts Required

Agencies should verify inventories by physical count at least once each year. Agencies may use either the periodic or perpetual system of accounting for inventory. Agencies controlling inventory quantities using a perpetual system may use the perpetual records for reporting quantities if periodic physical counts are made and reconciled to the perpetual record. If periodic inventory records are maintained, physical counts must be made for June 30.

Inventory Valuation

Agencies should value inventories on hand at the balance sheet/statement of net position date using either a first-in-first-out (FIFO) or average cost flow assumption method, applied on a consistent basis from year to year. For example, agencies using the FIFO valuation method and periodic system would match the quantity of inventory on hand to unit cost. The cost of the ending inventory would be computed by taking the cost of the most recent purchase and working backwards until all quantities on hand are accounted for. To value inventory under the average cost method, agencies would use a weighted average to determine the average cost per unit and then apply the average cost to all units. Agencies wanting to deviate from either of these two methods must contact the State Controller's Office-Financial Reporting Section.

Materiality

The threshold for reporting inventories is $100,000. Agencies are not required to prepare adjusting entries for inventories if the total value of inventories is less than that amount. Additional information on materiality is available in Section III-8 of the GAAP Manual.

Inventory Reporting

Fund Statements:

Inventory items may be reported as expenditures either when purchased or when consumed. The purchases method recognizes the expenditure when the inventory item is acquired. The State of Wisconsin will use the purchases method for governmental funds. Proprietary funds use the consumption method, which recognizes the expense at the time the inventory is consumed.

Government-wide Statements:

Governments are required to use the consumption method of accounting when reporting inventories on the government-wide statement of net position. This method of inventory accounting is consistent with the economic resources measurement focus and the accrual basis of accounting required in the government-wide statements. Since business-type activities already use the consumption method, no change is needed for these activities.

In contrast, the governmental funds use the purchases method of accounting for inventories. Since this method is unacceptable for government-wide reporting, the Financial Reporting Section (FRS) will analyze all of the governmental funds' inventory data and make a single adjustment to convert this information to the consumption method for governmental activities.

The State central accounting system accounts for all materials and supplies acquired by expensing such items at the time of purchase. As such, there are no inventory asset accounts available for use in the STAR ACTUALS ledger.

The GAAP conversion entries required to report inventories in the **fund statements** differ depending on whether the fund is governmental or proprietary.

Governmental Funds (purchases method):

Assumption: Inventories are recognized as expenditures when purchased or invoiced. Year-end count (physical inventory) disclosures that there are $ XXX of materials and supplies on hand.

Adjusting entry required:

Debit:	Inventories	XXX	
Credit:	Fund Balance - Nonspendable for Inventories		XXX

<To recognize inventories on hand at June 30>

Note: Fund Balance - Nonspendable for Inventories represents amounts that cannot be spent because they are not in spendable form as required by GASB 54. That portion of fund balance is not available for appropriation and expenditure at the balance sheet date.

Proprietary Funds (consumption method):

Adjusting entry required:

Debit:	Inventories*	XXX	
Debit:	Supplies and Services (Expense) **	XXX	
Credit:	Supplies and Services (Expense)***		XXX
Credit:	Net Position - Unrestricted ****		XXX

<To recognize inventories on hand at June 30 and adjust supplies and materials expense to reflect actual usage.>

*	Inventories at year end
**	Adjust supplies and services expense if year-end inventory discloses that consumption of inventory was greater than purchases during the year.
***	Adjust supplies and services expense if year-end inventory discloses that consumption of inventory was less than purchases during the year.
****	Inventories at beginning of fiscal year

Government-wide Adjustments

Governments are required to use the consumption method of accounting when reporting inventories on the government-wide statement of net position. This method of inventory accounting is consistent with the economic resources measurement focus and the accrual basis of accounting required in the government-wide statements. Since business-type activities already use the consumption method, no change is needed for these activities.

Governmental funds report inventory using the purchases method for the fund statements. Under the purchases method a change in the amount of inventory effects equity rather than expenditures. Consequently, a change in the amount of inventory for the year shows up on the Statement of Revenues, Expenditures, and Changes in Fund Balance as an increase (decrease) in inventories. The adjustment to convert to the consumption inventory method, prepared by the Financial Reporting Section (FRS) for all of the governmental funds combined, eliminates the direct hit to fund balance at the fund level and either debits or credits functional expenses, as appropriate.

Entry to be prepared by **FRS** based on information contained in the fund financial statements and supporting documentation:

*Note **			
Debit:	Unrestricted Net Position (Change in Inventory)	XXX	
Credit:	Commerce Expenses		XXX
Credit:	Education Expenses		XXX
Credit:	Environmental Expenses		XXX
Credit:	Transportation Expenses		XXX
Credit:	Human Relations Expenses		XXX
Credit:	General Executive Expenses		XXX
Credit:	Legislative Expenses		XXX

<To adjust the fund-level entry made to increase/decrease fund balance – nonspendable for inventory. Expenses must be adjusted to account for change from purchases to consumption inventory method at GW level.>

* *Entry can be either a debit or a credit depending on the particular circumstances of each year.*

Prepaid items represent payments made in advance of the receipt of goods and services. They are reported as an asset on the financial statements.

Agencies may record advance payments for certain goods and services (e.g., rent and registration fees) as a prepaid item in the STAR ACTUALS ledger following guidance found in the Wisconsin Accounting Manual.

Materiality Threshold

Agencies are not required to prepare ACFR adjustments to "Prepaid Items" if the total amount of the adjustment to prepaid items is less than $100,000. However, agencies are still required to analyze activity to determine the existence of potential prepaid items.

Guidelines – Fund Level Reporting

Following generally accepted accounting principles, governmental funds have the option of reporting expenditures for prepaids either when purchased or during the benefiting period. For GAAP reporting purposes, the State has opted to report expenditures for prepaids during the benefiting period (i.e. the consumption method). Proprietary funds must recognize an expense for material prepaids during the benefiting period.

Expenditure types that may be paid in advance include:

- Prepaid insurance pertaining to debt obligations
- Rent
- Conference fees
- Subscriptions, and
- State employee life insurance

As discussed above, agencies may record advance payments for ***rent*** (e.g., rent due on July 1) as Prepaid Items on the State central accounting system. Agencies may also record ***conference fees*** paid in advance as Prepaid Items. These advance payments recorded on the State central accounting system should also be reported as Prepaid Items on the GAAP-based financial statements. Therefore, agencies recording such prepayments on the system do **not** have to prepare a GAAP conversion entry for these advance payments. Agencies should review their accounting practices to determine whether prepayments are already recorded on the system. If not, they must prepare a GAAP conversion entry to recognize the expenditure in the appropriate year (i.e., the year of coverage) if the amount exceeds the materiality threshold of $100,000 (see Section III-8 Materiality).

Subscription payments are generally not material. Therefore, agencies need not report expenditures for subscriptions as Prepaid Items for the GAAP-basis statements unless the established threshold of $100,000 is met or exceeded.

Currently, agencies typically pay for ***liability and property insurance*** in the fiscal year to which the service applies. Under these circumstances, agencies need not prepare a GAAP conversion entry for prepayments of liability and property insurance.

Prepaid State Employee Life Insurance The State's share of payments for life insurance is made in advance of the month of employee coverage. This is because the invoice for life insurance is generated by ETF on the 27th of the month *prior* to the month before the coverage month. Payment is due on the 24th of the month prior to the coverage month. For example, payment for July coverage is due on June 24th. Because of this, a prepaid life insurance asset (rather than an expenditure) is recorded in the STAR ACTUALS ledger as of June 30th.

Accordingly, agencies on central payroll do not have to prepare prepayment entries for life insurance. See illustration in the table below.

Pay Period	Earnings Dates	Coverage For	Invoice Due	Life
10A	4/17/16 - 4/30/16	June	5/24/16	June
11B	5/1/16 - 5/14/16	June	5/24/16	June
12A	5/15/16 - 5/28/16	July	6/24/16	July*
13B	5/29/16 - 6/11/16	July	6/24/16	July*
14A ^	6/12/16 - 6/25/16	August	7/24/16	August
15B	6/26/16 - 7/9/16	August	7/24/16	August

^ = The last payperiod of fiscal year 2016. The payments made in STAR will be recorded as expenditures in FY16. A STAR process will "throwback" the cash payment and record a payable as of 6/30/16. All subsequent payrolls will be recorded to FY17.
* = The State's life insurance payments for these payrolls will be recorded as expenditures in FY16, even though they relate to FY17 coverage. Expenditures are "thrown forward" for these expenditures into FY17 with an offset to a prepaid asset in FY16.

Health Insurance and Income Continuation With the implementation of STAR, the timing of the payment for the State's share of payments for health and income continuation insurance has changed. This results in the payment due June 24th no longer considered a prepaid asset. The invoice for health insurance is generated by ETF on June 1st for June coverage and payment made to ETF on June 24th. Therefore, the last health insurance and income continuation payment of the fiscal year matches the last month of insurance coverage for the fiscal year.

Nonspendable Fund Balance for Prepaid Items

Because prepayments are not current financial resources, the fund balance of governmental funds should be reported as nonspendable for the amount set up as a prepaid asset. The State Controller's Office, Financial Reporting Section will prepare an entry to report nonspendable fund balance for prepaid health, life, and other prepaid assets reported on STAR. Agencies responsible for governmental funds must still prepare an entry to report nonspendable fund balance for additional prepaid items not on STAR that are not offset by unearned revenue.

Guidelines – Government-wide Reporting for Governmental Activities or Proprietary Funds Reporting General Obligation, Special Revenue, or Appropriation Bond Debt

When the State issues **debt**, they sometimes **prepay for insurance coverage** that spans the life of the bonds. Bond insurance companies guarantee that the interest and principal of a bond will be paid on time if the bond issuer (the State) is unable to do so. In the event of a default, the insurance company makes the payments to ensure that investors receive their principal and interest earnings promptly. This guarantee generally lasts for the entire life of the bond.

Para. 15 of GASB 65 indicates prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. This prepaid asset should be reflected in the Statement of Net Position for governmental activities as well as for proprietary funds.

Note: Governmental funds should report an expenditure in the year the insurance costs are paid (which would be the same year as the debt is issued). Under GASB 65, a prepaid asset is *not* established in the governmental funds.

Agency GAAP accountants responsible for preparing debt service fund statements, should determine if a prepaid insurance asset was paid for when bonds were issued. If so, a prepaid asset should be reported in the governmental activities in the government-wide Statement of Net Position. Similarly, the fund level proprietary statements should report a prepaid insurance asset.

DOT, DNR and SCO-FRS GAAP accountants are responsible for reporting debt service activity for Transportation Revenue, Petroleum Inspection Revenue, and Annual Appropriation bonds, respectively. Therefore, accountants at those agencies should determine if a prepaid asset exists. Capital Accounting staff should determine the existence of prepaid insurance for General Obligation debt reported in extracted proprietary funds as well as for bond obligations reported for governmental activities. Further, Capital Accounting staff should determine the existence of prepaid insurance for debt reported in the Environmental Improvement fund.

Differentiating Between Prepaid Insurance and Insured Bonds The bond offering statement provides information for determining if the State has purchased insurance and entered into a direct contract with a bond insurance company. To qualify as a prepaid asset, the State should be a direct purchaser of the insurance coverage. The “use of bond proceeds” section of the offering statement would list an amount paid for “bond insurance”, or something similar, and convey that the State had entered into such a contract.

Conversely, insurance coverage purchased by the bond underwriters is *not* considered a prepaid asset of the State because, in that case, the underwriter would be the purchaser of the insurance. While the State may indirectly benefit, it would not have a contract with an insurance company. Bonds issued under these circumstances may be referred to as “insured bonds.” The key to determining if a prepaid asset exists for the State is the purchaser of the insurance coverage.

The STAR ACTUALS ledger identifies certain prepaid items as an asset. For GAAP-based financial statements, agencies should identify additional advance payments at year-end and prepare GAAP conversion entries, accordingly.

One type of common prepaid asset recorded in the STAR ACTUALS ledger at June 30th is the State's share of employee prepaid life insurance. The State's share of this insurance covering July must be recorded as an expenditure to the appropriate fiscal year (i.e., the year of coverage). Thus, payments in June for July life insurance coverage are recorded as a prepaid asset and expenditures are “thrown forward” to the following fiscal year in the STAR ACTUALS ledger.

In addition to the insurance prepayment discussed above, agencies may record additional prepaid assets in the ACTUALS ledger. Such prepaid assets may include prepayments for registration fees, maintenance agreements and rent.

Because prepayments are not current financial resources, an amount equal to the prepayment should be reported as nonspendable fund balance for all governmental funds. The State Controller’s Office, Financial Reporting Section prepares entries to report nonspendable fund balance for prepaid assets reported in the ACTUALS ledger. However, agencies are still required to make an entry to report nonspendable fund balance for any additional prepaid assets recorded by the agency as part of the GAAP conversion process.

Procedure - While the STAR system reflects certain advance payments as prepaid assets at year-end, agencies should determine whether additional prepayments should be recorded as an asset for ACFR reporting purposes.

Step 1 - Identify the additional advance payments that have not been recorded as prepaid assets on the State central accounting system. Agencies should review their accounting practices to determine the existence of additional prepayments not included in the prepaid asset account on STAR. Agencies identifying additional advance payments should prepare the following entry:

	Debits	Credits
Prepaid Items	xxxxx	
Commerce Expenditures	*	xxxxx
Education Expenditures	*	xxxxx
Transportation Expenditures	*	xxxxx
Environmental Resources Expenditures	*	xxxxx
Human Relations and Resources Expenditures	*	xxxxx
General Executive Expenditures	*	xxxxx
Judicial Expenditures	*	xxxxx
Legislative Expenditures	*	xxxxx
Tax Relief and Other General Expenditures	*	xxxxx
Intergovernmental Expenditures	*	xxxxx
Personal Services Expenses	**	xxxxx
Supplies and Services Expenses	**	xxxxx
____________________________*(Identify)*		xxxxx

<To record prepayments of supplies and services at year end in addition to those recorded as prepaid assets on STAR.>

* Governmental fund types classify expenditure by function.

** Proprietary fund types classify expense by object code.

Agencies are not required to prepare an adjustment to the “Prepaid Items” account if the total amount of the adjustment to prepaid items is less than $100,000. However, agencies are still required to analyze activity to determine the existence of potential prepaid items.

Step 2 – Report nonspendable fund balance for prepaid assets reported in governmental funds. Prepayments are not current financial resources. Therefore, for governmental funds, agencies should prepare an entry to report nonspendable fund balance for prepaid items established through off system adjusting entries. The amount of the entry should equal the amount of the prepaid items reported in Step 1 above except that any portion of the prepaid assets that is offset by the liability account “unearned revenue”. Proprietary funds do not report nonspendable fund balance.

Fund Balance – Unassigned	xxxx	
Fund Balance – Nonspendable for Prepaids		xxxx

<To report nonspendable fund balance for prepaid assets reported by the agency at year end that were not reported on STAR.>

Prepaid Assets Reporting for Prepaid Insurance Related to Bonds Issued

The State may prepay for bond insurance coverage when issuing bonds (debt). If that occurs, an adjusting entry will be needed to appropriately establish a prepaid insurance asset for governmental activities. In addition, an entry will be needed to amortize the current year cost of the prepaid insurance.

Step 3 – Report prepaid insurance for bond insurance coverage for debt obligations (Governmental Activities and Proprietary Funds)

In the year General Obligation, Special Revenue, or Appropriation bonds are issued, expenditures will be reported for the cost of the prepaid insurance at the <u>fund level of governmental funds.</u> This cost will be reported in a manner similar to other debt issuance expenditures. Section V-13 Bonds presents illustrations of these entries which include issuance costs as a “debt service other expenditure” so we do not present them here.

The Capital Accounting Section is responsible for determining and making the required entries for proprietary funds extracted from the Capital Improvement and Building Trust funds, as well as for the Environmental Improvement fund. Otherwise, DOT, DNR and SCO-FRS accountants are responsible for making required entries for Special Revenue or Appropriation Bond debt service funds, respectively.

<u>Year 1 Reporting</u> To set up a prepaid asset in the year bonds are issued, the following entry should be made for Governmental Activities:

Prepaid Insurance Asset	xxxx	
Functional expenditure		xxxx

<To establish a prepaid asset pertaining to the cost of bond insurance coverage that was expensed at the fund level statements for governmental funds.>

Note: Proprietary funds should set up the prepaid asset as part of their entry to report the receipt of bond proceeds, the establishment of the debt obligation, issuance costs, etc. Debt issuance costs would be reduced (credited) for the amount of the prepaid insurance and prepaid insurance asset increased (debited).

Report prepaid insurance for bond insurance coverage for debt obligations (Governmental Activities and Proprietary Funds (*continued*))

To amortize the cost of the bond insurance over the life of the bonds for governmental activities, the following entry should be made annually until fully depleted:

Functional expense (Transportation, Environmental, e.g.)	xxxx	
Prepaid Insurance Asset		xxxx

<To amortize the prepaid insurance asset pertaining to the cost of bond insurance coverage over the life of the bonds.>

To amortize the cost of the bond insurance over the life of the bonds for proprietary funds, the following entry should be made:

Other Nonoperating Expense	xxxx	
Prepaid Insurance Asset		xxxx

<To amortize the prepaid insurance asset pertaining to the cost of bond insurance coverage over the life of the bonds.>

Annually, governmental activities must re-establish the prepaid insurance asset by making the following entry:

Prepaid Insurance Asset	xxxx	
Net Position		xxxx

<To re-establish the prepaid insurance asset not yet amortized in prior years.>

The amount of the entry for re-establishing the prepaid asset would be the prior year beginning value less the amount amortized in the prior year.

A similar entry to re-establish the asset is *not* necessary for proprietary funds.

General Information

Receivables represent amounts owed to an entity from individuals, firms, corporations, other governmental units, or other GAAP funds including amounts pertaining to legally enforceable claims for taxes, licenses, and other revenue-raising devices. These receivables include amounts which are owed for services provided and goods furnished by the entity before the end of the reporting period, and which can also arise from other operations of the entity (e.g., taxes, grants, fees, fines, loans). Receivables may include unbilled receivables (i.e., future billings) if significant and measurable. Under current policy, if a receivable is outstanding at June 30 and deemed collectible, the receivable should be reported on the financial statements of the fiscal period.

Setting up Accrual Entries versus Reversing Entries

To reduce the risk of errors as well as the amount of work required, agencies should **not** combine the entry to accrue current-year receivables with the reversing entry for the prior year receivables.

Materiality considerations

A strategy for capturing the material portion of entries, while minimizing immaterial work, is necessary to ensure timely issuance of the ACFR. Therefore, materiality must be a consideration when accruing additional receivables and reclassifying existing receivables. Further, the nature of the work, resources required, and impact on other agency staff should also be considered when identifying which ACFR entries will be made.

SCO-FRS AR reports prepared for agency use may be stratified to include only the larger amounts. Agencies are encouraged to take a similar approach for AR not reported in STAR. Agencies should contact SCO-FRS to discuss questions they may have on materiality and a reasonable approach for reporting.

Detailed Reports of Open STAR Accounts Receivable (AR)

SCO-FRS will obtain and analyze detailed information for open accounts receivable from the STAR AR module for all agencies and GAAP funds. The detailed report will be reconciled to the ACTUALS ledger account balance to ensure accuracy. The report will be distributed to GAAP accountants for use in efficiently identifying required ACFR entries.

Agency accountants should determine whether ACFR reclassification entries are needed by reviewing the report. Material amounts owed from other governments should be reclassified to Due from Other Governments. In addition, material amounts owed from other GAAP funds should be reclassified as a Due From Other Fund (DFOF) with the expectation a matching Due To Other Fund would be reported by the owing fund. In general, DFOF amounts are not recorded in that specific account (asset account 1500000) in STAR. Rather they are recorded in a more generic account – often the 1351000 account for AR (Invoiced) necessitating a reclassification entry.

Governmental Funds – Availability of Resources

An important consideration for receivables reported for governmental funds is the "availability" of resources to finance current spending. Under the accrual method, which is used for both the proprietary and fiduciary fund statements, and the government-wide statements, revenue (if *earned* and *measurable*) is recognized at the same time that receivables are reported. (Revenue recognition is discussed in Section III – 4 Measurement Focus and Basis of Accounting).

However, under the modified accrual basis of accounting, which is used for governmental fund statements; it is not enough that revenue has been earned for it to be recognized at the same time the receivable is reported. Rather, receivables must also be *available* to finance expenditures of the current fiscal period (for State purposes, collectible within the next fiscal year) for the related revenue to be recognized. Therefore, governmental fund receivables, such as *trade receivables* (amounts owed by customers for goods or services), that are earned but will not be collected within the next accounting period should be offset by a deferred inflow of resources rather than revenue. Subsequently, when these statements are converted into full accrual for inclusion in the government-wide statements, the deferred inflow of resources would be eliminated and the related revenue recognized. See Section V-47 – Deferred Outflows and Deferred Inflows of Resources for details.

Further, the accounting treatment for certain receivables of governmental funds, such as *loans receivable,* differs significantly. Loans receivable result from an exchange of assets, the collection of which will not be reported as revenue. Therefore, fund balance is reported as nonspendable for the long-term portion of loans receivable, instead of reporting deferred inflows of resources as the offset. This reporting of nonspendable fund balance serves to isolate the portion of equity that is not available to meet the following year's budget needs. The remaining fund balance can then serve as a measure of current available financial resources. If the proceeds from the collection of the loans are restricted or committed, then they should be included in that fund balance category instead. (See Section V – 16 Equity for further information.)

Proprietary Funds – Classified Statement of Net Position

Proprietary funds use the accrual basis of accounting and report their assets and liabilities on a classified statement of net position. That is, assets and liabilities are separated into their current and non-current components and listed in order of liquidity. By definition, a current asset is one that is expected to be converted into cash, sold, or consumed either within one year or in the operating cycle (in the case of the State of Wisconsin these time periods would be the same). Consequently, if material receivables will not be collected within one year they should be classified and reported as noncurrent receivables.

General criteria for reporting the major types of revenues are noted below:

<u>Taxes</u> revenue recognition criteria vary depending on the type of tax. Generally, revenues can be estimated (measured) based upon on actual collection activity and historical performance. Interest on unpaid taxes should be recognized as it accrues over time, and penalties should be recognized as revenue when they are assessed. (For more specific guidelines and instructions see Section V - 19 Taxes.)

<u>Intergovernmental Revenues</u> (e.g., federal grants and aids) which have not been received at the balance sheet/statement of net position date, but for which all revenue recognition criteria have been met, should be reported as receivables. The fund type in which the grant or aid is received determines the appropriate criteria to use for revenue recognition. (See Section V - 18 Grants and Contributions.)

<u>Licenses and Permits</u> revenues are generally not accrued. Revenues from licenses and permits are recorded in the current year when they are collected (cash basis). As such collections in the month of July would typically be recorded in that fiscal year. However, dependent on the nature of the revenue, certain July collections may be accrued and recognized as revenue of the prior fiscal year in the ACFR. (See Section V - 17 Licenses and Permits.)

Charges for Goods and Services and Participant Contributions revenue should be recognized on the accrual basis. That is, the receivable should be established if measurable and contracted goods and/or services have been provided by the end of the fiscal year. Under full accrual (proprietary, fiduciary and government-wide financial statements) the related revenue should be recognized immediately if these conditions are fulfilled.

Under **modified accrual** accounting (governmental fund statements) revenues should be recognized if *available* to defray the liabilities of the current period (i.e. collectible within the coming year). Any revenues that do not meet this criterion are deemed "unavailable" and should not be recognized for the fund financial statements. Instead *deferred inflows of resources* should be credited (this account will be eliminated and the appropriate revenue recognized for the government-wide financial statements).

Investment and Interest Income (e.g., interest and dividends) should be recognized in the period earned. (See Section V - 2 Investments.)

Fines and Forfeitures are monetary penalties imposed by governments against those that commit statutory offenses or violate administrative rules. Generally, revenues from fines and forfeitures are recognized on the cash basis since the amount of revenue is not measurable until the cash is entirely collected. When the cash is collected, revenue is recognized. However, if enabling legislation includes a time requirement on when the cash can be used and the cash is received before this time period, deferred inflows of resources are recognized instead of revenue. Generally, this is not applicable to the State.

Gifts and Donations of financial resources such as cash are generally recognized as revenue when received. Pledges receivable should be recognized and accrued when it is probable that donations will be received.

Miscellaneous Revenues are generally incidental revenues that are recognized in the period collected. Certain revenue source codes under this classification may be accrued if appropriate and material for a particular fund.

Adjustments to Receivables

The receivables reported on STAR, and the trial balance provided to your agency by the SCO-FRS serve as a **starting point** for determining each GAAP fund's total amount of receivables at fiscal year end. Agencies should review these figures to gauge the reasonableness and accuracy of the receivables reported on the ACFR trial balance for your agency/ fund(s). Revisions may be needed to accrue additional receivables, as well as to correct or reclassify the figures on the trial balance at the fund level.

In addition, further adjustments may be needed for the government-wide statements.

Basic procedures to be performed for the fund statements include:

- Review receivables recorded in the current fiscal year on STAR to determine their appropriateness. Identify and reclassify significant receivables that are due from other governments or other GAAP funds.

- Analyze revenues reported early in the ACTUALS ledger in the new fiscal year (e.g. July and August). Identify if additional receivables not included in the trial balance meet the criteria for accounts receivable/revenue recognition in the ACFR.

- Identify if receivables are tracked in a separate non-STAR receivables system and, as a result, are not included in STAR AR receivable balances. Assess if ACFR entries are necessary to report the receivables and revenue in the ACFR.

- Assess the liquidity of receivables. Under modified accrual, all long-term receivables should be established with an offset to deferred inflows of resources for any revenues that are measurable but unavailable. In the case of proprietary funds (full accrual), material long-term receivables (those collectible after a year) should be classified as noncurrent receivables.

- Assess the ultimate collectability of accounts receivable. An allowance account, if appropriate, should be used to reduce the receivable to its expected value. (See Section V – 6 Allowance for Uncollectible Accounts for further guidance.)

Additional procedure to be performed for the Government-wide statements:

- Review long-term receivables that are currently offset with deferred inflows of resources on the governmental fund statements because of the unavailability of revenue (i.e., revenue that is not collectible within the next fiscal year). Eliminate the deferred inflows of resources and recognize revenue as appropriate.

Background

The "Other Receivables" amount, reported on the ACFR trial balances prepared by SCO-FRS, is a summary of account codes 1350000-1499999 and 1590000-1599999 in STAR. More specific receivables (such as taxes receivable, loans receivable, due from other funds, due from other governments) are separately identified by accounting codes (see Section IV – 4 Trial Balances for a complete listing of codes) and are similarly reported under these detailed account titles on the trial balances.

The amount of receivables reported on the trial balance or account balance worksheet should be used as the **starting point** for determining each GAAP fund's receivables at year-end. Various procedures may be necessary to reclassify and/or correct this starting point figure and also to recognize additional receivables, if material. The Accounts Receivable Entry form (see the forms section of the manual) provides examples of most adjustments required.

The ACFR trial balances provided to agencies will report receivable amounts from the STAR ACTUALS ledger. The ACTUALS ledger reports summarized information received from the AR module as well as from other sources. However, the amounts originating from AR will generally be reported in generic accounts receivables accounts on the trial balance rather than the more detailed receivables such as Due From Other Governments or Due From Other Funds, required by GASB standards for ACFR reporting. Material amounts should be reclassified for ACFR reporting purposes.

SCO-FRS Detailed Accounts Receivable Report

SCO-FRS will create a report of open accounts receivable as of June 30th to be used by agencies in identifying whether reclassification entries are needed. AR will be categorized as external customers or internal customers (i.e. due from other state agencies) to assist in identifying amounts Due From Other Governments, Due from Component Units or Due from Other Funds. The detailed AR information for internal customers (state agencies) will be analyzed in conjunction with detailed AP information for internal vendors. SCO-FRS' goal is to match at least some of the Due From Other Funds to the correlating Due To Other Funds. The reports provided to agencies will include customer names, numbers and other fields making it easier to identify if specific types of material receivables exist that should be reclassified.

Agency Procedure A – Review receivables recorded in the STAR AR module to determine whether any corrections or reclassifications are necessary. *(To be performed by all agencies.)*

1. Errors in Coding - Agencies should review the accounts receivable figure provided on the trial balance worksheet by SCO-FRS to gauge the reasonableness and accuracy of the receivables reported as of June 30th for your agency/ fund(s). Significant errors in coding, whether to the wrong balance sheet code that resulted in the amount rolling up to an incorrect financial statement account, or a mistake in the accounting string which caused it to be recorded in the wrong GAAP fund should be corrected with an ACFR entry.

2. Reclassification Entries - Receivables, as reported on STAR, should ideally be recorded at the level of detail needed for the ACFR as illustrated below. While detailed receivable accounts are available to record transactions, not all STAR or agency processes use these receivable types. For example, the "AR (Between Year)" account (Account #1352000) may be used for recording revenues collected after June 30 and recorded in the new fiscal year that relate to the prior fiscal year. In addition, some of these collections recorded to Account #1351000 AR (Invoiced) may relate to amounts due from other governments, taxes receivable, etc. SCO-FRS will provide a detailed open AR report to agencies to efficiently identify the required reclassification entries.

Review your agency's receivable accounts to determine whether reclassifications are needed to break out receivables into the following categories:

a. **Accounts Receivable**:
   - Taxes Receivable
   - Loans to Local Governments
   - Other Loans Receivable
   - Other Receivables

b. **Due from Other Governments**

c. **Due from Component Units**

d. **Due from Other Funds**

The required entries for all funds and agencies:

a. If receivables relate to specific types:

Debit:	W1RECV1 Taxes Receivable	XXX	
Debit:	W1LOAN1 Loans to Local Governments	XXX	
Debit:	W1LOAN9 Other Loans Receivable	XXX	
Credit:	W1RECV9 Other Receivables		XXX

b. If receivables are due from other governmental units such as for federal grants*:

Debit:	W1DFOG0 Due from Other Governments	XXX	
Credit:	W1RECV9 Other Receivables		XXX

* *NOTE*: In general, this account should not be used for receivables due from utilities (for example, receivables of the Utility Public Benefits Fund). Although a portion of the receivables of this fund are due from municipal utilities, in all cases this money is passed through the utility from their customers. As a result, in situations like this, no distinction should be made regarding the amounts due from municipal and private utilities. All receivables should be treated as if they come directly from the customers and be recorded as "other receivables."

c. If receivables are due from component units of more than $100,000:

Debit:	W1DFCU0 Due from Component Units	XXX	
Credit:	W1RECV9 Other Receivables		XXX

d. If receivables are due from other GAAP funds:

1. Make the following reclassification:

Debit:	W1DFOF0 Due from Other Funds	XXX	
Credit:	W1RECV9 Other Receivables		XXX

2. Complete the form for "Note Disclosure - Due from Other Funds/Due to Other Funds" (see pages N9 through N12 of the form section of the manual).

SCO-FRS will reconcile the accounts “Due from Other Funds” and “Due to Other Funds,” based on the information provided by agencies on their note disclosure forms. SCO-FRS will distribute a discrepancy report to those agencies that have larger variances with those reported by another GAAP fund/agency. GAAP accountants who receive the report should contact the other agency(s) involved to resolve the discrepancy(s).

Note for Governmental Funds: Entries to reclassify receivables already reported on STAR do not require an associated entry to reclassify unassigned fund balance to restricted fund balance. This is because SCO-FRS will make an entry to adjust fund balance – restricted for all restricted activity reported on STAR in the General Fund during the fiscal year. Most other governmental funds, except for the Conservation and Petroleum Inspection funds, will report only one category of fund balance (beyond nonspendable).

NOTE: When establishing a material interfund receivable or payable (i.e. Due To Other Fund or Due From Other Fund), an accountant should communicate this information to the other agency(s) involved during the ACFR compilation process, rather than waiting for receipt of the discrepancy report. This makes the process more efficient and eliminates late revisions to the financial statements.

Section III, Sub-Section 6 provides a detailed listing of the code structure for all GAAP funds. This section should be used as a resource aid for identifying other GAAP funds for the reclassification entries.

Procedure B – Identify additional receivables not reported in the ACFR trial balance that meet the criteria for accounts receivable/revenue recognition. *(To be performed by all agencies.)*

In addition to those accounts receivable recorded on the ACFR trial balance, agencies may be aware of the potential existence of *additional* material receivables not recorded in the fiscal year ended June 30th which meet the criteria for accounts receivable and revenue recognition. For example, additional receivables may be associated with a separate non-STAR billing and receivable system maintained by an agency that would not be picked up in the trial balance.

Agencies must consider receivables already reflected on STAR when preparing this entry. This is necessary because receivables recorded on STAR relating to revenues received after June 30th but recorded in the fiscal year ending June 30th may partially duplicate the June 30 receivables recorded by the agency's separate billing system. Off-system receivable collections recorded in STAR after June 30th (i.e. throwback period) should be deducted from the additional receivable entry amount to avoid double counting.

Long-term receivables are not expected to be recorded in the STAR AR module, because the STAR ACTUALS ledger was set up to function with a budgetary focus i.e. modified cash basis. As a result, it is expected that long-term receivables are excluded from receivables reported on the ACFR trial balance because receipts from these assets would not be available to meet short-term liabilities. For GAAP reporting purposes, these receivables must be set up via an entry with a credit to deferred inflows of resources for any revenues that are measurable but not available for governmental funds. Other funds would credit revenue for their entries.

Agencies should identify and maintain accounts receivables *at gross*. That is, receivables should be established and monitored at their full value. An allowance for uncollectible accounts is reported for GAAP purposes by reducing the receivable's gross value through an ACFR adjusting entry that credits the receivable account. See Section V – 6, Allowance for Uncollectible Accounts.

Materiality Considerations

Agencies are not required to prepare the adjusting entry to set up additional accounts receivable if the total amount of the accrual is less than $100,000. *That is, if the amount of accounts receivable, due from other funds, due from other governments, etc. sums to less than $100,000, entries are not required.* Agencies are still required to perform the review of potential accounts receivable to determine the existence of accruals.

The following entries should be used for recognizing additional receivables.

1. ***For Governmental Funds:***

In past years, some agencies combined the entry to accrue receivables with the reversal of the prior year accrual entry. Because of the increased risk of error and work required when taking this approach, **accountants should no longer combine these two entries**. The entries below illustrate the separate entries to be made for the accrual of receivables and reversing entries. A separate entry to reclassify fund balance, as required by GASB 54, is also presented.

a. Accruing additional receivables

Debit:	___________ Receivable Various W1 accts (*Identify*)(a)	XXX	
Debit:	W1DFOF1 Due from Other Funds (a)	XXX	
Debit:	W1DFCU1 Due from Component Units (a) (e)	XXX	
Debit:	W1DFOG1 Due from Other Governments (a)	XXX	
Credit:	Allowance for Uncollectible Accounts Various W1 accts (b)		XXX
Credit:	____________Revenue Various X1 accts (*Identify*) (c)		XXX
Credit:	W6UNAVA Deferred Inflows of Resources (Unavail Rev) (d)		XXX

<To record additional receivables and the related allowance for uncollectible accounts.>

(a) Balance at year-end, net of receivables already recorded on STAR
(b) A separate "Allowance for Uncollectible Accounts" account does not exist. Therefore, the entry for the Allowance should be made directly to the receivable account.
(c) Difference between (a), (b), and (d) above
(d) Amount of long-term receivables that will not be collected within the coming year (Unavailable)
(e) This account should only be used for amounts that equal or exceed $100,000. For amounts of less than $100,000, the debit should be to "other receivables."

Agencies should track receivables as gross; however, a separate "Allowance" ACFR account does not exist. Therefore, the ACFR entry should be made to debit and credit the same receivable account. This means that the composite entry (for agencies reporting on a portion of a fund) or the individual fund financial statements will show receivable accounts as net.

GASB 54 requires that fund balance be reported as restricted if external parties, such as the federal government, can enforce the use of resources for a particular purpose, such as for a federal grant. Therefore, when making accrual entries, consideration must be given to the type of appropriation the receivable will ultimately be reported in. See next entry.

b. Reclassifying fund balance for accrued receivables

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* requires that fund balance be split into five categories (see Section V-16 "Equity"). Agencies will need to consider whether a fund balance reclassification entry is needed if they have made an entry to accrue receivables. If the revenue will be reported in a restricted or committed appropriation when received, a reclassification entry may be needed dependent on the GAAP fund, as described below.

General Fund - Unassigned fund balance is the default fund balance category for the General Fund. If accrued revenue will be reported in a restricted appropriation when received, a fund balance reclassification entry is needed because fund balance will otherwise be reported as unassigned, which would be incorrect. Program revenue – federal (PR-F) appropriations used to report federal grant activity are the most common type of restricted appropriations reported in the General Fund (and some other GAAP funds). Typically the amount reported as Due from Other Governments is related to federal grants. Agency accountants should *only* use the Fund Balance – Restricted account when reclassifying fund balance for the General Fund.

Most governmental funds report either restricted *or* committed fund balance (beyond nonspendable). Therefore, accountants for those GAAP funds will *not* have to complete a fund balance reclassification entry for accruals.

Conservation and Petroleum Inspection special revenue funds may report fund balance in both restricted and committed fund balance accounts. Accountants for those funds will have to determine whether the restricted or committed account should be reclassified which is dependent upon the default fund balance category assigned to the GAAP fund and the specific activity being accrued. For example, if Fund Balance – Restricted was the default category for the GAAP fund, an entry to reclassify accrued receivables would only be necessary for the receivable amounts reported as committed activity. Any receivables that were considered restricted would not require a reclassification to fund balance.

The fund balance reclassification entry to be made in relation to accrued receivables is:

Debit:	W7UNASN Fund Balance – Unassigned	XXX	
Credit:	W7RESTR Fund Balance – Restricted*		XXX
Credit:	W7COMMT Fund Balance – Committed**		XXX

<To reclassify fund balance associated with accrued receivables that will flow though restricted or committed appropriations.>

* General Fund GAAP accountants should typically use only the Fund Balance –Restricted account.

** For use in Conservation and Petroleum Inspection funds only.

c. Reversing prior year accrued receivables

Debit:	____________Revenue (*Identify various X1 accounts*)	XXX	
Credit:	W7UNASN Fund Balance – Unassigned* (General Fund)		XXX
	W7RESTR/W7COMMT Fund Balance – Restricted/Committed**		XXX

<To reverse the additional receivables and the related allowance for uncollectible accounts accrued in the prior year. The reversal should always be made to the GAAP fund's default fund balance category.>

* Fund Balance – Unassigned should always be the account used for reversing entries in the General Fund
** For use in governmental funds other than the General Fund. The reversing entry should always be made to the default fund balance category for the GAAP fund.

The entry above illustrates how the reversing entry for prior year accrued receivables in the General Fund, as well as other governmental GAAP funds, should be made. This entry would be made as part of the entire reversing entry for the fund or agency. For additional information, see Section V-32 Reversing Entries.

2. For Proprietary and Fiduciary Funds:

Note: In past years, some agencies combined the entry to accrue receivables with the reversal of the prior year accrual entry. Because of the increased risk of error and work required when taking this approach, **accountants should not combine these two entries**. The entries below illustrate the separate entries to be made for the accrual of receivables and reversing entries.

a. Accruing additional receivables

Debit:	___________ Receivable (*Identify* Various W1/W2 accts)(a)	XXX	
Debit:	W1DFOF1 Due from Other Funds (a)	XXX	
Debit:	W1DFCU1 Due from Component Units (a) (e)	XXX	
Debit:	W1DFOG1 Due from Other Governments (a)	XXX	
Debit:	X2OTHER Other Expenses (Operating) (b)	XXX	
Credit:	Allowance for Uncollectible Accounts Various W1/W2 accts (c)		XXX
Credit:	____________Revenue (*Identify*) Various X1/X3 accts (d)		XXX

<To record additional receivables and the related allowance for uncollectible accounts>

a. Balance at year-end, net of receivables already recorded on STAR
b. Other operating expenses should equal the allowance amount (c) at the end of the year. However, if the allowance for uncollectible accounts at the beginning of the year exceeded the allowance for uncollectible accounts at year-end, include the difference as a credit to revenue in (d) above.
c. A separate "Allowance for Uncollectible Accounts" account does not exist. Therefore, agencies should make the entry directly to the receivable account.
d. The credit to revenue should equal the sum of accrued receivables (a) plus the decrease in allowance for uncollectible accounts if applicable.
e. Use only if amount equals or exceeds $100,000. For amounts less than $100,000, the debit should be to "other receivables."

Agencies should track receivables as gross; however, a separate "Allowance" account does not exist. Therefore, the ACFR entry should be made to debit and credit the same receivable account. This means that the composite entry (for agencies reporting on a portion of a fund) or the individual fund financial statements will show receivable accounts as net.

f. Reversing prior year accrued receivables

Debit:	____________Revenue (Various X1/X3 accts)	XXX	
Credit:	X2OTHER Other Expenses (Operating)		XXX
Credit:	W7UNRES Net Position – Unrestricted		XXX

<To reverse the additional receivables and the related allowance for uncollectible accounts accrued in the prior year. >

Procedure C – Assess the liquidity of receivables to determine whether all receivables will be collected in time to pay current reporting period liabilities. *(To be performed by all agencies.)*

Governmental Funds – The type of adjustment to be made depends on the kind of receivables involved:

Other/Tax Receivables – In general, under the modified accrual basis of accounting used by governmental funds, receivables that will not be collected during the next accounting period are, by definition, "not available" and should be offset by deferred inflows of resources rather than revenue. For *other receivables,* the term to be used when assessing availability is one year. *Tax receivables* and related revenues are subject to a different measurement of "availability." Per the State's policy, tax revenues must be collectible within 60 days to be considered "available." The following adjustment should be used to reclassify revenues that are currently considered unavailable:

Debit:	X1CHARG Charges for Goods and Services Revenue	XXX	
Debit:	Tax Revenue X1TAX## (6 possible tax revenue accts)	XXX	
Debit:	________________Revenue Various X1 accts (*Identify*)	XXX	
Credit:	W7UNAVA Deferred Inflows of Resource (Unavailable Revenue)		XXX

<To reduce revenue and record deferred inflows of resources
for receivables that are earned and measurable but not available>

Loans Receivable (Loans to Local Governments, etc.) **–** Loans receivable do not provide resources that are readily accessible to meet the next year spending requirements. Therefore, an adjustment is needed to report the portion of fund balance that will not be available to meet the following year's budget needs as nonspendable. If the proceeds from the collection of the loans are restricted or committed, then they should be included in that fund balance category instead. (See Section V – 16 Equity for further clarification on this issue.)

Debit:	W7UNASN Fund Balance, Unassigned	XXX	
Credit:	W7FORM0 Fund Balance, Nonspend Long-term Receivables		XXX

<To report fund balance as nonspendable for long-term receivables>

Proprietary Funds – Enterprise and internal service funds use the accrual basis of accounting for both fund and government-wide reporting. Under accrual accounting, receivable and revenue recognition are essentially identical. Proprietary funds use a classified statement of net position where all assets and liabilities are separated into their current and noncurrent components and are listed by order of liquidity. Consequently, if material receivables are not expected to be collected within one year they should be classified and reported as noncurrent receivables.

Procedure D – Assess the collectability of receivables *(To be performed by all agencies.)*

Agencies must evaluate receivables periodically to determine their collectability and to gauge whether the use of an allowance account would be appropriate. The amount ultimately shown on the balance sheet/statement of net position should be the net realizable value. See Section V – 6 Allowance for Uncollectible Accounts for further guidance on this issue.

Government-wide Statement Adjustment

Procedure E – Recognize Revenues Relating to the Long-term Receivables of Governmental Activities. (To be performed by all agencies with activity reported in the governmental column of the government-wide statements.)

The government-wide financial statements present all non-fiduciary financial and capital resources of the State. These financial statements are presented using the *economic resources measurement focus* and *accrual basis of accounting*. That is, revenues should be recognized in the period in which they are earned and measurable; expenses should be recognized in the period incurred, if measurable. This approach is similar to the measurement focus and basis of accounting (MFBA) used by business enterprises, and presents all assets and liabilities, both current and long-term.

Agencies that report financial information for governmental activities under the modified accrual basis of accounting for the fund statements may be required to provide additional information for the government-wide statements. Specifically, agencies should review their use of deferred inflows of resources in the fund statements. Amounts reported as deferred inflows of resources that are unavailable on the governmental fund financial statements should now be recognized as revenue for government-wide reporting.

Long-term Receivables – Offset by Deferred Inflows of Resources. All valid *receivables* should be recognized for the fund statements. Under modified accrual (the basis used for the governmental fund statements) the establishment of a receivable does not necessitate the recognition of a similar amount of revenue. If, in fact, the revenue will not be collected during the next year it would be inappropriate to recognize the revenue in the current year and instead deferred inflows of resources would be credited. The switch to the accrual basis of accounting for governmental activities expands the time frame for revenue recognition to include all revenues that will ultimately be collected. For this reason, an adjustment is made for the government-wide statements to debit deferred inflows of resources and credit the appropriate revenue accounts.

For example, SCO-FRS has identified long-term receivables associated with taxes (e.g., income, and sales & use taxes administered by the Department of Revenue). For the fund statements, these long-term taxes receivable are offset by deferred inflows of resources because the revenues will not be collected soon enough in the following year to meet the "availability" criteria for modified accrual accounting. In contrast, when the government-wide entries are prepared this revenue should be recognized and deferred inflows of resources eliminated.

Note: Governmental funds can have deferred inflows of resources for reasons other than unavailable resources (e.g. grant advance received before time requirements but after all other eligibility requirements are met). These deferred inflows of resources would remain as such on the government-wide statements. Therefore, it is critical that agencies review the type of deferred inflow of resource before making an adjustment. Agencies should make an entry to eliminate deferred inflows for unavailable revenue.

The journal entry to record this transaction is shown below (*Note that the revenue accounts credited in this entry correspond with those reported on the statement of activities)*:

Debit:	W6UNAVA Deferred Inflows of Resources (Unavailable Revenue)	XXX	
Credit:	X1CHARG Charges for Services Revenue		XXX
Credit:	X3INTOP Operating Grants, Contributions and Restricted Interest		XXX
Credit:	X3INTCP Capital Grants, Contributions and Restricted Interest		XXX
Credit:	Tax Revenue X1TAX## (6 possible tax revenue accts) *(Identify type*		XXX
Credit:	X3CPGNT or X3OPGNT Grants and Contributions that are Not Restricted to Specific Program		XXX
Credit:	X1MISCO or X3MISC0 Miscellaneous Revenues		XXX
Credit:	__________ Various X1/X3 accts *(Identify)*		XXX
Credit:	W7UNRES Net Position – Unrestricted (a)		XXX

<To accrue additional revenue to be reported in the government-wide statements relating to long-term receivables which had been reported with an offset to deferred inflows in the fund financial statements.>

(a) The credit to Net Position – Unrestricted should equal the amount of the deferred inflow in the entry from the prior fiscal year.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2016
SUB-SECTION:	6 - Allowance for Uncollectible Accounts	**REVISION DATE:**	June 30, 2017
SUBJECT:	Policy	**PAGE:**	1 of 1

Whenever sales or services are provided on any basis other than cash there is a real possibility that not all receivables will be collected. Consequently, unless some action is taken to reflect this impairment, assets and revenues will be overstated for the period. As a result, a mechanism is needed to show receivables at **net realizable value** – the net amount **expected** to be received in cash, which is not necessarily the amount legally receivable.

The *allowance for uncollectible accounts* is a contra asset valuation account used to indicate the portion of receivables not expected to be collected. The same recognition criteria used to identify contingent liabilities apply to determining whether an allowance for uncollectible receivables should be established:

- It is probable that an asset has been impaired, and
- The amount can be reasonably estimated.

Receivables outstanding at the balance sheet/statement of net position date must be evaluated as to their collectability and an appropriate allowance for uncollectible accounts established if warranted.

Agencies should prepare GAAP adjusting entries to recognize the allowance for uncollectible accounts receivable by following the guidance provided in the example illustrated in Section V – 6 "Allowance for Uncollectible Accounts – Procedure" of this manual. Agency accountants may create their own entry or use the *Accounts Receivable Form* (located in the fund entry workbook) to prepare this adjustment.

Agencies should make receivable entries as gross; however, a separate “Allowance” account does not exist for ACFR reporting. Therefore, agencies should make the receivable entry by debiting and crediting the same receivable and revenue accounts. These agencies will then present the composite entries and financial statements as net. See the example entries and statements in the procedure section.

The allowance for uncollectible accounts is a contra asset valuation account used to indicate the portion of receivables not expected to be collected. Receivables are recorded at face value (the amount due). Showing this amount on the balance sheet/statement of net position would be misleading if a substantial portion of the receivables is not collectible. Consequently, receivables should be valued and reported at net realizable value. That is, the amount expected to be received in cash.

Agencies must evaluate all outstanding receivables at the balance sheet/statement of net position date to determine their collectibility and to judge whether the use of an allowance account would be appropriate. The amount determined to be uncollectible should be calculated based on past collection experience and practices relating to your agency's particular types of receivables.

Aging of Receivables

In order for an agency to estimate the collectibility of its receivables and properly focus collection efforts, each outstanding receivable due the State must be "aged" relative to its formal due date. A receivable is considered "current" (not past due) up to its formal due date. When a debtor's due date passes without full payment; the debt becomes "past due" and must be aged according to the number of days beyond the due date that the debt has been outstanding.

The aging of accounts receivable provides an indication of whether an asset (receivable) has been impaired. This occurs because, as receivables age, the probability of collecting the full debt declines. For purposes of aging and reporting outstanding receivables, the following sample aging periods could be used:

Past due:	1 - 30 days
	31 - 60 days
	61 - 90 days
	91 - 180 days
	181 – 365 days
	Over one year

If these aging periods do not serve your agency's needs, other reasonable aging periods may be used.

Estimating Collectibility

The allowance for uncollectible accounts represents your agency's best estimate of the amount of outstanding receivables that ultimately will not be collected.

The method for estimating the uncollectible portion of receivables will vary by agency and by type of receivable. Generally, the estimate will be based upon the collection experience of the agency, the age of the receivables and the agency's collection efforts. As receivables age, the probability of collection normally declines. If follow-ups are not done at least monthly, the probability of collection declines drastically. Consequently, collection rates could vary tremendously between agencies. Each agency should examine its own collection history for the various types of receivables it records to establish guidelines for accurately estimating uncollectible amounts.

Sample Procedure for Estimating Uncollectible Accounts

Aged Receivables Summary (for sale of products)*:

Aging	Accounts Receivable	Percent Uncollectible#	Estimated Uncollectible
Current	$510,000		
Past Due:			
1- 30 days	340,000	3%	$10,200
31- 60 days	118,000	8%	9,440
61- 90 days	36,000	15%	5,400
91-180 days	14,700	30%	4,410
180–365 days	5,100	50%	2,550
Over 1 year	2,300	80%	1,840
	$1,026,100		$33,840

* Each type of receivable should be analyzed separately.
# Based on each agency's collection experience for each type of accounts receivable.

In this example, the application of historical collection rates to the aged receivables schedule results in an estimated allowance or provision for uncollectible accounts totaling $33,840.

The adjusting entry needed under these circumstances would be:

Charges for Goods & Services Revenue (a)	$33,840	
Accounts Receivable (b)		$33,840

(a) Would be ACFR reporting account X1CHARG.
(b) Would be to the receivable account (or equivalent roll-up) that was used to establish the receivable. There are numerous ACFR receivable accounts that could be used. Accountants are unlikely to use the Due From Other Funds or Due From Other Governments, as those receivables should not have significant delinquencies.

Financial Statement/Composite Entry Reporting

Receivable entries should be made as gross; however, the financial statements can show receivable as gross or net, depending on the reporting tool used.

The following sample receivable section shows how the allowance account could be presented if financial statements are prepared outside of PeopleSoft.

Receivables:	
Taxes	$565,000
Allowance for Uncollectible Accounts	(26,270)
Other Receivables	10,261,100
Allowance for Uncollectible Accounts	(33,840)
Due from Other Funds	124,400
Due from Other Governments	378,230

The following sample receivable section shows how the allowance account should be presented if GAAP conversion is done in PeopleSoft.

Receivables:	
Taxes	$538,730
Other Receivables	10,227,260
Due from Other Funds	124,400
Due from Other Governments	378,230

The *Wisconsin Accounting Manual* provides guidance for recording and tracking capital expenditures and assets in the State's central accounting system, STAR. Specifically, *Section 06-04 Capital Expenditures* identifies how expenditures are to be recorded for budgetary purposes in the ACTUALS ledger. *Section 16-03 Capital Assets* identifies how the Asset Management module is to be used to track assets.

This document identifies how capital assets will be reported in the ACFR in accordance with GAAP. Data pertaining to capital assets will be obtained from the STAR Asset Management module, including entries which are pushed to the STAR CAFR ledger. The CAFR ledger will be used to create the State's ACFR.

CAPITALIZATION POLICY

Capital assets should be capitalized when the following criteria are met:

- The asset is *tangible or intangible* in nature, complete in itself, and is not a component of another item,
- The asset is used in the operation of the State's activities,
- The asset has a useful life of more than one year and provides a benefit throughout that period, and
- It is a tangible asset with a unit cost of $5,000 or an intangibles asset with a unit cost of $1.0 million or more (except for purchased software installed *without* modification which is capitalized if it has a unit cost of $5,000 or more).
- If a Capital Improvement or Building Trust fund capital project has a budget of less than $100,000 agencies may opt to automatically expense the project.

Reporting CAPITAL Assets

The term "capital assets" includes tangible assets such as land, land improvements, buildings, building improvements, vehicles, machinery, equipment, and infrastructure (the Department of Transportation is responsible for the reporting of infrastructure capital assets). Intangible assets such as software, rights associated with land (e.g. water, mineral, or timber rights), easements, patents, trademarks, and copyrights are also considered capital assets.

On the government-wide financial statements, capital assets are reported as assets on the Statement of Net Assets for both governmental and business-type activities. On the fund statements, capital assets of governmental funds are not shown as assets, but rather as expenditures when purchased.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2021
SUB-SECTION:	7 – Capital Assets	**REVISION DATE:**	June 30, 2022
SUBJECT:	Policy	**PAGE:**	2 of 19

Capital Asset Categories (Classes)

To fully disclose capital asset activity, the following asset classes will be used to report tangible and intangible assets:

1. Land, Land Improvements and Associated Intangible Assets (rights, easements)
2. Buildings and Improvements
3. Machinery, Equipment, Vehicles and Software in Use
4. Construction and Software in Progress
5. Infrastructure

1. <u>Land and Land Improvements (including associated intangible rights)</u>

   Land - All land purchased or otherwise acquired by the State. Purchased land should be carried on the books at cost (purchase price or construction cost) plus any additional costs to place the capital asset in its intended location and condition for use. With the implementation of GASB Statement No. 72 in FY 2016, donated assets are to be reported at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction (i.e. an entry price). Application of this requirement is prospective only. Assets donated before July 1, 2017, were reported at fair value (appraised market value) at the time of its donation and need not be re-valued.
   Land Improvements - Infrastructure type which consist of items such as costs incurred for paving (roadways, walks, parking lots, etc.), lighting systems, sewer, water and electric, fencing, and similar items typically defined as infrastructure, will be capitalized as land improvements provided that these items are directly related with an asset and they are incurred as a result of increasing the existing level of service of the land. Additional examples of land improvements are culverts, yard lighting, landscaping and other site improvements.

   Illustrations include the addition of a roadway within a park to provide park users additional access to other facilities located within the park itself, or paving of a parking lot to provide for additional parking stalls to allow more citizens access to park facilities.

   Intangible rights – ownership of land comprises a “bundle of rights” included within are the rights to control the use of the property and to benefit from it. Intangible property rights should be reported in the land and land improvements category and include rights such as water, timber, mineral, and easement rights.

2. <u>Buildings and Improvements</u>

   Buildings and Improvements - Include the value of all buildings at purchase price or construction cost (including all charges applicable to the building, which includes capitalizable costs at and subsequent to asset acquisition) as discussed in a later section of this policy.

3. <u>Machinery, Equipment, Vehicles, and Software in Use, Other Intangible Assets</u>

   Machinery, Equipment, and Vehicles- Include costs of computer equipment, vehicles, delivery equipment, office equipment, machinery, furniture and fixtures, furnishings, and similar items. This category contains property that does not lose its identity when removed from its location and is not changed materially or expended in use.

Software in Use - Software that meets capitalization criteria and was in use during the fiscal year (i.e., if the software was internally generated it was complete) should be included in this category of capital assets. Additional guidance on what costs to include in internally generated software is included in the intangible assets guidance starting on page 10 of this section of the GAAP Manual.

Other Intangible Assets – Besides software, other intangible assets not reported in the three other capital asset categories will be included in the Machinery/Equipment asset category unless significant in amount. Examples of other intangible assets might include patents, trademarks, copyrights, etc. Intangible assets significant in amount in relation to other capital assets should be reported separately.

4. Construction-In-Progress/Software-In-Progress

Construction-In-Progress (CIP) - Contains amounts expended on an uncompleted building or other capital construction project. Software-In-Progress includes amounts expended on uncompleted software projects.

Valuation of Capital Assets

Capital assets may be acquired through direct purchase, exchange or by donation/gift.

Direct Purchase - Capital assets will be accounted for at cost or, if the cost is not practicably determinable, at estimated historical cost. The cost of a capital asset includes not only its purchase price, but also ancillary charges necessary to place the asset in its intended location and condition for use. Estimated costs for assets may be necessary because of a lack of original documents or because establishing original cost is not practicable.

Exchange of Assets with External Parties - The general rule under GASB 62 – Nonmonetary Transactions is that nonmonetary exchanges be recorded based on the fair value inherent in the transactions (similar to monetary transactions). Therefore, the cost of a capital asset acquired in exchange for another non-monetary assets is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. This might occur, for example, when the Board of Commissioner of Public Lands or the Department of Natural Resources enter into land exchanges with external entities.

Donated Capital Assets Received from External Parties – These assets will be recorded at their acquisition value at the time received if received from an external party. By definition, external parties are not included in the ACFR reporting entity.

Obtaining Capital Assets from Another State Agency/GAAP Fund/Component Unit – When capital assets are purchased, exchanged or donated *within* the ACFR Reporting entity (i.e., *between* state agencies, GAAP funds, or component units), the transferee should recognize the assets received at the carrying value of the transferor (per GASB 48, para 15).

CAPITALIZABLE COSTS ASSOCIATED WITH ASSET ACQUISITIONS

1. Capitalizable costs associated with land acquisition that should be included in the original capitalizable cost of the land include (not all-inclusive):

   - Land

     - Original contract or purchase price.
     - Brokers' commissions.
     - Closing fees, such as title search, and legal fees.
     - Real estate surveys.
     - Grading, filling, draining, clearing.
     - Demolition costs (e.g., razing of an old building).
     - Assumption of liens or mortgages.
     - Judgments levied through suits.

2. Capitalizable costs associated with building acquisition that should be included in the original capitalizable cost of the building include:

   - Buildings
     - Original contract price of construction.
     - Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for its intended purpose.
     - Excavation, grading or filling land.
     - Design and supervision costs.
     - Building permits.
     - Legal and architectural fees.
     - Insurance costs during construction phase.

3. Capitalizable costs associated with machinery and equipment acquisition that should be included in the original cost of machinery and equipment include (additional guidance on what costs to include in internally generated software is included in the intangible assets guidance starting on page 10 of this section of the GAAP Manual):

   - Machinery and Equipment
     - Original contract or invoice price.
     - Freight, import duties, handling and storage costs.
     - Specific in-transit insurance premiums.
     - Taxes imposed on the purchase, if applicable.
     - Assembling and installation costs.
     - Reconditioning costs related to used equipment to make it available for its intended use.

Not all expenditures incurred relating to placing an asset in its intended use should be capitalized. The following are types of expenditures that should **not** be capitalized.

- Cost relating to the removal or demolition of buildings, structures, equipment or other facilities. Two exceptions are as follows:

    1. Cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention or removal or demolition to accommodate its intended use (such cost is considered part of the land).

    2. Cost to remove or demolish a building or structure with the intention of replacing the old asset (such costs are considered a cost of the new asset).

- Cost incurred on assets that are ultimately not purchased (e.g., surveying, title searches, legal fees, etc. on land not purchased;
- Interest costs during construction of assets.
- Extraordinary costs incidental to the construction of fixed assets such as those due to strike, flood, fire or other casualties; and
- Cost of abandoned construction.

Costs Subsequent to Acquisition

Costs, greater than or equal to $5,000, incurred to achieve greater future benefits (e.g., improves efficiency, or materially extends the useful life of the asset, etc.) should be capitalized, whereas expenditures that simply maintain a given level of service should be expensed. Generally four major types of costs subsequent to original construction are incurred relative to existing capital assets.

1. **Additions** (extensions, enlargements or expansions). Any addition to a capital asset should be capitalized since a new asset has been created. For example, the addition of a wing to a hospital or the addition of an air conditioning system to an office building increases the service potential of that facility and should be capitalized. Other examples of additions include:

    - an elevator or dumbwaiter
    - fire alarm systems
    - security windows
    - sprinkler systems (internal)
    - acoustical treatment

    However, costs related to changes occurring to the existing structure (e.g., removal of a wall to add a new wing) as the result of the addition will have to be evaluated to determine whether the change should be included in the cost of the addition or simply expensed. If the addition had been planned since acquisition of the asset, then the cost of removal of the wall is a proper cost to be included in the cost of the addition. However, if the addition had not been anticipated, the cost associated with the wall removal should be expensed.

2. **Improvements and replacements**. The distinguishing feature between an improvement and a replacement is that an improvement is the substitution of a better asset -- having superior performance capabilities -- (e.g., a concrete floor for a wooden floor) for the one currently used, whereas a replacement is the substitution of a similar asset (a wooden floor for a wooden floor).

   In both of these instances agencies should determine whether the expenditure increases the future service potential of the capital assets, or merely maintains the existing level of service. When the determination is made that the future service level has been increased, the new cost is capitalized.

   For additions and improvements the carrying amount of the old assets and associated accumulated should be removed, if the amount is known. The cost of the new asset should be capitalized. If the original cost and accumulated depreciation are not known, capitalize the additional cost.

3. **Reinstallations and rearrangements**. These are costs that will benefit future periods but do not represent additions, replacements or improvements. If the original installation cost can be estimated, along with the accumulated depreciation to-date, the cost may be handled as a replacement and Paragraph 2, above, should be followed. Where the original cost is not known, the reinstallation or rearrangement cost should be capitalized.

4. **Repairs** (Ordinary and Major). Repairs maintain the capital asset in its original operating condition.

   Ordinary repairs are expenditures made to maintain plant assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment adjustments, that are needed to maintain the asset so that it continues to provide normal services should not be capitalized but rather charged to an expense account. Ordinary repairs should be expensed.

   Major repairs are relatively large expenditures that benefit more than one operating cycle or periods. If a major repair, e.g., an overhaul, occurs that benefits several periods and/or extends the useful life of the asset, then the cost of the repair should be handled as an addition, improvement, or replacement, depending upon the type of repair made.

   Examples of repairs include:

   - roof and/or flashing repairs
   - window repairs and glass replacement
   - tuck pointing
   - painting
   - masonry repairs
   - floor repairs

Depreciation

Depreciation is the concept of allocating the cost of assets, having a life of two or more accounting periods, over the benefited accounting periods. Amortization may be used to describe the same concept but is usually associated with intangible assets.

Capital assets, whether tangible or intangible, should be depreciated over their estimated useful lives. These assets should be reported net of depreciation, although accumulated depreciation must be disclosed in the notes. Capital assets not being depreciated should be reported separately. The accounting principles relative to depreciation methods and asset lives will be disclosed in the ACFR.

Calculating Depreciation

Profiles have been establish in the STAR Asset Management module. Profiles establish standard useful lives for capital assets as well as depreciation methods that are used for depreciation calculations. STAR profiles use straight-line depreciation for all assets, except airplane engines, which will use the units of production (flight hours) method. STAR applies depreciation on a monthly basis beginning when the asset is placed in service (inclusive of the month the asset was placed in service). For example, an asset with an in-service date in October would generate entries in the CAFR ledger for depreciation expense and accumulated depreciation for October through June of the fiscal year.

State agencies shall use asset profiles as established by the State Controller's Office for depreciating assets that are acquired July 1, 2017 and after. The Department of Health Services and Department of Veterans Affairs shall use depreciation schedules issued by the American Hospital Association, when necessary, to comply with regulatory requirements for their care facilities.

Agencies should contact staff in the Financial Reporting Section prior to establishing useful lives or using depreciation methods that differ from those provided in the STAR profiles. Profiles allow for efficient and consistent establishment of capital assets in the Asset Management module. Not using the profiles requires manual intervention by agencies. As a result, there should only be limited circumstances when the profiles are not used for assets acquired by state agencies.

STAR profiles establish the following useful lives:

Class	Useful Lives (in years)
Land	Not Applicable
Land Improvements	10 - 15
Buildings and Improvements	15 - 40
Machinery, Equipment, Hardware, and Software	3 - 25
Fleet	5 - 25
Airplanes (and parts)	6 – 40

A more detailed listing of profiles and associated useful lives has been included as **Attachment C**.

STAR CONVERSION IMPACT ON CAPITAL ASSET USEFUL LIFE

Capital assets, as reported in the FY 2015 ACFR, were uploaded to STAR AM through a conversion process. The remaining depreciable value of converted assets is spread over the remaining useful life per the assigned STAR profile. Because the useful life of the assigned profile may differ from the useful life used prior to July 1, 2017, depreciation schedules may differ. Some converted capital assets with a remaining depreciable value had zero remaining useful service months (per the STAR profile) at the point of conversion. Other converted assets may have a depreciation schedule with a longer useful life than previously calculated, resulting in lower monthly depreciation expenses. Per GASB guidance, the change in a useful life, which results in recalculating depreciation, is a change in an estimate and should be reported by adjusting the current and future year depreciation expense, but not restating the beginning-of-year accumulated depreciation.

IDLE BUILDINGS

Idle buildings should <u>not</u> be depreciated. This policy excludes, however, those idle buildings that are considered to be impaired and, therefore, are required to follow the guidance of GASB 42.

An example of an idle (unimpaired) building that would not be depreciated would be a one that has been built or purchased but still remains unoccupied at year-end (and that has not experienced a change in manner or expected duration or other indicator that would suggest impairment). Buildings purchased as an investment would also not be depreciated.

To be considered "idle", buildings should be vacant for at least one year. Also, this policy need only apply to buildings having a significant value.

SYSTEM ASSETS

Capital asset components that have a unit cost ***under*** $5,000 should be capitalized if they are originally acquired as part of a system or added to a system and the system cost equals or exceeds $5,000. A system is defined as a group of interacting, interrelated, or interdependent components forming a whole. For example, modular furniture which includes the partitions, the work surface, the filing cabinets, and the shelves that comprise an office cubicle would be considered a system. While individual components may be valued at less than $5,000, together all the components of the modular furniture constitute a system.

The logic behind capitalizing each individual component as part of the entire system is that the component, standing alone, cannot function or serve its intended purpose by itself. Any components subsequently added to a system should be capitalized as part of the entire system.

DETERMINING FUND TO REPORT CAPITAL ASSETS

All capital assets must be assigned a fund number. The fund used to acquire the asset will generally be the fund assigned except for capital assets acquired through the Capital Accounting projects funds and in other limited circumstances.

If, when determining which individual fund should be used to report a capital asset, the substance of the acquisition of the capital asset is unclear (e.g., who has title, which fund originally acquired the asset and how it was acquired, etc.), the intent of acquisition rather than the financing arrangement should be used as the decision basis.

For example, if a proprietary fund utilizes space/room(s) within a facility for the sole purpose and benefit of the fund and it is unclear as to whether the proprietary fund should capitalize the space/room(s), the proprietary fund should evaluate capitalization using the above "intent" criteria. That is, if the facility was acquired with the original intent of providing space/room(s) for the proprietary fund, then the proprietary fund should capitalize the space. However, if the original intent of acquisition of the facility did not include providing space/rooms(s) to the proprietary fund, then the space/room(s) would be included in the capitalization of the entire facility.

If the proprietary fund capitalizes the space/rooms(s), the amount to be capitalized will be based upon a square footage allocation method. For example, if a proprietary fund occupies approximately 10 percent of a total facility, then 10 percent of the facility should be allocated to the proprietary fund.

To further illustrate the "intent" policy, assume a capital asset, which was originally acquired by the General Fund, was provided to a proprietary fund for its exclusive use and benefit. The intent of the acquisition by the General Fund was to provide the proprietary activity an asset for its exclusive use. Although the General Fund is paying debt service, the proprietary fund will capitalize and report the capital asset.

In some instances, implementation of this policy may be difficult due to the unique nature of the acquisition. In these cases, ***professional judgment should be exercised in determining whether the efforts outweigh the benefits derived from applying capitalization.***

Due professional care should be exercised to ensure that the asset is not capitalized in both the General Fund and the proprietary fund. It is the responsibility of the proprietary fund to ensure that the asset is not capitalized by both funds.

Completed capital assets should *never* be reported as assets of the Capital Improvement (36300) or Building Trust (36300) funds. These are capital projects funds which serve as a mechanism to report annual financial activity. As a result, they cannot “own” completed capital assets.

LEASED AND SUBSCRIPTION-BASED IT ASSETS

Capital assets include right to use assets acquired, in substance, through non-cancelable leases and subscription-based IT arrangements. Leased capital assets are accounted for in accordance with GASB 87 - Leases, while subscription-based IT arrangements are accounted for in accordance with GASB 96. Section V - 10 of the GAAP Manual discusses the policies and procedures relating to leases and SBITAs.

INTANGIBLE ASSETS

Background and Definition

GASB 51 *Accounting and Financial Reporting for Intangible Assets* was effective for financial statements for periods beginning after June 15, 2009 (FY 2010 for the State of Wisconsin). Prior to GASB 51, a written policy for internally generated software and other intangible assets did not exist due to the lack of cohesive accounting guidance. Existing capital asset guidance in relation to useful life, amortization, capitalization of historical cost, etc., also generally applies to intangible assets.

Intangible assets consist of assets such as computer software, licenses, easements, water rights, timber rights, patents, and trademarks. GASB 51 paragraph 2 defines them as assets that:

1) lack a physical substance;
2) are nonfinancial in nature;
3) have a useful life extending beyond one year; and
4) are not acquired or created primarily for the purpose of directly obtaining income or profit.

Materiality Threshold

Intangible assets are *not* valued separately from their tangible counterpart. Rather, the entire asset should be reported in the applicable tangible asset reporting category under the premise that property rights of assets are obtained as a “bundle of rights”. For example, if an easement is obtained at the same time as land is purchased, the entire cost should be reported as land; the intangible and tangible portions of the asset would not be separated.

Minimum thresholds for reporting of intangible assets in the Annual Comprehensive Financial Report (ACFR) are as follows:

Category	Amount
Internally generated assets such as software, copyrights, trademarks, or patents	**$1.0 million**
Purchased or externally acquired intangible assets* (except purchased software)	**$1.0 million**
Purchased software**	**$5,000 (no change from past policy)**

* This applies only to intangible assets acquired separately. As noted, intangibles acquired as part of a tangible asset are *not* reported separately.

** A minimum capitalization threshold of $5,000 was established for purchased or leased software several years ago. Purchased software is software that is bought “off-the-shelf” and installed for use without change. Under paragraph 9 of GASB 51, purchased software that is modified using more than minimal incremental effort is considered “internally generated”. In that case, the threshold established for internally generated assets should be applied.

Agencies may establish lower minimum reporting thresholds for intangible assets if, in their professional judgment, lower levels would be more appropriate. For example, agencies that issue stand alone financial statements, such as Lottery or State Fair Park, may wish to establish lower reporting thresholds. Please consult with SCO-FRS if you intend to implement a lower threshold.

Useful Lives

Some intangible assets may have indefinite lives while others may have indeterminate useful lives. Assets with *indefinite* useful lives, e.g. obtaining a perpetual property easement, are not amortized. *Indeterminate* useful lives occur when an agency is unsure how long an asset may be used (such as might occur with software). In those cases, existing STAR profiles for amortization of those assets should be followed. In some cases professional judgment may be needed to determine an estimated useful life and SCO-FRS staff should be contacted for further guidance.

Software – Internally Generated

State agencies either acquire or develop computer software for agency use. Costs to acquire commercially available software requiring no modification may be capitalized once the state agency has purchased or licensed the specific software (following the $5,000 capitalization threshold). This is considered “externally acquired” or purchased software. Agencies may also commence projects to create their own software, i.e. internally generate it. “Internally generated” software is created in two ways:

- Commercially available software is purchased and modified to meet the agency’s specific needs. Under GASB 51, software requiring more than minimal incremental modification efforts prior to being placed into operation results in software being classified as “internally generated”.
- Agency personnel, or external parties under contract with the agency, complete the work required to create and implement the software.

The determination of whether software is categorized as purchased or internally generated has an impact on the minimum reporting thresholds vary ($1.0 million for internally generated vs. $5,000 for purchased).

Under the provisions of GASB 51, not all costs associated with the development of internally generated software qualify for capitalization. The activities involved in developing and installing internally generated computer software can be grouped into the following three stages which determine whether costs are expensed or capitalized:

1. *Preliminary Project Stage*. Outlays associated with activities in the preliminary project stage should be expensed as incurred. Activities in this stage include:

   - Conceptual formulation and evaluation of alternatives, e.g. evaluating whether the programmers should develop new software, direct their efforts to correcting existing software or purchase new;
   - Determination of the existence of needed technology, e.g. determining the performance and system requirements; and
   - Final selection of alternatives for the development of the software, e.g. selection of vendors and consultants.

2. *Application Development Stage*. Outlays associated with the application development stage should be capitalized. Activities in this stage include:

   - Design of the chosen path, including software configuration and software interfaces;
   - Coding;
   - Installation to hardware; and
   - Testing, including the parallel processing phase.

3. *Post-Implementation/Operation Stage*. Outlays associated with the activities in the post-implementation/operation stage should be expensed as incurred. Activities in this stage include:

◦ Application training; and
◦ Software maintenance.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage. **Attachment A** contains an illustration of costs to be capitalized for an internally generated software project.

Outlays incurred related to the development of internally generated computer software should be capitalized only when *both* of the following occur:

1. The activities noted in the *preliminary project stage* are complete; *and*
2. Management implicitly or explicitly authorizes and commits to funding, at least currently in the case of multiyear project, the software project.

Professional judgment will be necessary in determining both of the above. GAAP accountants will likely find it necessary to consult with agency information technology staff and management in making those determinations.

Because State agencies may have followed different policies for capitalizing what is considered to be internally-generated software under GASB 51, the following guidance is provided on what costs to capitalize after July 1, 2009:

Description of Software	Procedure
Software in use as of 6/30/09 but was *not* capitalized	Capitalize additional costs if estimated improvements exceed \$1.0 million and if they extend life or service capacity of software by more than 1 year
Software in use as of 6/30/09, was capitalized and cost more than \$1.0 million	Capitalize additional costs if improvements extend life or service capacity of software by more than 1 year
Software in use as of 6/30/09, was capitalized but cost less than \$1.0 million	Keep asset on books as capital asset as long as asset is in use. Do not capitalize additional costs unless they exceed \$1.0 million.

Paragraph 8 of GASB 51 states that capitalization of costs should only occur upon determination of specific project objectives, demonstration of the feasibility to complete the project, or current intention to complete the project, etc. Because it may be unreasonable or impossible to ascertain when those criteria occurred for projects begun in past years, it is not expected that governments would be able to do so. Therefore, July 1, 2009 becomes the starting point for capitalization of costs.

Upgrades, Enhancements and Modifications

Consistent with capitalization criteria for tangible capital assets, outlays related to upgrades, enhancements and modifications that increase the capacity or efficiency of the software, or materially extend the useful life of the software should be capitalized. The guidance provided in the table above should be followed when determining which costs to capitalize for internally generated software.

Impairments

The Governmental Accounting Standards Board (GASB) issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which established accounting and financial reporting standards for a capital asset that has experienced a *significant*, unexpected decline in its service utility.

Infrastructure TYPE COSTS (Land improvements)

Infrastructure assets typically are defined as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit.

Certain infrastructure type costs (roadways, walks, parking lots, lighting systems, fencing, etc.) are technically considered land improvements and are directly related to a capitalizable asset -- land. However, infrastructure type costs for purposes of this policy *do not* include State highways, curbs, gutters, etc., constructed by the Wisconsin Department of Transportation (WisDOT).

For example, a State highway constructed by the WisDOT leading to a State Park would not be included in infrastructure type costs; however, roadways, walks, parking lots, etc., constructed within the State Park would be considered infrastructure type costs.

Infrastructure type costs will be reported provided that one of the following criteria are met:

- costs incurred are directly related to preparation of land for its intended use and, therefore, should be capitalized, or

- costs incurred are directly associated with an existing asset (land) and the costs satisfy the capitalization criteria as a cost subsequent to acquisition of an asset (land).

These infrastructure type costs will be categorized as land improvements and reported under Land and Land Improvements. Individual funds will have to evaluate land improvements to determine whether the costs incurred should be included in the original capitalizable cost of land, capitalized as a cost subsequent to asset acquisition, or expensed as a current period expenditure.

Infrastructure Capital Assets (WisDOT Reporting)

The State will report infrastructure capital assets (roads, bridges and buildings considered an ancillary part of roads) using the modified approach. Under this method infrastructure capital assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve its infrastructure assets at a condition level established and disclosed by the State. All infrastructure capital assets constructed prior to July 1, 2001 are recorded at estimated historical cost.

INTEREST COST BEFORE END OF CONSTRUCTION PERIOD

Interest costs associated with capital assets that are reported in (1) ***governmental funds*** or (2) ***internal service funds*** reported as part of governmental activities in the government-wide financial statements will not be capitalized and reported in the statement of net assets. (GASB Statement No. 37 eliminated the capitalization of construction-period interest requirement on capital assets used in governmental activities, which was superseded by GASB Statement No. 89, paragraphs 4-5, but no there are no changes to governmental or internal service funds.)

Enterprise funds Starting in FY 2021, with the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, the State is required to expense interest cost incurred before the end of a construction period, rather than capitalizing it as part of the cost of the asset. This statement is applied on a prospective basis. Therefore, interest capitalized prior to FY 2021 should remain capitalized and only interest costs incurred in FY 2021 will no longer be capitalized. Rather those costs will be expensed as incurred.

Prior to FY 2021, the State followed the guidance of GASB 62 – *Capitalization of Interest Costs* (para. 5-22) in determining whether or not to capitalize such costs and by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Only interest associated with debt to be paid by the enterprise fund was capitalized. Therefore, unless the debt was expected to be funded by the enterprise fund, it was considered general long-term debt, and construction-period interest was not included in the cost of the capital assets constructed.

Collections of Works of Art and Historical Treasures

Collections of works of art, historical treasures and similar assets are defined as one or more items (a) on public exhibition, (b) used in furtherance of historical education, or (c) involved in advancement of artistic or historical research. Collections range from memorabilia on display in the Wisconsin Veterans Museum, the State Historical Society Museum, and other museums, to buildings (e.g., Villa Louis mansion, Carriage House, Fur Trade Museum located at the Villa Louis historical site). This also includes works of art or historical treasures on display in the various State office buildings (e.g., Gromme paintings in the DOA Administration Building), as well as statues on display, such as those statues outside the Capitol. Administrative type buildings not considered part of a collection of buildings (for example, a visitor's center or storage facility at a historical site such as Villa Louis or the building housing the Wisconsin Veterans Museum) will be capitalized using the general policy on building capitalization.

In general, collections will not be capitalized. However, if any of these collections are already capitalized at June 30, 1999, they shall continue to remain capitalized and all additions to those collections shall be capitalized. The STAR profile used for art and historical treasurers (NCAP_ART) is a non-capitalized profile. For collections not capitalized, footnote disclosures will consist of a description of the collection(s) and the reason(s) these assets are not capitalized. For collections that are capitalized, the State will include those items in the disclosure requirements relating to all capitalized assets.

It is the responsibility of each agency to identify collections of works of art, historical treasures and similar assets and report them, accordingly. The agency shall contact the SCO-FRS if assistance is needed in determining whether or not works of art, historical treasures or similar assets should be considered a collection and how to apply the above policies.

Inexhaustible Capital Assets

An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. Land and certain land improvements are inexhaustible capital assets and, therefore, not depreciated.

Certain of the State's capital assets have qualities, which would categorize them as possessing characteristics qualifying them as inexhaustible. That is, the capital asset has cultural, aesthetic, or historical value and the capital asset's service potential is being protected and preserved essentially undiminished. For example, the Capitol Building has cultural and historical value and is maintained, restored and repaired on an ongoing basis extending its service potential and useful life for an extraordinarily long period of time.

Regardless of whether these capital assets are classified as works of art or historical treasures the State will (a) consider certain capital assets to be inexhaustible, and (b) therefore, not depreciate the capital asset. Although certain of these capital assets are identified (see schedule of inexhaustible capital assets below), it is the responsibility of each agency to identify these types of capital assets and to contact the SCO-FRS in applying the policy.

Capital Asset	Category	Depreciation Policy
Capitol Building	Reportable inexhaustible building.	Do not depreciate.
Other examples identified by agencies. Agencies should contact SCO-FRS for assistance in applying policy.	Reportable capital asset.	Do not depreciate.

LIBRARY RESOURCES

- Library resources, as defined below, which have a cumulative dollar value greater than or equal to $5.0 million will be capitalized. Library resources should be depreciated over a 15 year useful life.

  UW-System administration is the only state agency with a library capital assets reaching the $5.0 million threshold. Other agencies should contact SCO-FRS prior to establishing library resource capital assets.

2. Wisconsin Historical Society should apply the State's policy on historical treasures to capitalize but *not* depreciate their library books. WHS library resources are considered to be (1) a historical treasure or (2) included in a collection of books that are considered historical treasures.

3. Agencies other than UW and WHS will expense books or similar library resources as acquired. Coding expenditures as noncapital expenditures in the ACTUALS ledger is appropriate.

Library Resources Definitions:

- Capitalization dollar threshold for capitalizable library resources – a collection with a cumulative value greater than or equal to $5.0 million.

- Library resources – a catalogued *collection* of information sources, typically supervised by a professional librarian, which include such items as books, journals, audio/visual media, computer-based information, manuscripts, maps, documents, multimedia formats, digital media, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries.

- Cost – includes such items as invoice price, freight charges, handling, transit insurance, and other costs associated with placing the asset in service. Cost does not include internal processing costs.

- Average cost – for example average cost could be determined as: total book value at June 30 divided by the number of "volumes" in a collection at June 30 to arrive at an average cost. Multiply the average cost times the number of deletions. However, if an agency is currently using a methodology that approximates this illustration the agency may continue to use its current method.

IMPAIRMENT OF CAPITAL ASSETS

The Governmental Accounting Standards Board (GASB) issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which establishes accounting and financial reporting standards for a capital asset that has experienced a significant, unexpected decline in its service utility. Agencies should evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment of a capital asset has occurred. In Statement 42, GASB acknowledges that,

> "The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent – that is, conspicuous or known to the government. Absent any such events or changes in circumstances, governments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations."

Therefore, agencies typically would already be aware of the existence of impaired capital assets since the "unexpected event or change in circumstances" would generally be expected to have prompted discussion by management and/or the media.

Materiality Consideration

The provisions of GASB 42 need not be applied to immaterial items. For example, impairment of capital assets need not be considered if the individual capital asset's gross value does not exceed a pre-established amount. (This amount is currently established at $1.0 million for the State's governmental funds. Proprietary fund materiality should be based on the fund's capital assets.)

Further, this statement should be applied at the "single capital assets" level. For example, GASB 42 should be applied to a building rather than components of a building such as a roof, electrical, heating and ventilation, and so forth.

Overview of GASB 42

A capital asset is considered impaired when a significant unexpected decline in the service utility of the asset has incurred. Examples of potentially impaired capitals assets include such assets as a building that has undergone considerable physical damage as a result of a fire or a major piece of equipment that is rarely used because of newer technology.

GASB has established ***indicators of impairment*** that suggest that a service utility of the capital assets may have significantly and unexpectedly declined. If an indicator of impairment exists, then a ***test of impairment*** to determine whether or not your agency has an impaired capital asset must be performed. If, after the test of impairment, a capital asset is determined to be permanently impaired, GASB 42 requires that the permanent impairment be measured and written off in the financial statements. The approach to measure the impairment will vary depending on the nature of the impairment.

Attachment A provides guidance in the form of a decision chart when performing the evaluation.

Indicators of Impairment

The impairment of a capital asset is described as "a significant, unexpected decline in the service utility of a capital asset." The significant and unexpected decline is based on events or changes in circumstances that were not anticipated when the capital asset was placed into service. There are five indicators that *may* indicate the existence of an impairment of a capital asset:

Indicators of Impairment	
Type of Indicator	**Example(s) of Indicator Type**
Evidence of physical damage	A building, damaged by fire or flood, to the degree that restoration efforts are needed to restore service utility.
Change in legal or environmental factors	A water treatment plant that cannot meet (and cannot be modified to meet) new water quality standards.
Technological developments or evidence of obsolescence	Diagnostic equipment that is rarely used because new equipment is better.
A change in the manner or expected duration of usage of a capital asset	· Closure of a school prior to the end of its useful life. · A building that a government has decided to sell and is not continuing to use.
Construction stoppage	Stoppage of construction of a building due to lack of funding.

Tests of Impairment

If the existence of one of the above indicators has been established, GASB 42 provides for the testing of capital asset impairment by determining whether <u>both</u> of the following factors are present:

1. The **<u>magnitude of the decline in service utility is significant,</u>** which is evidenced by the expenses associated with continued operation and maintenance (including depreciation) or costs associated with restoration of the capital asset are significant in relationship to the current service utility,

   and

2. The <u>d**ecline in service utility is unexpected**</u>. Asset impairment arises when a decline is unexpected. Normal maintenance costs or preservation costs do not suggest an impairment of a capital asset.

Permanent or Temporary Impairments

The impairment of a capital asset should generally be considered permanent unless there is <u>evidence</u> that the impairment is temporary in nature. Temporary impairments (historical cost should not be written down) generally are only associated with enactment or approval of laws or regulations or other changes in environmental factors, changes in technology or obsolescence, changes in manner or duration or use, or construction stoppage.

If a permanently impaired capital asset will continue to be used by the State, the capital asset should be written down and a loss reported. The amount of impairment -- the portion of historical cost that should be written off -- should be measured using one of the three methods discussed in GASB 42:

Write-off approach	
• **Restoration cost approach** (typically for impairments from physical damage)	Derive amount of impairment from the estimated costs to restore the capital asset. The estimated restoration costs can be converted to historical costs by (1) restating the estimated restoration cost using an appropriate cost index or (2) applying a ratio of estimated restoration cost over estimated replacement cost to the asset's carrying value.
• **Service units approach** (typically for impairments resulting from enactment or approval of laws or regulations or other changes in environmental factors, or from technological development or obsolescence)	Determine the amount of impairment by evaluating the service provided by the capital asset (either maximum estimated service units or total estimated service units throughout the life of the capital asset) before and after the event or change in circumstances.
• **Deflated depreciated replacement cost approach** (typically for impairments identified from a change in manner or duration of use)	Replicate the historical cost of the service produced. Estimate a current cost for a capital asset to replace the current level of service. Depreciate this estimated current cost (since the asset is not new) and deflate it to convert to historical cost dollars.

Agencies with a permanently impaired capital asset may find it helpful to contact the Financial Reporting Section to discuss the appropriate write-off approach. The carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary.

GASB 42 also provides guidance for reporting of insurance recoveries. Agencies with insurance recoveries should refer to Footnote (b) on Attachment B for the proper reporting of such recoveries in the fund/ government-wide financial statements.

SUGGESTED CAPITAL ASSETS RECORDS

Items that should be included in records of capital assets are as follows:
- Business Unit (Agency)
- Fund
- Profile
- Category (buildings, equipment, etc.)
- Source of funds (restricted or federal funds)
- Description of asset and identification, tag numbers, etc.
- Name and address of vendor
- Department, division and unit responsible for custody
- Location code and location (street address, city, state, etc.)
- Date acquired (actual or estimate)
- In-service date
- Method of acquisition (direct purchase, gift, constructed, etc.)
- $ Historical cost, estimated historical cost, or fair market or acquisition value at date of donation.
- $ Estimated current value (for insurance purposes)
- Date, method, and authorized disposition

Certain information will be profile driven including:

Estimated life in years
Depreciation method
$ Accumulated depreciation

Attachment A

Illustration of Costs to Capitalize for Internally Generated Software Project

Assumptions:

The following costs were incurred for a contract for computer software that required significant outlays beyond the cost of the software. Outlays, other than for the review of alternatives, occurred after completion of project stage.

Activities	Cost Incurred	Stage	Capitalize Yes or No
Review Alternatives	$ 250,000	Preliminary project	No
Purchase and Installation	5,000,000	Application development	Yes
Payroll for installation and testing	200,000	Application development	Yes
Training of users and operators	150,000	Post-implementation/operation	No
Data entry payroll	75,000	Post-implementation/operation	No
Total	$ 5,675,000		

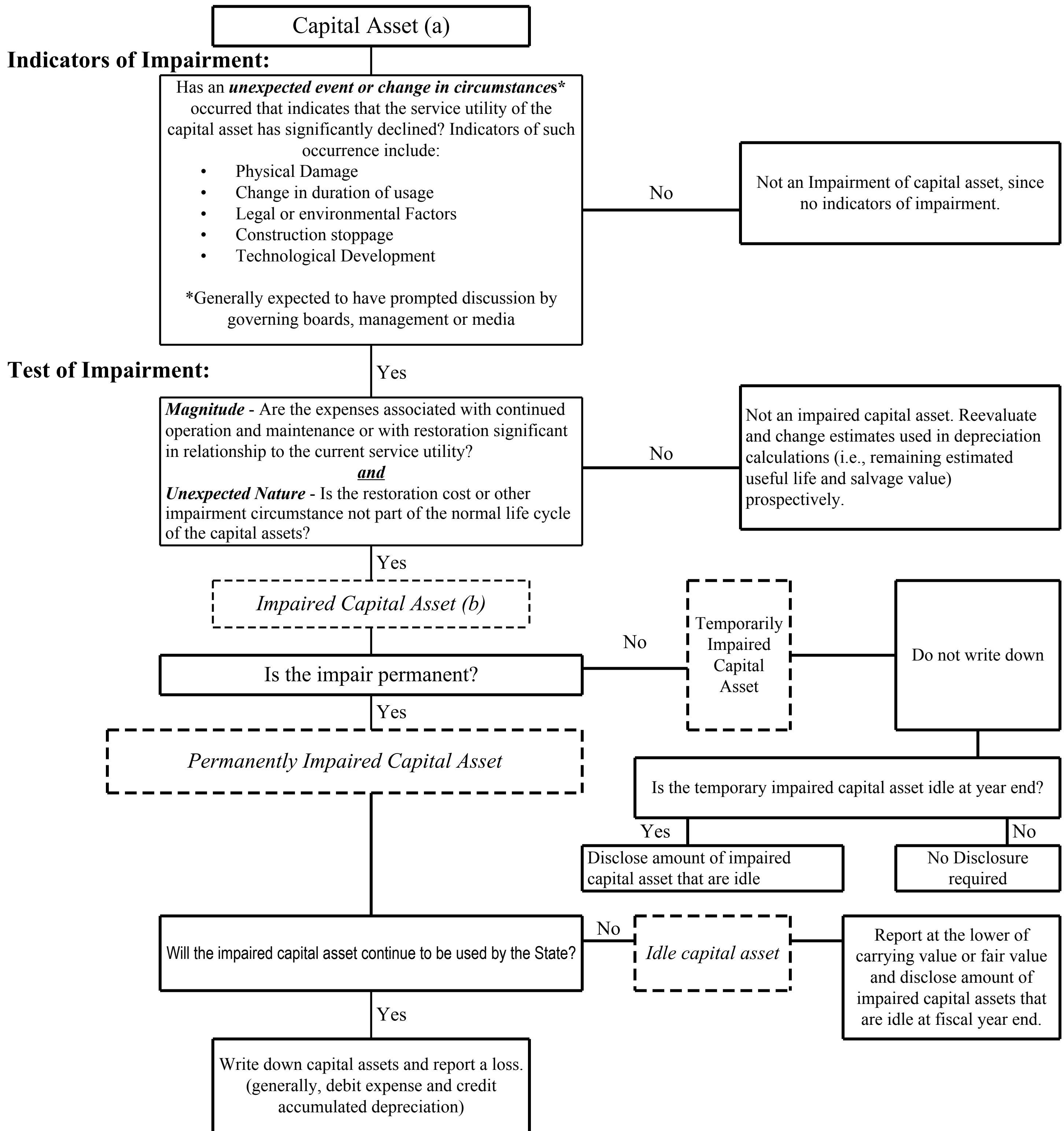
Based on the criteria noted above the amount to be capitalized would include the following:

Purchase and Installation	$ 5,000,000
Payroll for installation and testing	200,000
	$ 5,200,000

The remaining $475,000 of outlays would have been reported as expenses as they occurred.

GASB 42 – Accounting and Financial Reporting for Impairment of Capital Asset and for Insurance Recoveries

<u>Definition of Impairment:</u>
Asset Impairment – a significant, unexpected decline in the service utility of a capital asset.
Service Utility – usable capacity that at acquisition was expected to be used to provide service (as distinguished from level of utilization). Current usable capacity may be less than its original usable capacity due to normal or expected decline in useful life or to impairing events or changes in circumstances). Usable service capacity may differ from maximum service capacity when surplus capacity is needed for safety, economic or other reasons)
Level of Utilization -- portion of the usable capacity currently being used



Measurement of Impairment:

Write off amount of impairment (portion of historical cost). Amount will be determined by approach used:
• Restoration cost approach – typically used for physical damage. (Example: A building is impaired as result of a tornado or fire.)
• Service units approach -- typically used because of legal/environmental factors or technological development/obsolescence. (Examples: A major piece of equipment is impaired because it does not meet environmental regulations, or a major piece of technology-based equipment is used much less often because of newer technology.)
• Deflated depreciation replacement cost approach – typically used because of changes in manner or duration of use. (Example: A building is no longer used for its intended purpose but instead for a use which would have required construction at a significantly lesser value.)
Determine whether to report loss from impairment as:
• Program expense (government-wide level) or operating expense (proprietary funds), or
• Special item, or
• Extraordinary item.
If not apparent from the face of the statements, disclose description, amount and function of impairment losses.

(a) May use $1 million materiality threshold to exclude certain capital assets acquired through State's governmental funds. (Materiality thresholds for proprietary funds based on fund capital assets.)
(b) If insurance recoveries are involved:
• Governmental funds: Report restoration or replacement of an impaired capital asset separate from transaction from the associated insurance recovery. The insurance recovery is reported as an "other financing source" or extraordinary item.
• Proprietary funds and governmental/business-type activities: Report restoration or replacement of an impaired capital asset separate from transaction from the associated insurance recovery. The impaired loss is reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years should be reported as a program revenue (government-wide), nonoperating revenue (proprietary), or extraordinary item. Insurance recoveries should be recognized only when realized or realizable.
• If not otherwise apparent in the financial statement, the amount and classification of insurance recoveries should be disclosed.
Note: Insurance recoveries for other than impaired capital assets (for example, to reimburse for theft) should be similarly reported as described in the bullets, above.

Attachment C
(to Capital Assets policies)

STAR Asset Profiles

SetID	Profile ID	Profile Descr	Depreciation Status	Depreciation Method	Useful Life (Months)	Useful Life (Years)	Asset Type	Asset Category	Asset Category Descr
SHARE	AIR_ENGINE	Airplane Engines-Flight Hours	N	UP	0	0	Fleet	AIRCR	Aircraft
SHARE	AIR_EQUIP	Airplane Equipment	D	SL	120	10	Fleet	AIRCR	Aircraft
SHARE	AIR_HULLS	Airplanes, Hulls	D	SL	480	40	Fleet	AIRCR	Aircraft
SHARE	AIR_PROPS	Airplanes-Propellers	D	SL	72	6	Fleet	AIRCR	Aircraft
SHARE	ART	Art & Antiques	N	UD	0	0	Furniture	ARTHI	Art/Historical Items
SHARE	AUX_VEHCL	Auxillary Vehicles & Motorcycl	D	SL	120	10	Fleet	FLTOT	Fleet Other - Vehicles Other
SHARE	GL_BOAT	Boats - Great Lakes	D	SL	480	40	Fleet	BOAT	Boat
SHARE	BOATS	Boats and Equipment General	D	SL	40	3.33	Fleet	BOAT	Boat
SHARE	LEASE_BIMP	Building & Imprvmnts - Lease	D	SL	180	15	Facility	LBLDG	Leased Buildings
SHARE	BUILDIMP	Building improvements	D	SL	180	15	Property	BIMPD	Buildings Improvements
SHARE	CAP_FURN	Capitol Furnishings	N	SL	0	0	Furniture	EQUPN	Machinery & Equipmnt - Non Dep
SHARE	COMP_HRDW	Computer Hardware	D	SL	60	5	IT Hardware	ITHRD	IT Hardware
SHARE	COMP_SFTW	Computer Software	D	SL	60	5	IT Software	ITSFT	IT Software
SHARE	DOTINFRBLD	DOT Buildings Part of Infrastr	N	SL	0	0	Property	INFRA	Infrastructure
SHARE	DOTNFRSTCI	DOT Infrastructure	N	SL	0	0	Other	INFRA	Infrastructure
SHARE	AIR_DRONE	Drone_Unmanned	D	SL	60	5	Fleet	AIRCR	Aircraft
SHARE	EQUIP	Equipment	D	SL	120	10	Equipment	EQFRN	Equipment and Furnishings
SHARE	FIREARMS	Firearms	N	SL	0	0	Equipment		
SHARE	EQUIP_HEAV	Heavy Equipment (bldzrs, etc.)	D	SL	300	25	Equipment	EQFRN	Equipment and Furnishings
SHARE	EQUIP_HOSP	Hospital Equipment	D	SL	120	10	Equipment	EQFRN	Equipment and Furnishings
SHARE	WIRING_IN	IT Hardware Infrastruct Wiring	D	SL	180	15	IT Hardware	ITHRD	IT Hardware
SHARE	ITHRD_ND	IT Hardware Non-Dep	D	SL	0	0	IT Hardware		
SHARE	LAND	Land	N	SL	0	0	Property	LAND	Land
SHARE	LAND_IMPRV	Land Improvements	D	SL	120	10	Property	DLDIM	Depreciable Land Improvements
SHARE	LEASE_LIMP	Land Improvements - Lease	N	SL	180	15	Property	LLAND	Leased Land
SHARE	LANDIMPND	Land and Land Improvmnt-NonDep	N	SL	0	0	Property	LAND	Land
SHARE	LEASE_LAND	Land-Lease	N	SL	0	0	Property	LLAND	Leased Land
SHARE	LIBRARY_H	Library Holdings - Non Dep	N	SL	0	0	Equipment	LIBRY	Library
SHARE	TRAILER	Licensed Trailers	D	SL	180	15	Fleet	FLEET	Vehicles
SHARE	BLD_LEASEH	Lshld Impr-15yr/life of lease	D	SL	180	15	Property	BIMPD	Buildings Improvements
SHARE	MACHINERY	Machinery	D	SL	120	10	Machinery	EQPDF	Machinery & Equip Fixed - Depr

SetID	Profile ID	Profile Descr	Depreciation Status	Depreciation Method	Useful Life (Months)	Useful Life (Years)	Asset Type	Asset Category	Asset Category Descr
SHARE	LEASEEQUIP	Machinery & Equipment-Lease	D	SL	120	10	Equipment	EQUPL	Machinery & Equipment-Lease
SHARE	LEAS_SOFTW	Master Lease for Software	D	SL	60	5	IT Software	LSFTW	Leased Software
SHARE	EQUIP_MISC	Misc Equipment	D	SL	36	3	Equipment	EQFRN	Equipment and Furnishings
SHARE	EQUIP_OFFC	Office Equipment	D	SL	60	5	Equipment	EQFRN	Equipment and Furnishings
SHARE	OFF_FURNTR	Office Furniture	D	SL	120	10	Furniture	EQFRN	Equipment and Furnishings
SHARE	BUILDINEXH	Perm. Structures-Inexhausible	N	SL	0	0	Property	BLDND	Building & Improv - Non Depr
SHARE	BUILDING	Permanent Structures	D	SL	480	40	Property	BUILD	Buildings
SHARE	BLD_PORT	Portable Structures	D	SL	300	25	Property	BUILD	Buildings
SHARE	EQUIP_PRNT	Printing Equipment	D	SL	84	7	Equipment	EQFRN	Equipment and Furnishings
SHARE	SBITA	SBITA	D	SL	60	5	Equipment	SBITA	Subscription Based IT Arrangem
SHARE	SQUADS	Squad Cars, Light Truck & Recr	D	SL	60	5	Fleet	FLEET	Vehicles
SHARE	TOOLS	Tools	D	SL	180	15	Machinery	EQPDM	Machnry & Equip Movable - Depr
SHARE	TRCTR	Tractor	D	SL	120	10	Fleet	TRCTR	Tractor
SHARE	HD_TRUCK	Trucks (Heavy) 8 Year Life	D	SL	96	8	Fleet	FLEET	Vehicles
SHARE	TRUCKS	Trucks (Light) 6 Year Life	D	SL	72	6	Fleet	FLEET	Vehicles
SHARE	FPTRUCKS	Trucks 10 Year Life	D	SL	120	10	Fleet	FLEET	Vehicles
SHARE	TRUCKS_S10	Trucks 6 Year Life 10% Salv	D	SL	72	6	Fleet	FLEET	Vehicles
SHARE	DRONE	UAV Unmanned Aerial Vehicle	D	SL	60	5	Fleet	AIRCR	Aircraft
SHARE	FIRE_TR	Vehicle Fire	D	SL	300	25	Fleet	FLEET	Vehicles
SHARE	VEHCL	Vehicles 6 Year Life	D	SL	72	6	Fleet	FLEET	Vehicles
SHARE	VEHCL_S10	Vehicles 6 Year Life 10% Salv	D	SL	72	6	Fleet	FLEET	Vehicles
SHARE	FPVEHCL	Vehicles 7 Year Life	D	SL	84	7	Fleet	FLEET	Vehicles

ACFR Capital Asset Reporting using STAR Asset Management and the STAR CAFR Ledger

The implementation of the STAR system changed how capital assets and related annual financial activity, such as depreciation expense, is compiled for the ACFR. The STAR Asset Management (AM) module, is the primary source of information for the capital asset entries to convert budgetary-based information to the governmental-GAAP basis of reporting in the ACFR. Agencies record expenditures related to purchasing capital assets in the ACTUALS ledger. This is done by generating a purchase order, receiving an item, and paying for it. Then agency staff assigned certain STAR roles record capital asset acquisitions (additions), as well as disposals or other adjustments, into AM. Once the basic asset information is set up, the AM module generates monthly entries (from a template) that are pushed into the STAR CAFR ledger. SCO-FRS staff use information from that ledger, as well as from AM, for ACFR financial statements and note disclosures. The accounts used in the entries are more detailed than used prior to STAR to allow SCO-FRS to create note disclosures from STAR.

Expenditures related to capital projects are also recorded in the ACTUALS ledger for the Capital Improvement (36300) and Building Trust (36000) funds. However, those two capital project funds do not own the assets resulting from the projects. Rather, the agency and GAAP fund for which the project is undertaken owns the asset. Once the assets are completed and placed into service, the owning agency adds the asset information to STAR AM. The assets must include an agency-specific fund. (Agencies should NEVER code completed assets to funds 36300 or 36000.) Similar to other capital assets, ACFR entries will then be generated for inclusion in the agency's trial balance(s) and GAAP statements.

It is important to maintain consistency between AM and the CAFR ledger. If all capital assets obtained and placed into service, disposed of, or otherwise updated during the fiscal year are entered in STAR AM before cutoff dates, all capital asset-related entries will be generated by AM for the ACFR. In addition, required note disclosure information will be available. In that case, SCO-FRS staff have the required information needed for the ACFR. GAAP accountants do not have to submit additional entries or information unless construction-in-progress exists or there were errors.

Conversely, because the centralized STAR AM module *is* being used and entries generated based on data in AM, *missing asset data, errors, or a delay in entering asset data, will result in errors in the entries pushed to the CAFR ledger*. The required information must be entered into STAR AM to fix the problems. This, in turn, will affect entries pushed to the CAFR ledger in a future period at the fund and/or the government-wide level. Dependent on the nature and timing of the errors and fixes, additional entries may be needed for ACFR reporting purposes. For example, if an agency forgets to add a $1.0 million capital asset to AM and it is closed for the fiscal *year*, the entries pushed into the CAFR ledger and the note disclosures will both be understated. Depending on the timing and amount, the GAAP accountant may make additional adjusting entries in the CAFR ledger so the financial statements are correct and the note disclosure may be updated. In addition, the correction would have to be made in AM. The correcting ACFR entry would be reversed in the subsequent fiscal year to correct entries pushed from AM to the CAFR ledger in the wrong fiscal year once the asset was added.

Need to Differentiate Between ACTUALS and CAFR Ledger

It is important that GAAP accountants understand the transactions recorded in the ACTUALS ledger are expenditure-based (budgetary) and considered "capital outlay expenditures". Conversely, the entries generated from the AM module and pushed into the CAFR ledger are GAAP-based. The timing of any corrections is an important consideration. Generally, entries to correct capital outlay or capital assets for ACFR reporting purposes, will be done in the CAFR ledger. However, other corrections may be acceptable. For example, if an agency simply codes an expenditure in the ACTUALS ledger to an expenditure account that is not considered a "capital outlay" expenditure and they wish to fix it, they *could* create a journal in the ACTUALS ledger to fix it *prior* to the close of the fiscal year in which the coding error occurred. Then, trial balances generated for ACFR reporting purposes would appropriately reflect capital outlay.

In the *government-wide* financial statements, both governmental and business-type activities report capital assets on the government-wide Statement of Net Assets. In the *fund statements*, however, governmental funds report purchases of capital assets during the fiscal year as expenditures, while proprietary and fiduciary funds report such purchases as capital assets on the balance sheet. SCO-FRS will record adjusting entries on the fund trial balances to reflect current year outlay based on fund type and also make government-wide entries for governmental activities. Finally, SCO-FRS will generate the note disclosure information for each fund/agency and use it to compile the ACFR capital asset note disclosure.

STANDARD ENTRIES

Governmental Funds – Reporting Capital Assets for Governmental Activities

An example illustrating how to prepare the capital assets adjusting entries for a governmental activity is presented on the following pages. In this example, simplified background information is provided in the tables below and followed by illustrative adjusting entries and an explanation of the adjusting entries.

Example - Background Information

Table 1 -- Agency's Gross Capital Assets

	Capital Assets-Beginning		Additions		Removals	Completed Construction	Capital Assets Ending	
Land	33		0		0	0	33	
Buildings	198	284	28	46	0	24	250	333
Equipment	53		18		(21)	0	50	
Construction in Progress	25		73		0	(24)	74	
	309		119		(21)	0	407	

Agencies do not report construction in progress (CIP) unless the project is funded and managed by the agency. The Capital Accounting Unit prepares the CIP entry for construction projects accounted for in the Capital Improvement and Building Trust Funds.

Must equal zero statewide.

Table 2 -- Related Accumulated Depreciation

	Beginning Accumulated Depreciation	Current Year Depreciation	Accumulated Depreciation on Removals and Retirements		Ending Accumulated Depreciation
Land	0	0	0		0
Buildings	76	10	0		86
Equipment	24	4	(10)		18
Construction in Progress	0	0	0		0
	100	14	(10)		104

Table 3 -- Agency's Net Capital Assets

	Capital Assets - Beginning				Capital Assets - Ending	
Land	33				33	
Buildings	122	184			164	229
Equipment	29				32	
Construction in Progress	25				74	
	209				303	

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2022
SUB-SECTION:	7 – Capital Assets	**REVISION DATE:**	June 30, 2023
SUBJECT:	Procedure	**PAGE:**	3 of 25

STAR ACFR Accounts for Capital Asset-related Entries

Accounts are set up in STAR that will be used only for ACFR and reporting purposes. These "W" and "X" accounts are quite detailed because they are designed to provide enough information for capital asset entries, note disclosures and reconciliations. Care must be taken to use the correct accounts. The table below provides examples for how ACFR accounts and descriptions are set up:

Account Convention	Designates	Account	Account Description	Fund Type
Starts With W	Balance Sheet Account	**W**2BLD11	Capital Buildings Depr	Gov Wide Govt'l Activities Proprietary/Fiduciary Funds
Starts with W and ends with 2 numeric digits	Capital Asset on Balance Sheet – must choose depreciable OR nondepreciable	W2BLD**11** W2BLD**21**	Capital Buildings Depr Capital Buildings NonDepr	Gov Wide Govt'l Activities Proprietary/Fiduciary Funds
Starts with W and ends with A/D	Accumulated Depreciation Contra Asset on Balance Sheet – must match to type of asset being depreciated	W2BLD**AD** W2EQP**AD**	Capital Buildings Depr - A/D Capital Equipment Depr - A/D	Gov Wide Govt'l Activities Proprietary/Fiduciary Funds
Starts with W7	A net position (equity) account on the Balance Sheet	**W7**UNRES	Unrestricted	All fund types and government wide statements
Starts with X	Operating Statement Account	**X**2OUTLY	Capital Outlay – EXPENSE	Governmental Funds and Gov Wide Govt'l Activities
Starts with X	Operating Statement Account	**X**2DEPRC	Depreciation (expense)	Gov Wide Govt'l Activities Proprietary/Fiduciary Funds

Below is a list of the accounts that are more commonly used for capital asset entries pushed from AM into the CAFR ledger. The accounts may also be used for additional SCO-FRS and agency adjusting entries in the CAFR ledger:

Account	Description	Account Type	Account Purpose
W2BLD11	Capital Buildings Depr	Asset	ACFR & Reporting
W2BLDAD	Capital Buildings Depr - A/D	Asset	ACFR & Reporting
W2BLD21	Capital Buildings NonDepr	Asset	ACFR & Reporting
W2COMPL	Capital Completed Construction	Asset	ACFR & Reporting
W2CIP00	Capital Constr in Progress	Asset	ACFR & Reporting
W2EQP12	Capital Equipment Depr	Asset	ACFR & Reporting
W2EQPAD	Capital Equipment Depr - A/D	Asset	ACFR & Reporting
W2EQP22	Capital Equipment NonDepr	Asset	ACFR & Reporting
W2INFRA	Capital Infrastructure (DOT ONLY)	Asset	ACFR & Reporting
W2LND13	Capital Land Improv Depr	Asset	ACFR & Reporting
W2LNDAD	Capital Land Improv Depr - A/D	Asset	ACFR & Reporting
W2LND23	Capital Land NonDepr	Asset	ACFR & Reporting
W1RCVCU	Leases Recv from CU	Asset	ACFR & Reporting
W2LIBRA	Capital Library Holdings	Asset	ACFR & Reporting
W7CAPIT	Net Investment in Captl Assets	Equity	ACFR & Reporting
W7CPPRJ	Restricted GovtWide Captl Proj	Equity	ACFR & Reporting
W7UNRES	Unrestricted	Equity	ACFR & Reporting
X2OUTLY	Capital Outlay - EXPENSE	Expenditure	ACFR & Reporting
X2DEPRC	Depreciation	Expenditure	ACFR & Reporting
X2DEPXX	NonDeprAsset - Depr Exp	Expenditure	ACFR & Reporting
X3CNTRC	Capital Contributions	Revenue	ACFR & Reporting
X3DSPCP	Gain Loss Disp of Captl NonOp	Revenue	ACFR & Reporting
X3GIFT2	Gifts & Don - Capital NonOper	Revenue	ACFR & Reporting
X1GIFT2	Gifts & Donat - Capital Oper	Revenue	ACFR & Reporting
X3MISC0	Miscellaneous Rev NonOper	Revenue	ACFR & Reporting
X1MISCO	Miscellaneous: Other	Revenue	ACFR & Reporting
X3CPGNT	NonOper Capital Grants	Revenue	ACFR & Reporting
X3OPGNT	NonOper Operating Grants	Revenue	ACFR & Reporting

Reporting Capital Assets of Governmental Activities for Government-wide Financial Statements (using the information from Tables 1, 2 and 3 on the previous page, unless noted otherwise):

a. Establish Capital Assets, Accumulated Depreciation and Net Position at the beginning of the fiscal year.

To report beginning net capital assets, the "Capital Assets" account is debited for the amount of gross capital assets at the beginning of the year (from Table 1) and the "Accumulated Depreciation" account is credited for the amount of accumulated depreciation at the beginning of the year (from Table 2). The "Net Assets - Unrestricted" account is credited for the difference, which represents the net capital assets at the beginning of the year (from Table 3).

Entry #1a FRS/STAR AM Entry to Set Up Beginning Capital Asset Balances:

Government Wide Entry

Debit:	W2BLD11 – Depreciable Buildings (a)		198		
Debit:	W2LND23 – Nondepreciable Land (a)		33	284	
Debit:	W2EIP12 – Depreciable Equipment (a)		53		
	Credit: Accumulated Depreciation (b)			100	
	Credit: W7UNRES Net Position - Unrestricted (c)	*Ending net balance per prior year's ACFR*		184	284
Dr./Cr.	W&UNRES - Net Position - Unrestricted (c)	*Material corrections to prior year's ending net balance*			
Dr./Cr.	__________Expenses (by function) (c)	*Immaterial corrections to prior year's ending net balance*			

<Report capital assets and accumulated depreciation at the beginning of year.>

(a) Beginning of year gross capital assets [Total Capital Assets (309) less Construction in Progress (25) [Table 1]]. The financial statements must separately report depreciable versus nondepreciable capital assets. Additionally, the notes to the financial statements must separately report asset types. With the implementation of STAR, FRS plans to develop certain note disclosure information directly from STAR. Therefore, the adjusting entries capture this information in separate accounts.
(b) Beginning of year accumulated depreciation [Table 2]. Similar to capital assets, Accumulated Depreciation is reported by asset type in the Notes. Therefore, separate accounts have been created to capture this information. The entries above combined these accounts into one line for illustrative purposes.

(c) Beginning of year net capital assets [284 - 100]

Note: In this example there were no adjustments needed to correct the beginning-of-year net capital asset balances. Agencies must consider the materiality and timing of corrections made to assets in AM because those corrections may roll through as prior period adjustments. Making adjustments of less than $100,000 may result in considerable efforts to track and reconcile very minor prior period adjustments for ACFR reporting that exceed any benefit to users of the financial statements.

Agencies do not need to make an entry to establish beginning capital assets in the CAFR ledger because the information will be available in STAR and SCO-FRS will make the required entries. However, DOT will have to make an entry to appropriately include infrastructure capital assets in the ACFR reconciling between STAR AM and DOT internal records to ensure accuracy of the information. Further, the Supreme Court will have to provide entries to report capital assets and related activity.

b. Capital Assets Acquired by an Agency or Donated to an Agency During the Year. *(See Entry #1f for related entry required for internally-generated capital assets or agency-managed construction projects for Fund level statements.)*

Payments coded to certain expenditure codes in the STAR ACTUALS ledger will be categorized as a "capital outlay" expenditures for governmental *fund* statement purposes. However, for the *government-wide* statements, these capital asset purchases are to be reported as an addition to assets rather than as an expenditure. Capital outlay expenditure codes range from 8200000-8499999 and also include 8099000 (which is used by SCO Capital Accounting only).

After capital assets are added to the STAR AM module, adjusting entries are created to capitalize the asset and eliminate the capital outlay expenditures via an entry pushed to the CAFR ledger each month. These entries are generated for all funds regardless of fund type. As a consequence, FRS must record an entry on the Trial Balance worksheet of governmental funds to eliminate the effects of the asset addition and set up capital outlay expenditures. FRS entries will be based on AM entries pushed to the GL through the fiscal year. (A correlating government-wide entry is also made.)

Entry #1b(1) (FRS Trial Balance Worksheet Entries – Reestablish Capital Outlay Expenditures for Governmental Funds)

TBW Fund Entry

Debit	X2OUTLY Capital Outlay Expenses (d)	46	
Credit	W2BLD11 – Depreciable Buildings (e)		28
Credit	W2EQP12 – Depreciable Equipment (e)		18

<Re-establish fund-level capital outlay expenditures and eliminate capital assets.>

(d) The monthly AM entry pushed to the CAFR ledger will debit capital assets added and credit account X2OUTLY capital outlay expenses. As seen above, FRS' entry on the trial balance will re-establish the outlay expenditures corresponding to the capital assets added to AM during the fiscal year.

(e) The monthly AM entry will debit ACFR capital asset accounts for any additions during the year. FRS' entry will zero out capital assets at the fund level to appropriately report according to the modified accrual basis of accounting for governmental funds.

The financial statements must separately report depreciable versus nondepreciable capital assets. Additionally, the notes to the financial statements must separately report asset types. With the implementation of STAR, FRS plans to develop certain note disclosure information directly from STAR. Therefore, the adjusting entries capture this information in separate lines using more detailed accounts than previously used for the ACFR.

Current year capital asset additions per STAR AM, and used in the FRS entry, should equal capital outlay expenditures recorded in the ACTUALS ledger. Any differences because of miscodings, etc. must be reconciled by agency GAAP accountants. If capital outlay is overstated or understated in the ACTUALS ledger, an entry must be made to increase or decrease, respectively, the appropriate functional expense in the CAFR ledger at the fund level. Functional expenses refers to Commerce, Education, Transportation, Environmental Resources, Health & Human Relations, General Executive, Judicial, Legislative, or Tax Relief and General Expenses.

Note: Entry #1b(1) excludes amounts for completed construction that was acquired through the Capital Improvement (36300) or Building Trust (36000) funds. A separate agency entry for completed construction from those capital projects funds is covered in Item "d" (Entry #1d(1)).

FRS will also make the government-wide entry to reflect capital asset purchases based on information in STAR. That entry is the opposite of the fund level entry seen above. The government-wide entry increases the "Capital Assets" account and decreases capital outlay expenditures. It is shown below.

Entry #1b(2) (FRS Govt-Wide Entry – Purchase of Capital Assets for Governmental Activities):

Government Wide Entry

Debit	W2BLD11 – Depreciable Buildings (e)	28	
Debit	W2EQP12 – Depreciable Equipment (e)	18	
Credit	X2OUTLY Capital Outlay Expenses (g)		46

<Report capital assets purchased in current year (other than those originating through the Capital Projects Funds).>

(f) Current year purchases [see Table 1]
(g) Current year purchases that were reported as expenditures under the modified accrual basis. Variances between capital assets per STAR AM and amounts recorded as capital outlay in the ACTUALS ledger may be adjusted via an CAFR ledger entry at the fund level.

In the case of donated capital assets, an entry is not needed for the fund statements. For the government-wide statements, however, an entry is needed to record the capital asset (using acquisition value) and credit the appropriate revenue account. The model entry that depicts the donation of capital assets is shown below.

Entry #1b(3) (Agency Govt-Wide Entry – Donation of Capital Assets):

Debit	X2OUTLY Capital Outlay Expenses (g)	XX	
Credit	Capital Grants and Contributions Revenue (h)		XX

<Report acquisition value of capital assets donated in current year.>

(h) Outlay expenses and acquisition value of capital assets at time of donation.

Note: For example purposes, there were no donated capital assets in the year. If assets were donated and recorded in STAR, the value of the asset and capital outlay expenditures would be included in the fund-level entry made by FRS. However, there would be a reconciling difference between the capital outlay reported in the ACTUALS ledger and the capital assets added in STAR. Specifically, there would be no expenditure reported in the ACTUALS ledger. The entry above reconciles the difference in the government-wide statements.

c. Report capital assets disposed of during the fiscal year.

There may be two sets of entries in STAR related to asset disposals: 1) an entry will be recorded in the ACTUALS ledger to reflect the receipt of cash by an agency for the sale of a disposed asset; and 2) CAFR-ledger entries will be recorded after the asset is disposed in AM. Consideration needs to be made for both sets of transactions for GAAP reporting purposes.

If an agency received cash proceeds from the disposal of assets, the ACTUALS ledger should simply report a debit to cash and a credit to a revenue account such as 5942000 Proceeds Sale of Prop Non-Op , 5943000 Sale of Capital Assets, or 5920000 Miscellaneous Revenue. All three of these revenue codes roll up to “Miscellaneous Revenue – Other” on the trial balance.

In additional, when capital assets records are updated in STAR AM to reflect their disposal, adjusting entries are created and pushed to the CAFR ledger (regardless of fund type) to reduce capital assets and accumulated depreciation. The entry also records a loss (a negative revenue under ACFR account X3DSPCP gain/loss) on the difference between the capital asset and accumulated depreciation accounts. When revenue in the ACTUALS ledger is combined with the negative revenue reflected in the CAFR ledger, the result is a net gain or loss.

Because assets are tracked in STAR by fund, the template entries in the CAFR ledger are made by fund. As a consequence, FRS prepares an entry on the Trial Balance worksheet of governmental funds to eliminate the effects of the asset disposal on the *fund* statements and apply them to the *government-wide* statements.

Entry #1c (FRS Trial Balance Worksheet Entries – Eliminate Disposal of Capital Assets at Fund Level):

<u>TBW Fund Entry</u>			
Debit	W2EQP12 – Depreciable Equipment (i)	21	
Debit/Credit	X3DSPCP Gain/Loss on Disposal (j)		11
Credit	W2EQPAD Capital Equipment Depr- A/D (k)		10
<Eliminate the effects of the capital asset disposal at the fund-level.>			

[i] The AM template entry will credit capital asset accounts for disposals during the year. FRS will increase these assets to $0 at the fund level to appropriately report governmental funds according to the modified accrual basis of accounting.

[j] The AM template entry will record a gain or loss on disposal of the asset to ACFR account X3DSPCP. FRS will record an entry to make this account $0, meaning that the only gain on disposal of the asset at the fund-level will be the cash received and recorded in the STAR ACTUALS ledger which is appropriate for modified accrual reporting.

[k] The AM template entry will debit accumulated depreciation accounts for disposals during the year. FRS will reduce the accounts to $0 at the fund level to appropriately report governmental funds according to the modified accrual basis of accounting.

The financial statements must separately report depreciable versus nondepreciable capital assets. Additionally, the note disclosures must separately report assets and the associated accumulated depreciation by asset types. With the implementation of STAR, FRS will develop asset note disclosure information directly from STAR. Therefore, the adjusting entries capture this information in more detailed accounts than previously used for the ACFR.

The next entry illustrates the related government-wide entry that must also be made by FRS to reduce (credit) capital assets, increase (debit) accumulated depreciation, and recognize the gain or loss on disposal.

Entry #1c (FRS Govt-Wide Entry – to Reestablish the Disposal of Capital Assets):

Government Wide Entry			
Debit	W2EQPAD Capital Equipment Depr- A/D	10	
Debit/Credit	X3DSPCP Gain/Loss on Disposal (l)	11	
Credit	W2EQP12 – Depreciable Equipment		21
<Report capital asset disposals in current year.>			

[l] The entire loss (per the AM entry) is recorded as part of the government-wide entry. For the ACFR, it will net with revenue recorded in the ACTUALS ledger (based on the receipt of cash) to appropriately reflect the net gain/loss on a full accrual basis.

d. Reporting completed construction from the Capital Improvement and Building Trust capital projects funds.

Each year, the Capital Accounting Section notifies agencies of completed construction projects that originated in the Capital Improvement (36300) or Building Trust (36000) funds. The capital projects funds, in effect, give the completed asset to the receiving fund. At that time, the capital asset should be reported in the ACFR by the agency that owns it. Specifically, the asset should be added to AM and coded to one of the agency's fund numbers. Agencies should never use funds 36300 or 36000 when setting up capital assets in AM. Otherwise, erroneous capital asset entries will be generated in AM and pushed to the CAFR ledger. Agency assets not owned by a specific fund should be reported as an asset of the General Fund.

The timing of the distribution of the completed construction report may affect the timing of capital assets being added to STAR AM. Agencies are encouraged to add completed construction projects to AM throughout the year as they become aware of their completion through periodic reports from Capital Accounting staff. If all assets acquired through funds 36300 and 36000 are added to AM by the reporting cutoff, the entries generated by AM will be included with the addition entries illustrated earlier in this section.

However, the AM entry generated when assets are added credits capital outlay expenditures rather than completed construction. Completed construction is a temporary account used in preparing the ACFR to ensure there is a match between Capital Accounting and agency ACFR entries. As a result of the AM entry, agencies should make an ACFR reclassification entry to credit W2COMPL Capital Completed Construction for the assets finished during the year with an offset to capital outlay expenditures. Conversely, Capital Accounting staff will debit the Capital Completed Construction account in their government-wide entries for the capital projects funds. The SCO-FRS verifies that the corresponding entries offset each other.

Entry #1d(1) Agency government-wide entry to reclassify **completed capital project assets added to STAR AM** during the year:

Debit	W2OUTLY Capital Outlay Expenditures	24	
Credit	W2COMPL Capital Completed Construction		24

<Reclassify completed capital assets originating through capital projects funds that were added to STAR AM during the fiscal year to match the entry made by Capital Accounting.>

When updating the capital assets records in STAR AM, agencies may encounter specific circumstances (e.g., because of use of estimates) where the amounts of new capital assets to be added to STAR AM records do not correspond exactly to the amounts reported by the Capital Accounting Section as completed. To fix this, agencies with governmental activities may include an additional entry that adjusts functional expenses for the amount of the variations identified during the capital asset/completed construction reconciliation. This entry is illustrated below:

Entry #1d(2):

Debit/Credit	_________ Expenses (by function - identify)	XX	
Debit/Credit	W2COMPL Capital Completed Construction		XX

<Reclassify completed capital assets originating through capital projects funds that were added to STAR AM during the fiscal year to match the entry made by Capital Accounting.>

(m) Variances identified during the analysis of additional capital assets completed to classify a construction project (e.g. from the use of percentage estimates). SCO-FRS will monitor the use of this account.

e. Entry to report current year's depreciation expense.

Based on the profile selected when an asset is added, STAR AM computes the amount of current year's depreciation expense and prepares monthly entries pushed to the CAFR ledger. Based on the template, that entry debits depreciation expense and credits the contra-asset accumulated depreciation account. Similar to the asset addition and asset disposal processes, FRS will prepare and record an entry on the Trial Balance Worksheet to eliminate the entries at the fund-level. A correlating government-wide entry will be recorded, shown below, to re-establish the depreciation expense and accumulated depreciation. The entry below shows the govt-wide adjustment needed to record depreciation for the current year.

Entry #1e: FRS government-wide entry to record depreciation expense and accumulated depreciation for the fiscal

Debit	Expenses (by function, such as, Commerce, Education, etc.)	14	
Credit	W2BLDAD Capital Buildings Depr A/D		10
Credit	W2EQPAD Capital Equipment Depr A/D		4
	<Report current year depreciation expense.> [Table 2]		

f. Agency reclassifies functional expenditures related to capital assets <u>internally</u> generated during the year (FUND LEVEL reporting).

Agency capital asset purchases are reported as "capital outlay" expenditures in the ACTUALS ledger and for *fund* statement purposes. However, agencies with internally generated capital assets, such as internally generated software, may have to make an adjusting entry to increase capital outlay expenditures at the **fund level** if expenditures have not been coded as capital outlay expenditures. This may be the case, for example, when agency salary and fringe benefit expenses are reported as functional expenditures but relate to a capitalizable asset. The entry below shows the reclassification entry for current year costs.

Entry #1f: Agency fund level entry to reclassify capital outlay expenditures for current year internally generated capital projects:

Debit	X2OUTLY Capital Outlay Expenses	XX	
Credit	Expenses (by function, such as, Commerce, Education, etc.)		XX
	<Report current year capital outlay instead of functional expense for internally generated or internally managed capital projects that were completed and added to STAR AM.>		

(1) The terms “functional expenses” or “Expenses (by function)” refer to Commerce, Education, Transportation, Environmental Resources, Health & Human Relations, General Executive, Judicial, Legislative, or Tax Relief and General Expenses.

If entry #1f is made at the governmental fund level, the amount of the entry would correct any discrepancies between what was reported in AM as asset additions and capital outlay expenditures for the year. This presumes the asset was completed during the fiscal year and added to STAR AM prior to the reporting cutoff.

The amount of the FRS entry to eliminate capital outlay at the Government-wide level (#1b(2)) will include only capital assets added to STAR AM during the year. If an agency did not add a completed internally generated capital asset to STAR AM *and* the ACTUALS ledger did not reflect capital outlay, the agency should make both entries for ACFR reporting purposes.

Alternatively, if an internally generated asset is *not* yet completed at the end of the fiscal year, the agency must also make a government-wide ACFR entry to report a construction in progress asset. This is required because in-progress capital assets are not, and should *not*, be set up in AM. Rather, it is more efficient to simply make an entry for ACFR reporting purposes.

Entry #1g: Agency government-wide entry to set up capital outlay expenditures for current year internally generated capital projects still in progress at the end of the fiscal year:

Debit	W2CIP00 Capital Construction In Progress	XX	
Credit	X2OUTLY Capital Outlay		XX

<Report current year capital outlay for internally generated or internally managed capital projects that were still in progress at year end.>

Capital Accounting Section Adjusting Entries of Governmental Activities for Government-wide Financial Statements:

To report the capital projects funds' capital assets activity for the government-wide financial statements, the Capital Accounting Section will prepare the following entries: (*Note: The shaded entry represents the transactions recorded in the ACTUALS ledger in the capital projects funds (Capital Improvement and Building Trust). The capital projects **fund** statements would continue to reflect construction-related expenditures as capital outlay expenditures.)*

Entry #CA-1:

Debit	Capital Outlay Expenditures	73	
Credit	Cash		73

<Report purchase of capital assets as expenditures in the Capital Projects Funds.> [Table 1]

An ACFR government-wide entry must be made by Capital Accounting to properly report activity from capital projects funds in government-wide governmental activities.

Entry #CA-2:

Debit	W2CIP00 Capital Assets-Construction in Progress (ending)	74	
Debit	W2COMPL Capital Completed Construction	24#	
Credit	X2OUTLY Capital Outlay (expenditures)		73
Credit	W7UNASN Unrestricted Net Position ****		25

<Capital Accounting Section reports capital assets activity of capital projects funds.>

**** Amount of beginning-of-year construction in progress
# The amount in Entries number 1(d)(1) and number CA-2 will be reconciled by the SCO-FRS.

Proprietary Funds and Fiduciary Funds Reporting on a Full Accrual Basis

Proprietary and fiduciary funds account for capital asset transactions on an accrual basis for ACFR reporting purposes. The STAR ACTUALS ledger accounts for capital assets purchased during the year as expenditures, which is appropriate for budgetary reporting purposes. However, for the ACFR, these funds must capitalize and depreciate capital assets. Thus, there is an important distinction between the ACTUALS versus CAFR ledger.

As noted earlier in the section, capital asset data from STAR AM is used to compile entries pushed to the CAFR ledger and used in the ACFR trial balances created by SCO-FRS.

a. Entry to Establish Capital Assets, Accumulated Depreciation and Net Position at the beginning of the fiscal year.

SCO-FRS makes required entries on the ACFR trial balances to establish beginning capital assets via the information available in STAR AM and from the prior year CAFR ledger. Agencies do not need to make an entry to establish their beginning capital asset balances. (UW System and Supreme Court will continue to report capital assets using their established processes.)

The following example entry, which shows the use of ACFR accounts in STAR, establishes the amount of capital assets, accumulated depreciation, and related fund equity at the beginning of the fiscal year:

Debit	W2BLD11 Capital Buildings Depr (beginning of year)	XX	
Debit	W2LND23 Capital Land NonDepr (beginning of year)	XX	
Debit	W2EQP12 Capital Equipment Depr (beginning of year)	XX	
Credit	W2BLDAD Capital Buildings Depr – A/D (at beginning of year)		XX
Credit	W2EQPAD Capital Equipment Depr – A/D (at beginning of year)		XX
Credit	W7UNRES Unrestricted (net book value at beginning of year) [(a)]		XX

(a) Prior period adjustments to a fiscal year may occur as a result of changes to a capital asset in STAR AM. Agencies should give consideration to the timing and value of the corrections being made to avoid unnecessary adjustments to assets that will generate complex and time-consuming prior period adjustments in the ACFR. Agencies should contact SCO-FRS staff for additional guidance.

Since GAAP requires that capital assets be capitalized and depreciated for proprietary funds, the capital asset expenditures recorded in the ACTUALS ledger for the year must be eliminated (that is, reclassified to capital assets) and depreciation expense recorded. Capital outlay expenditure codes in the ACTUALS ledger range from 8200000-8499999 and also include 8099000 (which is used by SCO Capital Accounting only). Based on data added to the AM module prior to the reporting cutoff, depreciation calculations will occur and entries will be automatically generated using templates with the applicable ACFR accounts. The entries will be automatically pushed to the CAFR ledger each month and presented on the trial balance worksheet provided to agencies by SCO-FRS for each GAAP fund:

b. STAR AM Generated Entry Pushed to the CAFR Ledger to Add New Capital Assets and Report Depreciation Expense for the current fiscal year:

Debit	Capital Assets – Type * *(purchased each month)*	XX	
Credit	X2OUTLY Capital Outlay Expenses		XX
Debit	X2DEPRC Depreciation Expense *(for each month)*	XX	
Credit	Accumulated Depreciation*		XX

* The example above presents the accounts generically. However, the entry will be made using a more detailed ACFR account i.e. accounts beginning with W or X that are designed to capture information to prepare the financial statements as well as the required note disclosures.

<u>Note</u>: Refer to information later in this section for the entry to reflect construction in progress.

c. Report capital assets donated to the fund during the fiscal year.

There may be two sets of entries in STAR related to asset donations dependent on circumstances. 1) An entry may be recorded in the STAR ACTUALS ledger to reflect the receipt of cash by an agency restricted for acquiring a capital asset; and 2) CAFR-ledger entries will be recorded after the donated asset is reflected in AM. To identify the required entry, if any, both sets of entries should be considered together for ACFR reporting by full-accrual funds.

If an agency received cash proceeds to be used to acquire capital assets, the ACTUALS ledger should simply report a debit to cash and a credit to a revenue account such as 4599000 Fed Aid – Acquire Capital Asset which rolls up to the Capital Contributions line on the Trial Balance. If agencies use 5920000 Miscellaneous Revenue, it rolls up to "Miscellaneous Non-Operating Revenue" on the trial balance.

When the donated capital assets record is added in STAR AM, adjusting entries are created and pushed to the CAFR ledger (regardless of fund type) to increase (debit) capital assets and decrease (credit) capital outlay. Because assets are tracked in STAR by fund, the template entries in the CAFR ledger are made by fund. An example entry for donated assets coming into the CAFR ledger from STAR AM is:

<u>FRS Example Entry included on Trial Balance for the Fund (based on AM):</u>

Debit	W2EQP12 – Depreciable Equipment	XX	
Credit	X2OUTLY Capital Outlay Expenses		XX
<Establish fund-level capital assets and eliminate outlay expenditures associated with the assets.>			

Entries to record depreciation expense and accumulated depreciation for the donated assets will also be generated by AM and pushed to the CAFR ledger throughout the year.

Typically capital outlay expenditures in the ACTUALS ledger should be consistent with the assets added to STAR AM during the fiscal year. However, as noted above, there will be no capital outlay expenditure reported in the ACTUALS ledger because either 1) a revenue transaction was recorded or 2) the physical capital asset itself was donated generating no expenditures. When combining the ACTUALS ledger with CAFR ledger entries, negative capital outlay expenditures will result on the trial balance worksheet.

If a physical asset was donated to the fund and no revenue was reported in the ACTUALS ledger, agency GAAP accountants should make the following ACFR adjusting entry:

Agency Adjusting Entry Needed to Reconcile Capital Outlay When No Revenue or Expenditures in ACTUALS:

Debit	X2OUTLY Capital Outlay Expenditures	XX	
Credit	X3CNTRC Capital Contributions		XX

<Eliminate negative capital outlay expenditures for donated assets and record a revenue for the capital contribution (of a physical asset).>

If agencies received cash as capital contributions that they subsequently spend (or get reimbursed for capital asset purchases) both revenues *and* expenditures will be recorded in the ACTUALS ledger. If expenditures were properly coded to a capital outlay expenditure, no additional entry will be necessary. If there is a difference when reconciling outlay per ACTUALS to the CAFR ledger, a reclassification entry may be necessary to match capital outlay between the two ledgers:

Agency Reclassification Entry Needed to Reconcile Capital Outlay for Assets Purchased with Federal Aid or Donated Cash but Not Coded as a Capital Outlay Expenditure in the ACTUALS ledger:

Debit	X2OUTLY Capital Outlay Expenditures	XX	
Credit	Expenditures (agency must determine)		XX

<Eliminate negative capital outlay expenditures for donated assets by reclassifying expenditures not coded to a capital outlay code in the ACTUALS ledger purchased with cash donations.>

d. Adjusting for Capital Assets Extracted from the Capital Improvement and Building Trust capital projects funds.

Each year, the Capital Accounting Section prepares extraction entries for proprietary funds related to financial activity of construction projects that originated in the Capital Improvement (36300) or Building Trust (36000) funds but which belong to the proprietary funds. The extraction entries, comprised of a balance sheet and operating statement, in effect "give" capital assets, as well as all other project-related financial activity, to the proprietary GAAP fund and remove them from the project funds. However, capital asset are also recorded in STAR AM by the proprietary fund, including those capital assets that are recorded as part of the extraction entry from Capital Accounting. Thus, to eliminate double counting of capital assets that would otherwise occur, SCO-FRS' ACFR adjusting entry will remove the capital assets.

Starting in FY 2019, SCO-FRS will obtain an electronic data file from Capital Accounting. SCO-FRS will use the file to upload extraction entries to the ACFR Trial Balances. When combined with other financial activity of the fund, these extracted balances compile a set of GAAP-based financial statements. More information on the extraction entries is detailed in Section IV-5.

The AM entry generated and pushed to the CAFR ledger when assets are added to AM debits a capital asset and credits capital outlay expenditures. The extraction entries will exclude all completed assets from the *beginning balances* to avoid double counting. However, the extraction entries also include assets completed during the year which were moved out of CIP. The ACFR entry needed to eliminate the duplication should credit capital assets added during the fiscal year with an offsetting debit to capital outlay expenditures to bring both accounts up to $0.

The following is the SCO-FRS entry that will be made for proprietary funds to remove duplicated completed **capital accounting-funded assets added to STAR AM** during the year. Note that CIP is *excluded* from the entry because CIP is never recorded in STAR AM. Also, since the capital asset detail is classified into the correct account in STAR, but recorded to a more generic account in the extraction entries, the generic account is the correct account for this entry.

SCO-FRS entry to remove duplicated completed capital assets:

Debit	X2OUTLY Capital Outlay Expenditures	XX	
Credit	Capital Assets (Completed Construction)		XX

<Remove double counted capital assets originating through capital projects funds that were added to STAR AM during the fiscal year and also included in the Capital Accounting extraction entry.>

The timing of the distribution of the completed construction report may affect the timing of capital assets being added to STAR AM. Agencies should add completed construction projects to AM throughout the year as they become aware of their completion through periodic reports from Capital Accounting staff. If all assets acquired through funds 36300 and 36000 are added to AM by the reporting cutoff, the entries generated by AM will be included with the addition entries (illustrated earlier in this section) and the elimination of outlay expenditures in the entry above is necessary.

If *none* of the assets acquired via capital projects are added to STAR AM prior to the close of the fiscal year, the above entry will not be necessary.

If a *portion* of capital assets acquired via capital projects are added, the entry to eliminate capital outlay expenditures will have to be adjusted to reflect only the assets that were added to AM. The capital assets added via the extraction entry would add the rest of the capital assets for the GAAP fund.

To summarize, the SCO-FRS adjustment seen above will be developed to adjust the amount of capital assets (the CIP balance) reported in the extraction entries received from Capital Accounting based on the amount of capital assets added to STAR AM during the year. The amount of the entry should be correct because agencies are required to confirm their completed construction figures with capital accounting staff prior to the issuance of the CIP report.

e. Report capital assets disposed of during the fiscal year.

There may be three sets of entries in STAR related to asset disposals: 1) an entry will be recorded in the ACTUALS ledger to reflect the receipt of cash by an agency for the sale of a disposed asset; 2) CAFR-ledger entries will be recorded after the asset is disposed in AM: and 3) an ACFR entry will be needed to reclassify miscellaneous revenue from entry 1 to gain and loss so it nets with the amount of entry 2. Consideration needs to be made for each set of transactions for GAAP reporting purposes.

If an agency received cash proceeds from the disposal of assets, the ACTUALS ledger should simply report a debit to cash and a credit to a revenue account such as 5942000 Proceeds Sale of Prop Non-Op, 5943000 Sale of Capital Assets, or 5920000 Miscellaneous Revenue. All three of these revenue codes roll up as nonoperating revenues to the "Other Miscellaneous Revenue" account on the ACFR trial balance.

When capital assets records are updated in STAR AM to reflect their disposal, adjusting entries are created and pushed to the CAFR ledger to reduce capital assets and accumulated depreciation. The entry also records a loss (a negative revenue under ACFR account X3DSPCP gain/loss) on the difference between the capital asset and accumulated depreciation accounts. This is the case because consideration of the cash receipt is appropriately NOT included in the CAFR ledger*. Accurate GAAP reporting is generated by combination of the two ledgers in the trial balance.

In addition, agencies should make an entry to reclassify the revenue from entry 1 from Miscellaneous Revenue (X3MISC0) to the Gain Loss on Disp Cap (X3DSPCP) account, which will net with the amount in entry 2 and properly report the overall gain and loss in the ACFR.

Because assets are tracked in STAR by fund, the template entries in the CAFR ledger are made by fund. The CAFR ledger entry to record a capital asset disposal, which removes the capital asset and accumulated depreciation and reflects the gain or loss, is as follows (non-shaded lines):

Debit	Cash	XX		ACTUALS
Credit	Other Miscellaneous non operating		XX	ACTUALS
<to record cash received for the sale of an asset>				
Debit	Accumulated Depreciation	XX		ACFR
Debit/Credit	Gain (loss) on Sale of Capital Asset	XX		ACFR
Credit	Capital Assets - (e.g. equipment)		XX	ACFR
<To record the disposal of an asset sold>				
Debit	Other Miscellaneous non operating	XX		ACFR
Credit	Gain (loss) on Sale of Capital Asset		XX	ACFR
<To reclass revenue from sale of an asset in the correct account>				

As seen in the entry above, the revenue in the ACTUALS ledger, if any, is presented in the miscellaneous revenue account, then an entry is needed to reclassify this revenue to the Gain Loss on Disp Cap as Nonop ACFR account.

* *Note*: If agencies indicate proceeds were received from the sale in the STAR AM, that amount is debited (as a revenue, not cash) and rolled up in the gain/loss account in the AM template entry. The debit to a revenue for proceeds in AM is counterintuitive but is necessary because ACTUALS and AM entries in the CAFR ledger are combined for GAAP reporting purposes.

A summary entry for proprietary fund capital assets, incorporating all the entries described above, follows:

Debit	Capital Assets – Type	xxx		(a)
Credit	Accumulated Depreciation		xxx	(b)
Credit	Net Position		xxx	(c)
Debit	Revenue	xxx		(d)
Debit	Depreciation	xxx		(e)
Credit	Capital Outlay Expenditures (Purchased capital assets)		xxx	(f)
Debit/Credit	Gain (Loss) on Sale of Capital Assets	(xxx)	xxx	(g)

<To record capital assets, accumulated depreciation, and related activity in FY XX>

(a) Capital asset (gross) at year-end
(b) Accumulated depreciation at year-end
(c) Net book value beginning of year.
(d) Amount received for capital assets disposed of during year. (Reflected as revenue account in ACTUALS ledger.)
(e) Annual depreciation expense.
(f) Amount recorded as expense in the ACTUALS to be capitalized (will match amount of capital assets added in STAR AM) less amount funded through capital projects funds.
(g) Difference between net book value and selling price for disposed assets.

The summary entry above should be consistent with note disclosure information for the amount of capital assets by class at year-end and other required information to be disclosed in the footnotes. SCO-FRS will create the capital asset disclosure using information available in STAR. A pre-populated disclosure form will be provided to accountants for their GAAP fund for their review and to allow them to add additional information as necessary.

ACCRUALS

In STAR, agencies may accrue expenditures paid subsequent to June 30 but relating to the previous fiscal year for a reasonable cutoff period that still allows for submission of ACFR materials by assigned due dates. For GAAP reporting purposes, agencies should identify significant (>= $100,000) additional accrued expenditures for capital assets/construction in progress within this cutoff period, following procedures similar to those found in Section V - 8 Payables of this Manual.

For the additional accrued expenditures relating to projects recorded in the Capital Improvement or Building Trust funds, agencies should provide the State Controller's Office - Capital Accounting Section with the appropriate adjusting entries that include project information. The Capital Accounting Section will, in turn, incorporate these adjustments into (a) their calculations of amounts to be reported in the capital projects funds, and (b) data they submit to agencies regarding construction projects. (Also see "Year End Accruals" discussion under Capital Construction projects discussed later in this section.)

If significant (>= $100,000), agencies should also provide the Capital Accounting Section with an entry for retainages payable related to projects of these funds, where appropriate.

Additional accruals related to capital asset/construction in progress activity **not** accounted for in the Capital Improvement or Building Trust funds should be included in the financial data that agencies submit directly to the Financial Reporting Section.

CAPITAL CONSTRUCTION PROJECTS –- Accounted for in Capital Improvement and Building Trust Funds in the ACTUALS Ledger

Classification of Construction Projects

In order to prepare the construction-related adjusting entries and note disclosure information required for GAAP reporting, the following critical factors must be pre-identified for each construction project:

- ***Construction*** versus ***repair*** projects. This distinction will determine (1) whether the capital projects funds will report related expenditures as functional or capital outlay expenditures, and (2) the amount that agencies will ultimately report as additions to capital assets on the financial statements.
- ***Completed*** versus ***in-progress*** status. This distinction will determine at what time the capital assets will be reclassified from construction-in-progress to capital assets in use (e.g., reclassified to land and land improvements, buildings and improvements, and equipment).
- ***GAAP fund.*** This factor identifies the GAAP fund for those agencies with more than one type of GAAP fund ultimately reporting capital assets (e.g., governmental activities versus enterprise fund).

DOA Division of Facilities Development (DFD) project managers provide an initial determination of whether a project is considered capitalizable construction rather than repair and maintenance *and* whether it is considered completed rather than construction-in-progress. Periodically throughout the year, the Capital Accounting Section distributes construction project reports containing this information for agency review. **Attachment A to this subsection of the GAAP Manual entitled "Guidelines for Classifying Construction Projects" provides guidance for understanding the classification of projects on this construction project report.**

Agencies who identify needed changes to information provided in the construction projects reports must notify the SCO-Capital Accounting Section of such changes following their instructions. The last day for agencies to submit changes to project classifications is listed in the Timetable in Section IV-3 of this Manual.

The Capital Accounting Section will use the information on the "final" construction project report to compile GAAP adjusting entries and construction in progress data. Agencies should compare information in the final construction project report to capital assets entered into AM during the fiscal year to identify if all completed assets are in AM. To the extent possible, agencies should be entering assets in AM throughout the year as capital projects are completed. Agencies should compare completed capital projects per agency additions reported in AM to completed construction reported in the Capital Accounting completed construction report. Assets should be added to AM in the year completed, if possible, to avoid having to make additional ACFR adjusting entries in the current and subsequent fiscal years.

If a project contains both capitalizable and noncapitalizable (e.g., "repair") expenditures or relates to different types of capital assets (e.g., land versus buildings), percentage estimates may be used to determine the split among project classifications. For example, a project could be 75% for Building Improvements and Additions and 25% for Repair/ Maintenance.

Year End Accruals

Agencies should determine if significant (>=$100,000) ACFR adjusting entries are needed to accrue additional expenditures for a reasonable cutoff period for the Capital Improvement or Building Trust funds that are not included in the ACTUALS ledger at fiscal year end. Agencies should submit the ACFR adjusting entries to the Capital Accounting Section by the required due date which is included in the Timetable (see Section IV - 3 of this Manual). Capital Accounting staff will include those entries in the fund level statements they prepare.

Because activity reported in the capital projects fund is tracked by project, adjusting entries impacting the Capital Improvement or Building Trust funds submitted by agencies to the Capital Accounting Section must identify the entries by project. Agencies should make the entries as indicated on the CA1/CA1a and CA8/CA8a adjusting entry pages and email them to the Capital Accounting GAAP accountant. Capital accounting staff will make accruals for significant amounts paid subsequent to June 30th and prior to the completion of the CIP report that must be distributed in August.

Construction in Progress

Capital Assets Originating through Capital Improvement and Building Trust (Budgetary) Funds

Most construction projects are accounted for through the Capital Improvement and Building Trust budgetary funds. For GAAP purposes, however, the reporting of construction in progress depends upon whether the fund ultimately assuming ownership of the capital asset is a *governmental* or a *proprietary* fund.

Governmental Funds

The **Capital Accounting Section is responsible for reporting construction in progress of governmental funds** for projects originating in the Capital Improvement or Building Trust funds. Accordingly, the Capital Accounting Section should make a government-wide entry to report capital assets from projects ***uncompleted*** at year end as "Construction in Progress".

Agencies responsible for governmental funds should report capital assets from projects *completed* during the year. This is accomplished by adding assets to STAR AM which will generate entries into the CAFR General Ledger. In addition, agencies should reconcile capital assets taking into consideration completed construction for capital projects funds for the fiscal year. The Capital Accounting Section will also report these completed projects to SCO-FRS. The total amount of "Completed Construction" reported by agencies in the reconciliation **should agree** with the amount of completed construction provided to them by the Capital Accounting Section.

At times, agencies may encounter specific situations where the amounts of new capital assets to be added to the AM records do not exactly correspond to the amounts identified by the Capital Accounting Section as completed. The major reason for this difference would be the use of estimates to determine the split of project classifications between capital asset and repair/ maintenance expense mentioned earlier in this section. At the government-wide level, agencies reporting in the General/ special revenue funds may include a government-wide adjusting entry using the applicable functional expenditure and W2COMPL Capital Completed Construction accounts for the amount of the variation identified during the completed capital assets reconciliation.

SCO-FRS will monitor these adjustments for materiality. As shown in entry #1d, of this subsection, the agency's debit to the clearing account W2COMPL Capital Completed Construction **must equal** the Capital Accounting Section's credit to this account. The interrelationship between agency and Capital Accounting Section entries is summarized on the following page:

Government-wide level – Capital Accounting Entry:

Entry #1d
Debit: W2CIP00 Capital Assets – Construction in Progress (end of year construction in progress)
Debit: W2COMPL CapitalCompleted Construction (This is a CLEARING ACCOUNT)
Credit: X2OUTLY Capital Outlay Expense
Credit: W7UNRES Unrestricted Net Position (beginning of year construction in progress)

The W2COMPL account, is a clearing account. It should zero out between Capital Accounting and agency government-wide entries.

STAR AM Entry pushed to CAFR Ledger:
Entry # CA-2
Debit: Capital Assets – Depreciable (various detailed STAR accounts used in entries pushed into CAFR ledger from AM)
Debit: Capital Assets – Non depreciable (various detailed STAR accounts used in entries pushed into CAFR ledger from AM)
Credit: W2OUTLY Capital Outlay Expenditure (pushed into CAFR ledger

Capital assets added will correspond to additions to STAR AM.

Agency Accountant Makes These Entries
Debit: W2OUTLY Capital Outlay Expenditure
Credit: W2COMPL CapitalCompleted Construction
<For completed capital assets reported in AM >

Debit/Credit: Functional Expenses (e.g., Commerce, Education, Environmental Resources, etc.)
Debit/Credit: W2COMPL Capital Completed Construction
<Entry made by Agency if necessary to adjust functional expenses to reflect reasonable variances due to use of estimates in classifying a particular project.>

Also, as noted above, the total amount of "Completed Construction" reported by agencies must agree with the amount of completed construction provided to them by the Capital Accounting Section. However, to accommodate these differences, agencies may make an adjusting entry to functional expenses and completed construction. This adjustment will be part of the reconciliation of capital assets and will bring the year-end totals into agreement.

Only capital assets that are retained (owned) by the State should be capitalized. At times, state agencies provide grants to local governments or other external parties that are used to purchase land or other capital assets that become property owned by that government or external party. These capital projects expenditures should be reported as functional expenditures rather than capital outlay in the capital projects funds. Such projects are, therefore, excluded from construction in progress assets reported.

Proprietary Funds

Starting in FY 2019, SCO-FRS will obtain extraction entry data from Capital Accounting and upload those entries into the ACFR Trial Balances. GAAP Manual Section IV-5: *Capital Accounting Extractions* explains the process. Agency accountants are still responsible for reviewing the extraction entries for accuracy and making additional ACFR entries as needed. Funding source (GPR or PR) does not determine which fund reports CIP. Rather, the fund that ultimately reports the capital asset (because they will own it) is responsible for also reporting the CIP. The following provides an illustrative Capital Accounting entry for adjusting CIP:

Debit	Construction in Progress	XX	
Credit	XXXX*		XX

<To record Construction in Progress at June 30, XX from Capital Accounting sources.>

* The account credited will depend on the funding source. For example, PR funded construction projects would reflect bond proceeds, while GPR funded projects would reflect a transfer–in to the enterprise fund. Attachment A to Manual Section 13 “Bonds” includes illustrations of the entries related to bond proceeds for PR and GPR

Capital Assets Not Originating through Capital Improvement and Building Trust (Budgetary) Funds

Agencies are responsible for reporting any construction in progress or software in progress for capital assets not initially accounted for in the Capital Improvement and Building Trust budgetary funds. The entries required are dependent upon whether the related expenditures/expenses are initially coded as capital outlay on system. For reconciliation purposes, a separate ACFR adjusting entry should be made to differentiate between agency in-house projects versus any capital accounting projects. This will allow FRS to more easily compare the CIP associated with capital projects to capital accounting reports.

INTEREST COSTS INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD

Starting in FY 2021, with the implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, interest costs incurred before the end of a construction period are required to be expensed as incurred, rather than capitalizing them as part of the cost of the asset.

Prior to FY 2021, enterprise funds capitalized interest expense following the guidance of GASB 62. For debt service originating through general obligations bonds, the Capital Accounting Section determined the amount of interest to be capitalized for enterprise funds and recorded an adjusting entry accordingly. These amounts were included as part of the extraction entries.

ACCOUNTING FOR COSTS OF CAPITAL ASSETS REMOVED

When a new asset substitutes for an old asset as a result of an addition, improvement for a major repair, all costs should be capitalized in one of two ways, depending on the circumstances:

1. *Substituting the new asset for the old asset* -- This alternative is the most theoretically correct. If the carrying amount of the old asset is known, the cost of the old asset is removed and replaced with the cost of the new asset.

2. *Capitalizing the cost of the addition or improvement* -- If the carrying amount of the old asset cannot be determined, this approach may be used. The justification is that even though the carrying amount of the old asset is not removed from the accounts, sufficient depreciation was taken on the old asset to reduce the carrying amount almost to zero. Although this assumption may not be true in every case, the differences are not often significant.

The accounting treatment for major repairs is the same as that for additions, improvements and replacements depending upon the type of repair made.

TRADE-IN – GOVERNMENTAL FUNDS

When a trade-in is involved in a purchase of a new capital asset for governmental activities, the old asset is removed and the new asset is recorded at fair value (cash plus any trade-in allowance).

For the fund statements, the State will use the “net” method for reporting the purchase of capital assets in the operating statements. (Using the “gross” method, a governmental fund reports an expenditure for the fair market value of the new capital asset and an “other financing source” for the trade-in allowance. Using the net method, a governmental fund reports the expenditure for the amount of cash paid.)

Since STAR already reflects the purchase of capital assets following the net method, agencies need not prepare an entry to adjust expenditures and other financing sources.

TRANSFER OF CAPITAL ASSETS BETWEEN FUNDS/AGENCIES

PeopleSoft Asset Management has transfer functionality in AM for transferring capital assets between GAAP funds. This functionality generates entries that are pushed to the CAFR ledger.

Agency Entries to Report the Transfer of Capital Assets Within the Same Fund Between Agencies

Occasionally, capital assets are transferred within a fund between two agencies (typically the General Fund). After the capital asset is transferred in AM, AM will create entries and push them to the CAFR ledger. SCO-FRS will reverse these entries at the fund level and establish the appropriate entries at the government-wide level.

	Agency with the Transfer In		**Agency with the Transfer Out**	
Fund statements	Debit: Capital Asset	10	Debit: Accum Depr	8
	Debit: Depreciation Exp	8	Debit: Gain/Loss on Disposal	2
	Credit: Capital Outlay	(10)	Credit: Capital Asset	(10)
	Credit: Accum Depr	(8)	<STAR AM template entry for asset disposals.>	
	<STAR AM template entry for asset acquisitions.>			
	Debit: Capital Outlay	10	Debit: Capital Asset	10
	Debit: Accum Depr	8	Credit: Gain/Loss on Disposal	(2)
	Credit: Capital Asset	(10)	Credit: Accum Depr	(8)
	Credit: Depreciation Exp	(8)	<FRS Trial Balance worksheet entry.>	
	<FRS Trial Balance worksheet entry.>			
	There is no need to report an Intrafund Transfer In/Out, because the activity is all within one fund and should reconcile.			
Government-wide statements	Debit: Capital Asset	10	Debit: Accum Depr	8
	Credit: Gain/Loss on Disposal	(2)	Debit: Gain/Loss on Disposal	2
	Credit: Accum Depr	(8)	Credit: Capital Asset	(10)

* Because the transfer is within the same fund, the amount of the transfer does not matter; no additional entries are needed.

Agency Entries to Report the Transfer of Capital Assets between Governmental and Business-type Activities

Occasionally, capital assets are transferred between governmental fund types and enterprise funds. After the transfer occurs, STAR AM will create the entries discussed in the sections above. FRS will reverse these entries at the fund-level for governmental funds, and establish the appropriate entries at the govt-wide level.

If the net interfund transfer in/out is greater than or equal to $100,000 for an individual asset, agencies would make additional ACFR entries to report this transfer for the government-wide statements as follows

Transfer of asset from an enterprise fund to a governmental fund

	Governmental Fund Transfer In	Enterprise Fund * Transfer Out
Fund statements	Debit: Capital Asset 10 Debit: Depreciation Exp 8 Credit: Capital Outlay (10) Credit: Accum Depr (8) <STAR AM template entry for asset acquisitions.>	Debit: Accum Depr 8 Debit: Gain/Loss on Disposal 2 Credit: Capital Asset (10) <STAR AM template entry for asset disposals.>
	Debit: Capital Outlay 10 Debit: Accum Depr 8 Credit: Capital Asset (10) Credit: Depreciation Exp (8) <FRS Trial Balance worksheet entry.>	Okay to leave at fund-level because full accrual statements.
Government-wide statements	Debit: Capital Asset 10 Credit: Gain/Loss on Disposal (2) Credit: Accum Depr (8)	Entry above flows through to the govt-wide statements
	Debit: Gain/Loss on Disposal 2 Credit: Interfund Transfer In (2) <Additional entry if transfer amount is >= $100,000	Debit: Interfund Transfer Out 2 Credit: Gain/Loss on Disposal (2) <Additional entry if transfer amount is >= $100,000

Transfer of asset from a governmental fund to an enterprise fund

	Enterprise Fund * Transfer In	Governmental Fund Transfer Out
Fund statements	Debit: Capital Asset 10 Debit: Depreciation Exp 8 Credit: Capital Outlay (10) Credit: Accum Depr (8) <STAR AM template entry for asset acquisitions.>	Debit: Accum Depr 8 Debit: Gain/Loss on Disposal 2 Credit: Capital Asset (10) <STAR AM template entry for asset disposals.>
	Debit: Capital Outlay 10 Credit: Capital Contribution (2) Credit: Depreciation Exp (8) <Agency entry to adjust the template entry.>	Debit: Capital Asset 10 Credit: Gain/Loss on Disposal (2) Credit: Accum Depr (8) <FRS Trial Balance Worksheet entry.>
Government-wide statements		Debit: Accum Depr 8 Debit: Gain/Loss on Disposal 2 Credit: Capital Asset (10)
	Debit: Capital Contributions 2 Credit: Interfund Transfer In (2) <Additional entry if transfer amount is >= $100,000	Debit: Interfund Transfer Out 2 Credit: Gain/Loss on Disposal (2) <Additional entry if transfer amount is >= $100,000

* Internal service funds would report a similar entry at the fund level. Because both the internal services funds and governmental funds roll-up to governmental

Agency Entries to Report the Transfer of Capital Assets between Enterprise Funds

After the capital asset is transferred in STAR AM, AM will create the entries discussed in the sections above.

If the net interfund transfer in/out is greater than or equal to $100,000, agencies would make additional ACFR entries to report this transfer as follows

Transfer of asset from an enterprise fund to an enterprise fund:

	Enterprise Fund **Transfer In	**Enterprise Fund Transfer Out**
Fund statements	Debit: Capital Asset 10 Debit: Depreciation Exp 8 Credit: Capital Outlay (10) Credit: Accum Depr (8) <STAR AM template entry for asset acquisitions.>	Debit: Accum Depr 8 Debit: Gain/Loss on Disposal 2 Credit: Capital Asset (10) <STAR AM template entry for asset disposals.>
	Debit: Capital Outlay 10 Credit: Capital Contribution (2) Credit: Depreciation Exp (8) <Agency entry to adjust the template entry.>	
	Debit: Capital Contributions 2 Credit: Interfund Transfer In (2) <Additional entry if transfer amount is >= $100,000	Debit: Interfund Transfer Out 2 Credit: Gain/Loss on Disposal (2) <Additional entry if transfer amount is >= $100,000
Government-wide statements	Entries above flow through to the govt-wide statements	Entries above flow through to the govt-wide statements

** Internal service funds would report a similar entry at the fund level and government-wide level.

Note: *GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, Paragraph 15, requires that capital assets transferred through an intra-entity transaction should be valued at its "carrying value" of the transferor rather than be revalued. Therefore, capital assets purchased from or donated by another fund or a component unit should be reported by the transferee at the same value as previously reported by the transferor. That is, the value cannot change when an asset remains within the ACFR reporting entity. Additional guidance is available from SCO-FRS staff as necessary.*

LEASED AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ASSETS

Capital assets include those acquired through leases or subscription-based IT arrangement (SBITAs), which are right to use assets. These assets are recorded in STAR AM through the lease administration module. Leased assets are accounted for in accordance with GASB 87-Leases, which was implemented starting with FY 2022. subscription-based IT arrangement assets are accounted for in accordance with GASB 96, implemented starting with FY 2023. Section V-10 "Leases and Subscription-Based Information Technology Arrangements" of the Manual discusses the policies and procedures relating to the required presentation of leases and SBITAs.

IMPAIRMENT OF CAPITAL ASSETS

Following the guidance of GASB 42 as discussed under "Policy," certain conditions of capital asset impairment may require that the asset be written down and a loss reported on the operating statement. The appropriate entry to do so will depend on whether the capital asset relates to a governmental or a proprietary fund.

The entry will be initiated when agencies make an adjustment to the impaired capital asset recorded in STAR to increase accumulated depreciation. This will result in an entry pushed to the CAFR ledger that increases depreciation expense for the current year.

Governmental Funds

To reclassify from depreciation expense already set up in the current fiscal year entries, governmental funds prepare the following entry for the government-wide financial statements.

Debit:	Expenses (by function, such as, Commerce, Education, etc.)	xxx	
Credit:	Depreciation Expense		xxx
	< Report loss on the impairment of a capital asset rather than depreciation expense.>		

Proprietary Funds

Proprietary funds prepare the following entry for the proprietary fund financial statements.

Debit:	Operating - Other Expenses	xxx	
Credit:	Depreciation Expense		xxx
	<Report loss on the impairment of a capital asset rather than depreciation expense.>		

Attachment A

Guidelines for Classifying Construction Projects Accounted for on STAR in Capital Improvement and Building Trust Funds

The State Controller's Office-Capital Accounting Section obtains project classification information from agency accountants that is used to determine if the project(s) should be capitalized or expensed for the Annual Comprehensive Financial Report (ACFR).

$100,000 Capitalization Threshold for Capital Projects and GAAP Reporting: Agencies may automatically designate new projects with budgets of less than $100,000 as expenses. This option is designed to reduce the amount of time agencies spend determining how to categorize immaterial projects that do not have a significant impact on accurate GAAP reporting.

Multiple Classifications for a Project: It is possible to have more than one classification for a project. If more than one classification is required, agencies should determine the percentage for each component e.g. 75% for new construction and 25% for equipment. This project should be classified as 75% "New Construction" and 25% "Equipment – Added to the cost of a building."

Project Completion Date: The reclassification of projects from "Construction-In-Progress" to "Completed Construction" is based on the "Completed Date" provided by agencies or Division of Facilities Development project managers.

Agencies with questions concerning these guidelines or a specific project should contact SCO-CA.

The following guidelines will assist agency accountants in classifying projects for ACFR reporting purposes:

- **New Construction - NC (Capitalized):**
  - Acquisition or construction of a new asset.
  - Include projects in the design phase. Reclassification to "Study" may be necessary if project is not approved for construction.

- **Building Improvements and Additions – BI (Capitalized):**
  - Major repairs that benefit more than one operating cycle or periods. e.g., an overhaul occurs that benefits several periods and/or extends the useful life of the asset like roofing, siding, or window replacements.
  - Addition to a building or improvements and replacements if the future service level has been increased.
  - Include projects in the design phase. Reclassification to "Study" may be necessary if project is not approved for construction.

- **Repair/Maintenance – RM (Expensed):**
  - Maintain the existing level of service of an existing asset.
  - Ordinary repairs that maintain plant assets in operating condition.
  - Extraordinary cost incidental to the construction of fixed assets.

- **Land Purchases and Improvements - Added to the cost of the land – LA (Capitalized):**
  - Land improvements that are directly related to an asset and they were incurred as a result of increasing the existing level of service of the land. Examples of land improvements are culverts, yard lighting, landscaping, and other site improvements.
  - Cost to remove or demolish a building or other structure existing at the time of acquisition of land with intention or removal or demolition to accommodate its intended use.
  - Land purchases retained by the state.

- **Land Improvements – Not added to the cost of the land – LN (Expensed):**
  - Land Improvements not capitalized. e.g., resurface or sealing a parking lot and fence repairs.
  - Remediation - Underground tank removal and soil de-contamination.
  - Cost to remove or demolish a building or other structure existing at the time of acquisition of land with no intention or removal or demolition to accommodate its intended use.

- **Study – SY (Expensed):**
  - Consulting services and planning that does not result or become part of a capital asset.
  - Projects never moved forward from the design phase. Note: These projects should be reclassified from "New Construction" or "Building Improvements and Additions" if necessary.

- **Equipment – Added to the cost of a building – EB (Capitalized):**
  - Equipment purchases will be added to the cost of a building. e.g., cooling and heating system, elevator, fire alarm systems, or security windows.

- **Equipment – Capitalized: Not added to the cost of a building – EC (Capitalized):**
  - Meets the capital asset capitalization criteria e.g., equipment that is greater than $5,000. Note: If an agency opts to automatically expense all projects with budgets of less than $100,000, then the $5,000 threshold is replaced by the higher threshold. Thus, equipment costs of less than $100,000 would be expensed and reported in the EN category.

- **Equipment - Non- Capitalized: Not added to the cost of a building – EN (Expensed):**
  - Does not meet the capital asset capitalization criteria e.g., equipment that costs less than $5,000 and equipment adjustments. **Note:** If an agency opts to automatically expense all projects with budgets of less than $100,000, then the $5,000 threshold is superseded by the higher threshold. In either case, the equipment would be expensed.

- **Grants/Loans to Other Governments or Other External Parties – GR (Expensed):**
  - Payment of grants or loans to another government that does not result in a capital asset reported by the state.
  - Grant/loan disbursements to individuals or organizations that do not result in a capital asset reported by the state.

General Information

Payables, for ACFR purposes, are defined as short-term liability accounts reflecting amounts owed to individuals or organizations for goods or services received by the State. Generally, only payables to private parties are included in "Accounts Payable and Other Accrued Liabilities." The liability accounts "Due to Other Funds," "Due to Component Units," and "Due to Other Governments" are specific types of ACFR payables. The definition of "Due to Other Funds" parallels that of payables except that amounts are owed to other GAAP funds rather than individuals or organizations. Similarly, amounts due to discretely presented component units should be reported as "Due to Component Units."

Amounts owed to other governments should be shown on the balance sheet/statement of net position as "Due to Other Governments." This account, however, is more restrictive in that it should only be used for amounts owed for program or grant purposes. Amounts owed to other governments for operating purposes (such as postage, utilities, rent, etc.) should instead be classified as accounts payable.

Most accounting systems are designed to record liabilities for purchases of goods or receipt of services when the goods/services are received or, practically, upon receipt of the related invoice. STAR, the State central accounting system, basically follows these guidelines, but full compliance is not always possible because of statutory rules and budgetary practices. Payments are set up in STAR via the Accounts Payable (AP) module and result in the establishment of an expenditure and a payable in the control account 2000000. The payable is cleared once the payment has been released. Payroll liabilities come into the AP module from the Human Capital Management (HCM) system and are also cleared when payment is released. Finally, the Billing module of STAR also generates payables that flow through the AP module but are coded to the Interunit Payables (2004000) account code. Interunit payable balances reflect amounts owed to other state agencies that are created through STAR interunit functionality.

Adjustments are necessary to revise and supplement the payables recorded in the STAR ACTUALS ledger to arrive at the appropriate figure for GAAP reporting and include:

- Accruing additional expenditures and payables
- Removing expenditures and payables reported in a GAAP fund due to how a transaction was coded in STAR (either by design or in error); and
- Reclassifying payables to the correct ACFR reporting payable such as Due to Other Funds or Due to Other Government

The first two types of entries impact expenditures and liabilities reported for the fiscal year while the third simply reclassifies an existing liability amount.

The ACFR trial balance will record accounts payable balances based on financial activity recorded in the ACTUALS ledger during the fiscal year.

Adjustments required for ACFR reporting purposes should be made in the CAFR ledger via an adjusting entry.

Agencies will be responsible for making most of the ACFR entries required related to accounts payable and should make those entries in the CAFR ledger. SCO-FRS will make some entries and include them on the ACFR trial balances used by agencies to complete their GAAP work.

Considerations for Issuing Timely and Materially Correct Financial Statements

"The best is the enemy of the good." Voltaire

A serious consequence of choosing a prolonged review period or reviewing unnecessary items, is a delay in issuing financial statements thus preventing users from obtaining *any* information. The selected procedure to search for unrecorded liabilities should consistently be performed on a population that extends only through a period that balances timeliness with material accuracy. Under the principles of risk-based financial statement preparation it is unnecessary, and inefficient, to review every payment after June 30th.

AP reports prepared centrally by SCO-FRS for agency use in preparing ACFR entries may not include immaterial amounts. Agencies are encouraged to take a similar approach for AP not reported in STAR. Agencies should contact SCO-FRS to discuss questions they may have on materiality and a reasonable approach for reporting.

Setting up Accrual Entries versus Reversing Entries

To reduce the risk of errors as well as the amount of work required, agencies should **not** combine the entry to accrue current-year payables with the reversing entry for the prior year payables.

Detailed Reports of Open STAR Accounts Payable (AP)

SCO-FRS will obtain and analyze detailed information for open accounts payable from the STAR AP module for all agencies and GAAP funds. The detailed report will be reconciled to the ACTUALS ledger account balance to ensure accuracy. The information will be distributed to GAAP accountants for use in efficiently identifying required ACFR entries.

Detailed Reports of Open Badger State Industries Amounts

SCO-FRS will obtain and analyze Badger State Industries detailed accounts receivable information for developing an AP report to assist agencies in identifying payables owed to the BSI GAAP fund that should be reported as Due to Other Funds. Prior to FY 2019, DOC staff provided the report to agencies. SCO-FRS is now responsible for developing and distributing the report to agencies. The required ACFR entries won't change – just the entity sending out the report will change.

DOC staff shall timely provide an electronic file containing the BSI AR details necessary for SCO-FRS staff to create the report. SCO-FRS will analyze the data file, apply appropriate materiality thresholds in conjunction with other considerations, and develop and electronically distribute the report to agency GAAP accountants.

Professional judgment will be applied by SCO-FRS when determining the information to be included in the detailed AP reports distributed. Clearly immaterial items may not be distributed to agencies to limit unnecessary work especially for matching Due To/Due From amounts.

The following steps should be followed by GAAP accountants to ensure accuracy of the ACFR:

- *Gain an understanding of potential outstanding material payables based on fund financial activities.*

- *Review the accounts payable figure provided on the trial balance* prepared by the SCO-FRS to gauge the reasonableness and accuracy of the payables currently reported in the ACTUALS ledger for your fund. Review expenditures in conjunction with the payables to identify if expenditures may be understated or overstated.

- *Review subsequent year's vouchers* to identify material additional payables to be accrued that relate to goods or services received prior to June 30 but recorded in the STAR ACTUALS ledger the next fiscal year. Payments that are clearly inconsequential in amount need not be reviewed or accrued. To ensure timely financial statements, a reasonable cutoff period must be used.

- *Identify other material payments*, not previously considered or identified by other procedures that meet the criteria for accounts payable recognition.

- *Identify and reclassify payables due to other government*s. Amounts should be reclassified as “Due to Other Governments” only if they are for program or grant purposes. Amounts owed to other governments for operating purposes (postage, utilities, or rent) should remain classified as accounts payable. The Accounts Payables External Vendors report will assist agencies in identifying these amounts. This report will be prepared by SCO-FRS and distributed to agency GAAP accountants.

- *Identify and reclassify payables due to component unit*s. “Due to Component Units,” accruals/ reclassifications are needed only for payables that exceed $100,000. The Accounts Payables External Vendors report will assist agencies in identifying these amounts. This report will be prepared by SCO-FRS and distributed to agency GAAP accountants.

- *Identify and reclassify amounts due to other GAAP funds*. If adjustments are made to “Due to Other Funds,” additional procedures, including the preparation of the Due to/from Other Funds note disclosure form, must be performed to assist SCO-FRS in the reconciliation of interfund payables/receivables. The Accounts Payables - Internal Vendors and the Badger State Industries reports will assist agencies in identifying these amounts. These reports will be prepared by SCO-FRS in conjunction with an analysis of accounts receivables balances for internal (state agency) customers. Reports will then be distributed to agency accountants.

  Note: Certain “Due to Other Funds” payables are subject to materiality thresholds. Badger State Industries (BSI) payables should be analyzed and reclassified only if a fund/agency has at least $10,000 of outstanding invoices per GAAP fund at June 30th. The SCO-FRS report for Accounts Payable Internal Vendors (Due to Other Funds) may also contain a threshold.

State Tax Withholding

SCO-FRS will make required entries to reclassify and eliminate payable balances related to state withholding tax owed to the General Fund. Amounts pertaining to this liability are reported in account 2150000 State Withholding as well as in the AP control account (2000000). SCO-FRS will determine the entries needed to reclassify amounts reported in AP control account 2000000 for individual GAAP funds and upload that entry to ACFR trial balances. Agencies need not make entries pertaining to this account.

End of the Fiscal Year Payroll Accrual – Not Applicable for the Current Fiscal Year

For ACFR purposes, an adjusting entry had historically been made to accrue expenditures for the payperiod spanning two fiscal periods but that was paid solely with new fiscal year funds. The SCO-FRS adjustment included on the trial balance worksheet for the salary and fringe benefits accruals used a 10-day allocation. This was considered materially correct except for agencies continuously staffed, such as hospitals and state parks, for which a 14-day allocation may have been more appropriate. Based on an analysis performed the payroll accrual entry is immaterial; therefore, SCO-FRS will not make this entry this year. As a result, the entry to reallocate those accruals based on a 14-day allocation will also not be made.

It should be noted that the net effect of not making the entries at the fund level is more significant (i.e. more than just a one day understatement) once every approximately 11 years. This is because there are 27 payperiods in a fiscal year every so often. Essentially, the one day understatement that happens in every other year "catches up" and there is a larger overstatement.

To avoid having a more significant misstatement in those years, we will make a restatement of beginning equity (i.e. an error correction) against the current year expenses. This will ensure that current year expenses are accurate (ending equity will be accurate whether or not we make the error correction) and that no reversing entry is needed in future years.

BACKGROUND

The "Accounts Payable and Other Accrued Liabilities" figure reported on the GAAP trial balances is a summary of STAR liability account codes 2000000-2149999, 2155000, and 2160000-2299999. A significant portion of this balance is recorded on STAR through the use of the AP module in STAR, which debits the appropriate expenditure account and credit accounts payable (liability account 2000000). The accounts payable (AP) account is subsequently debited when payment is made.

Journals may also be used to record and/or adjust payable accounts in the ACTUALS ledger. For example, agencies use journals for between fiscal year adjustments. These adjustments correct the coding of expenditures that are charged to the wrong fiscal year. For example, suppose an agency ordered and received an item in fiscal year XX, paid for it in July XX, but recorded the expenditure transaction in the next fiscal year XY. To correct this error, a journal could be processed in the ACTUALS ledger that debits expenditures in fiscal year XX and credits the "Between Year Vouchers Payable" account (#2000001). A similar entry, with the credits and debits reversed, would have to be prepared for fiscal year XY. This would result in accurate expenditures being recorded for budgetary purposes in both fiscal years.

The expenditures and payables reported in the ACTUALS ledger serve as a **starting point** for determining each GAAP fund's total amounts at year-end. Various procedures are necessary to reclassify and/or correct this beginning payable figure and to recognize additional and/or unallocated payables for ACFR reporting purposes.

Detailed Accounts Payable Reports –STAR AP Module and interunit Billings

SCO-FRS will obtain and analyze detailed information for open accounts payable from the STAR AP module for all agencies and GAAP funds. The reports will be made available to agencies after the close of the STAR AP module for the fiscal year.

SCO-FRS will break the detailed AP information into two components/reports. The first report will consist of amounts that are owed to external vendors that are *not* other state agencies. This report is intended to help agencies identify the reclassification entries needed for amounts owed to Due to Other Governments or as Due to Component Units.

The second component/report will be limited to amounts owed to other state agencies (considered internal vendors) and will be used to identify the reclassification entry needed for Due To Other Funds. Amounts owed to other GAAP funds are often not recorded to the DTOF liability account (2300000) in STAR. Rather they are recorded in a more generic account – often the 2000000 control account for Accounts Payable – necessitating an ACFR reclassification entry.

SCO-FRS will try to identify the amounts owed by state agencies to other state agencies but reported in the 2000000 AP control or 2004000 interunit payable accounts. While the liability account 2004000 Interunit Payable account typically would reflect amounts that are DTOF, that account rolls up to the Accounts Payable line in the ACFR rather than the Due To Other Fund line. As a result, an ACFR reclassification entry will be needed if the 2004000 account balance is material. The internal vendor AP amounts will be identified as a DTOF based on information in the data file such as vendor name e.g. Department of Administration or vendor code e.g. those beginning with "INTER". Internal customer data contained in the detailed Accounts Receivable file will also be used in conjunction with the internal vendor AP data to identify correlating Due TO Other Fund and Due FROM Other Fund amounts. By looking at "both sides" SCO-FRS can limit the amount of analysis required by agency accountants. Once our analysis is complete, we will communicate to the agencies/fund involved what the ACFR entries should be for the "matched" Due To/Due From amounts.

Detailed Accounts Payable– Badger state industries

The Department of Corrections does not use the STAR modules to bill or account for receivables owed to their Badger State Industries GAAP fund. Rather, they use a separate *receivable* system. DOC staff should provide an electronic file to SCO-FRS to be used to develop an accounts *payable* report for the owing state agencies/GAAP funds.

SCO-FRS will analyze the data, applying materiality thresholds and other criteria for purposes of identifying amounts to be reviewed by agency accountants. Agency accountants should use the report, in conjunction with the STAR AP report, to identify the amount owed to BSI that should be reclassified to a Due to Other Fund. Accordingly, the BSI accountant should use the SCO-FRS report to identify the amount of the entry needed to report Due From Other Funds. The goal is to materially match the amount of the Due from Other Fund in the BSI GAAP fund to the amount reported as Due to Other Fund by other GAAP funds.

If an agency paid BSI in the fiscal year ended as of June 30th, only an entry to reclassify the payable to a Due to Other Fund would be needed. This is because the expenditure and AP would already be reflected in the ACTUALS ledger. However, if the agency paid BSI in the new fiscal year, an accrual entry would be needed to reflect both the expenditure and the associated Due to Other Fund. Similarly, if the revenue associated with their open receivables was not reflected in the ACTUALS ledger, then the BSI accountant would have to make an entry to accrue the revenue and correlating Due From Other Funds and accounts receivable (for the amount excluded by materiality from the BSI report sent out by SCO-FRS to agencies).

State tax withholding LIABILITY account

The STAR ACTUALS Account 2150000 State Withholding liability reflects amount owed to the General Fund. That account rolls to the Due To Other Fund line on the ACFR trial balance. As a result, individual GAAP funds reporting that liability do not need to make a reclassification entry. However, a correlating asset account (for state withholding receivable) does not exist for the DOR portion of the General Fund. Rather, the receivable side is reported as Taxes Receivable. As a result, SCO-FRS will prepare a central entry in the General Fund to appropriately report the Due From Other Fund.

A portion of the State Withholding liability balance is reported in account 2000000 Accounts Payable – Control using the *State Tax Specialized Disbursement* vendor. FRS will identify the amounts that should be reclassified as DTOF to the General Fund for that internal state agency vendor and make an entry to reclassify the amounts for individual GAAP funds.

Finally, SCO-FRS staff will make an entry centrally to eliminate the General Fund to General Fund balances associated with the 2150000 withholding account and the 2000000 AP account related to the state tax withholding. The Table below presents how ACTUALS liability accounts may need to be reclassified for appropriate presentation in the ACFR.

ACTUALS Account No.	Rolls up to which Liability in the ACFR Trial Balance	Correct ACFR Liability Account	ACFR Reclassification Entry Needed?
2000000 AP Control	Accounts Payable	Accounts Payable	No
2000000 AP Control	Accounts Payable	Due to Other Government	Yes
2000000 AP Control	Accounts Payable	Due to Component Unit	Yes
2000000 AP Control	Accounts Payable	Due to Other Fund	Yes
2004000 Interunit Payables	Accounts Payable	Due to Other Fund	Yes
2150000 State Withholding	Due to Other Fund	Due to Other Fund	No

Governmental Funds –Fund Balance and Encumbrances

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes parameters for reporting fund balance in governmental fund types.

Unassigned fund balance is the default category for the **General Fund**. If accountants make ACFR adjusting entries in the General Fund to *accrue payables* that will be paid with a restricted appropriation, an additional entry will be necessary to adjust restricted fund balance. Appropriations set up to report federal grant activity (PR-F) comprise most of restricted appropriations for the General Fund. Thus, if agency GAAP accountants establish accrual entries that include federal grant appropriations, a corresponding entry to adjust restricted fund balance should be made.

Note: If an entry is also made to accrue a federal revenue receivable as reimbursement for the federal portion of the accounts payable there would be no impact on fund balance because the entry to reclassify fund balance for the payables would be exactly offset by the entry to reclassify fund balance for the accrued federal revenue.

Similarly, if accountants make entries to accrue payables in the **Conservation or Petroleum Inspection** special revenue funds (21200 or 27200, respectively), they must consider whether a corresponding entry to adjust fund balance is necessary because those funds report both restricted and committed fund balance. If payables are accrued in other governmental funds, an associated entry is not required because all fund balance defaults to one fund balance account (either restricted or committed).

Entries made by agency GAAP accountants to *reclassify* payable amounts already reported on STAR do not require a corresponding fund balance entry. This is because SCO-FRS will be making an entry to reclassify fund balance related to all restricted activity reported on STAR during the fiscal year.

Encumbrances: Encumbrances are reported in the STAR Commitment Control (KK) ledger for budgetary purposes. However, those encumbrances, and the associated fund balance reserved for encumbrances, are not reported in the ACTUALS ledger used as the starting point for the ACFR trial balances. GASB standards do not allow encumbrances (budgetary expenditures) or fund balance reserved for encumbrances to be reported in GAAP financial statements. Thus, the ACTUALS ledger is consistent with GASB standards for ACFR reporting purposes.

Additional information on fund balance is available in Section V-16 – Equity.

Procedure A - Identify and reclassify accounts payable representing amounts due to other GAAP funds, component units, or other governmental units.

Accounts payable of a GAAP fund owed to another GAAP fund, component unit, or another governmental unit should be reported in the ACFR as "Due to Other Funds," "Due to Component Units," and "Due to Other Governments," respectively.

Step 1 - Identify and reclassify accounts payable representing amounts due to other GAAP funds. Payables reported on the ACFR trial balance related to interfund or interagency payments should be reclassified to "Due from Other Funds" and "Due to Other Funds" balance sheet accounts as necessary.

Agencies must:

a. Review their payables;
b. Identify those payables which represent liabilities to other GAAP funds but are not recorded in the "Due to Other Funds" account; and
c. Reclassify payables identified in this procedure to the "Due to Other Funds" account.

To assist agencies with identifying amounts due to other funds, the SCO-FRS creates an **Accounts Payable Internal Vendor Report** that lists the payments that make up the June 30th balances in the Accounts Payable (2000000) and Interunit Payables (account 2004000) accounts. The AP internal vendors data/report will be analyzed in conjunction with the accounts receivable internal customers report to identify and match potential Due to Other Funds with the correlating Due From Other Funds. SCO-FRS will distribute reports to agencies identifying the reclassification entries needed or providing agencies with data so they may complete additional analysis in the event SCO-FRS is not able to match all Due To/Due From correlating amounts.

The required entry to reclassify amounts payable to other funds is as follow:

Debit:	W4PAY11 Accounts Payable	XXX	
Credit:	W4DTOF0 Due to Other Funds		XXX

<To reclassify payables at 6/30/XX that are due to other GAAP funds.>

Section III, Subsection 6 provides a detailed listing of the code structure to assist in identifying all GAAP funds. This section, or the Due to/from Other Funds Note Disclosure Form, should be used as a resource for making appropriate reclassifications. **Note:** Agencies will also have to include information regarding these interfund payables on the "Due to/from Other Funds" Note Disclosure Form (discussed later in this document).

Billings of the Department of Administration, Bureau of Financial Management

DOA-BFM uses the STAR Billing (BI) module to track and invoice amounts due from customers for goods or services provided by DOA internal service funds or other GAAP funds, such as the DOA General Fund. After the bill is set up, the BI module establishes an accounts receivable in the Accounts Receivable (A/R) module which results in summarized A/R and revenue being recorded in the ACTUALS ledger. The A/R is cleared in the A/R module when the payment is received resulting in an increase in cash and decrease in A/R in the ACTUALS module.

For services provided to other state agencies (interunit customers), interunit functionality is used. This functionality creates a liability in account 2004000 interunit payables in the AP module for the state agency being billed. The AP module pushes a summarized journal to the ACTUALS ledger recording expenditures and the interunit A/P. When the paying agency approves the payment journal the 2004000 interunit liability is cleared. In addition, the cash received by DOA clears the A/R generated from the billing module.

Similarly, intraunit functionality is used by DOA as well as other agencies to bill customers internal to their agency. However, in this case, there is no A/R or A/P created. Rather, the revenue and expenditure transactions hit cash directly. Intraunit transactions occur within one business unit (agency) but could have been between GAAP funds (e.g. the General Fund and a proprietary fund). If intraunit transactions were recorded in period 12 but after June 30th, the applicable entries to reclassify receivables or payables to Due From/Due To Other GAAP funds do NOT have to be determined and recorded in the CAFR ledger.

The interunit/intraunit functionality does not code amounts to the Due From Other Funds or Due To Other Funds accounts required for ACFR reporting purposes. Rather, the A/R is coded to the 1351000 AR (Invoiced) account. Further, the generated A/P journal used to make the payments code transactions to the 2004000 interunit payable liability account. As these clear during the fiscal year, there is no impact on GAAP reporting. However, A/R and A/P balances as of the June 30th reporting date, will include amounts paid by one GAAP fund to another GAAP fund. As a result, reclassification entries are needed to appropriately reflect those amounts outstanding at June 30th because both the 1351000 A/R Invoiced and 2004000 Interunit Payable accounts roll up to the generic Accounts Receivable and Accounts Payable lines in the ACFR trial balances.

The SCO-FRS creation of AP and AR Internal Vendor/Customer Reports will provide the information related to Due To/Due From reclassification entries. If SCO-FRS is not able to match the correlating Due To/Due From amounts, agencies will have to determine material reclassification entries.

In some cases it will be easy for accountants to identify which GAAP fund is owed or owes when making reclassification entries. At other times, additional research will be necessary that may not lend itself to material accuracy in the ACFR. As a result, materiality should be considered when creating reclassification ACFR entries. In the past, only outstanding ***invoices at June 30 greater than $10,000 that summed to an amount greater than $100,000 per GAAP fund*** had to be analyzed for the purposes of identifying the required reclassification entry. Agencies are encouraged to continue to apply this type of threshold to successfully capture the largest dollar values for reclassification without burdensome work associated with reviewing many immaterial items. This is generally the case for all types of ACFR entries.

Billings of Badger State Industries (BSI)

Some agencies/funds purchase goods or services from BSI, one of the State's internal service funds. BSI does not use the STAR system for most of their billings. Rather, they use off-system billing to create customer invoices. Presuming agencies pay the invoices using the A/P module, the outstanding liabilities as of June 30th would be reported as Accounts Payable on the ACFR trial balances. As a result, material payables would have to be reclassified as a Due to Other Fund.

However, in many cases, the invoice amounts outstanding at June 30th are insignificant. As a result, materiality considerations are made by SCO-FRS when creating the BSI Report to be distributed to agencies. Generally, the report will include agencies only with ***outstanding invoices of at least $10,000 as of June 30th.*** These invoices should be reviewed and may require either a reclassification or accrual entry. Those agencies will also have to provide information regarding these interfund payables on the Due To/Due From Other Funds Note Disclosure Form discussed below. Agencies should work with the GAAP accountant for BSI to coordinate the establishment of the Due To/Due From Other Fund amounts.

July Cash Transactions

A/R and A/P transactions hitting cash after June 30th but recorded to period 12 of the fiscal year just ended may result in an SCO journal entry. Specifically, a journal may be recorded by SCO to re-establish cash and either an A/R or A/P, as applicable, dependent on the nature of the post June 30th cash transaction.

Note Disclosure Form – Due from Other Funds/Due to Other Funds

In addition to making the reclassification entry, agencies must also prepare the form for "Note Disclosure Information - Due from Other Funds/Due to Other Funds." SCO-FRS uses this form to reconcile the interfund receivables/payables statewide. Following the instructions that appear on the form, agencies must provide the detail (in Part A of the form) for due to's/from's that resulted from **agency-prepared GAAP reclassification/accrual entries**. The subtotal for this section should equal the composite entry for a General Fund agency.

Part B of the form is used for amounts that have already been reconciled by the State Controller's Office. Amounts are populated for the ACTUALS ledger and/or SCO-FRS entries (if any). The SCO-Capital Accounting Section will distribute information to selected agencies to facilitate the interfund receivable/payable reconciliation with the debt service and capital project funds. Agencies must use the information provided by the SCO-Capital Accounting Section when completing the Part B, line 2 –portion of the form.

Note: ***The totals reported on the bottom of this form serve as check figures.*** For the General Fund, the amount must agree with the amount from the Trial Balance Worksheet plus the agency's composite entry. For individual GAAP funds, the totals should agree with the amounts reported on the fund's financial statements

Due to/from Discrepancy Report

Based on data provided by agencies on the note disclosure form, SCO-FRS will prepare and distribute a discrepancy report to those agencies that have larger variances in interfund receivables and payables with those reported by another GAAP Fund/agency. If an agency receives the report, they must contact the other agency(s) involved to resolve the discrepancy(s). **Note:** When preparing a material accrual/reclassification entry that impacts the "Due from Other Funds" or "Due to Other Funds" accounts, an agency should communicate this information to the other agency(s) involved during the ACFR compilation process (rather than waiting for receipt of the discrepancy report). This reduces the amount of work to revise the financial statements.

Step 2 – Identify and reclassify amounts due to component units. Amounts due from/to discretely presented component units are separately reported on the fund balance sheets/statements of net position. Similarly, the component unit ACFR presentation may report the corresponding receivable/payable as "Due from/to Primary Government".

Agencies must identify payables of over $100,000 that represent liabilities to component units and reclassify as appropriate. Agencies should scan the **Accounts Payables External Vendor Report** for payments to component units. Agencies may also need to review journals that recorded amounts in the "Vouchers Payable - Between Year" account (#2001000) if they suspect balances over $100,000 may exist. Balance sheet account 2440000 "Due to Component Units," is available to directly record liabilities to discretely presented component units (e.g., WHEDA, UW Hospital, UW Foundation, etc.). Agencies that record liabilities that are due to component units directly to this account would not have to prepare reclassification entries.

Materiality Threshold: Agencies are required to reclassify individual payables to "due to component units" only if the amount exceeds **$100,000**. For amounts less than this, the liability can continue to be reported under accounts payable. The amounts ultimately reported on the State's financial statements as "Due from/to Component Units" and "Due to/from Primary Government" will not necessarily equal. This discrepancy may occur due to a difference in reporting perspective by the component units and different fiscal years from that of the primary government.

The entry to reclassify liabilities that are due to discretely presented component units follows:

Debit:	W4PAY11 Accounts Payable		XXX	
Credit:		W4DTCU0 Due to Component Units		XXX

<To reclassify amounts of more than $100,000 due to component units at 6/30/XX.>

Step 3 - Identify and reclassify amounts due to the other governmental units. The 25***** series of balance sheet accounts, “Due to Other Governments,” are available to record liabilities to other governments (e.g., amounts due the federal government, counties, municipalities, school districts, tribal governments, etc.). Agencies that record liabilities to other governments in this series of accounts do not have to prepare reclassification entries.

Amounts recorded to this account should be used primarily for grant or program purposes. Therefore, any amounts payable to other governments for operating purposes (e.g., rent, utilities or postage) should remain in “Accounts Payable and Other Accrued Liabilities” and should not be reclassified to “Due to Other Governments.” In addition, payables to the federal government for federal withholding taxes, social security and medicare should remain in the generic accounts payable classification because they are part of operational costs.

Agencies must identify payables that represent liabilities to other governments for grant or program purposes and reclassify them as appropriate. Agencies should scan the **Accounts Payables External Vendor Report** provided by the SCO-FRS for items coded to account 2000000 that were payments to other governments. Agencies should also review journals recorded in the “Vouchers Payable - Between Year” account (#2001000) if they expect significant amounts could be reported in that account that require an ACFR reclassification entry.

The required entry to reclassify liabilities to other governments follows:

Debit:	W4PAY11 Accounts Payable	XXX	
Credit:	W4DTOG0 Due to Other Governments		XXX

<To reclassify amounts due other governmental units at 6/30/XX.>

Procedure B - Identify additional accounts payable that (1) result from goods and services received by the state prior to fiscal year end but not paid for until the subsequent year or (2) are identified by management.

The ACFR trial balance will report "Accounts Payable and Other Accrued Liabilities" based on adjusted balances from the STAR ACTUALS ledger reported through the end of the fiscal year. Agencies must perform procedures to identify additional payables for goods or services received by June 30 but not included in the liability accounts on the trial balance. Agencies must also determine whether management is aware of additional payables resulting from any other events or transactions that have taken place (see Step 2).

Agencies are not required to prepare the adjusting entry to set up additional accounts payable if the <u>total</u> amount of the accrual is less than $100,000. Agencies are still required to perform the review of subsequent year’s vouchers to determine the existence of accruals - the $100,000 exception relates only to the preparation of the adjusting entry. All types of payables (accounts payable, due to other funds, due to other governments, etc.) should be included when determining if the total accrual is less than $100,000.

Step 1 - Identify additional payables for payments relating to goods and services received by June 30 but not currently reflected as expenditures in the STAR ACTUALS ledger. The accounts payable figure on the ACFR trial balance is taken from the STAR ACTUALS ledger. This figure could include the majority of payables relating to goods and services received by June 30 but paid at a later date because of the amount of time after June 30th that agencies are able to continue to record expenditures in the fiscal year just ended. However, adjustments may be needed to pick up expenditures that were billed late, miscoded, or reflected as a subsequent year expenditure because of closing dates, budgetary, or management reasons. Consequently, the amount reported as payables on the GAAP trial balance may be understated or overstated dependent on the nature or timing of the issue.

A general review of payable and expenditure balances on the trial balance, and basic knowledge of agency financial activities, may provide useful insight for developing a strategy for identifying potential entries needed. Making use of STAR reports containing AP data should significantly improve the efficiency of the analysis.

To ensure that the ACFR materially reflects payables as of June 30, agencies should review transactions recorded in the subsequent fiscal year and determine whether expenditures apply to the previous fiscal year. When determining which transactions to review, timeliness, materiality, and cost-benefit relationship should be considered, and professional judgment applied. Consideration of the total payable balance in relation to other liabilities or expenses reported by the agency/fund during the year can provide a useful perspective on what activity/transactions warrant review.

Agencies are not required to review activity/transactions or make ACFR accrual entries for clearly inconsequential amounts thereby eliminating unnecessary work. In addition, agencies are not required to review transactions for a prolonged period after June 30th to avoid unnecessary delays in issuing the financial statements. Methods adopted must ensure compliance with SCO-established due dates.

Agencies must review material payments in the new fiscal year using one of the following options:

1. Review vouchers charged to the subsequent fiscal year. Taking timeliness and material accuracy into consideration, agencies should review payments that occurred for a reasonable period of time after June 30th. Agencies may analyze vouchers by dollar value, account code, appropriation, vendor, allotment line, etc. to capture material accruals without undue delay or efforts. The particular method used will vary by agency/ fund. Using a very simple approach, vouchers could be stratified by amount and only the largest vouchers comprising the majority of the total dollar value reviewed. For example, if an agency had 1,000 vouchers and sorted by amount, they might find they could accurately account for 90% of the total dollar value of the vouchers by considering only the largest 100 vouchers. In STAR, an invoice date of 6/30 or earlier for a payable may suggest an accrual is necessary.

   Agency knowledge of the types and timing of payments will also help to streamline the review. For example, if an agency knows that aids payments are made every month and were made on a timely basis for the fiscal year, they could forego reviewing aids payments for vouchers after June 30th because they would know they were recorded in the correct fiscal year. Agencies with questions are encouraged to contact the SCO-FRS.

   Note for the General, Conservation, and Petroleum Inspection Funds: With the implementation of GASB 54, accountants for these funds should track which appropriations the vouchers were coded to so that an entry can be made to restricted fund balance, if necessary. As noted earlier, federal grant appropriations (PR-F) will comprise most of restricted activity in the General fund. All other governmental funds will report only one category of fund balance (beyond nonspendable). Because all financial activity for these other governmental funds will be reported in the default fund balance category for their GAAP fund there is no need to track payments by appropriation for those funds.

2. Prepare a statistical sampling plan to review certain July and August vouchers. Generally this is used by larger agencies with so many July and August vouchers as to make it impossible to review them all. Sampling and projecting estimated payables allows those agencies to determine an entry in a timely manner with reasonable effort. Using this method, agencies stratify payables into two segments, review all vouchers in excess of a designated dollar value, and sample vouchers below that amount. Based on the results of the sample, agencies estimate or project additional accounts payable at June 30. Before implementing sampling plans, agencies must submit them to the SCO-FRS for review.

   Note: Dependent on how the mix of financial activity is reported by an agency, it may be difficult or impossible to reasonably determine what projected costs will be paid with restricted appropriations. Accordingly, agencies should apply a restricted percentage based on current year payments to determine the entry needed to reclassify fund balance. To assist GAAP accountants, SCO-FRS will provide a report to agencies showing the percent of current year costs paid by restricted appropriations.

Required Entries (*for governmental funds*):

Accrue for additional payables:

Debit:	X2COMRC Commerce Expenditures	XXX	
	X2EDUCA Education Expenditures	XXX	
	X2TRANS Transportation Expenditures	XXX	
	X2ENVRS Environmental Resources Expenditures	XXX	
	X2HRREX Human Relations and Resources Expend	XXX	
	X2GENEX General Executive Expenditures	XXX	
	X2JUDIC Judicial Expenditures	XXX	
	X2LEGIS Legislative Expenditures	XXX	
	X2TAXRE Tax Relief and Other General Expend	XXX	
	X2OUTLY Capital Outlay Expenditures	XXX	
	X2SHARE Intergovernmental Expend - Shared Rev	XXX	
	______________________________ *(Identify)*	XXX	
Credit:	W4PAY11 Accounts Payable		XXX
	W4DTOF0 Due to Other Funds		XXX
	W4DTCU0 Due to Component Units		XXX
	W4DTOG0 Due to Other Governments		XXX

<To record additional accounts payable for goods and services received by 6/30/XX but charged to the subsequent fiscal year based on a review of vouchers.>

Please see the next page for additional required entry.

Reclassify fund balance in relation to the accrual for additional payables:

Debit:	W7RESTR Fund Balance – Restricted Gov Funds*	XXX	
	W7COMMT Fund Balance – Committed* (Funds 21200/27200)	XXX	
Credit:	W7UNASN Fund Balance - Unassigned		XXX

<To adjust fund balance for additional accounts payable accrued that will be paid using restricted or committed appropriations. >

- Note: When making an entry to the General Fund, only "restricted" fund balance should be adjusted. Restricted appropriations reported in the General Fund will consist primarily of PR-F appropriations. When reversing the entry in the subsequent year, fund balance-unassigned should be the account used.

  Funds 21200 and 27200 will need to determine whether restricted or committed fund balance should be adjusted in relation to off-system accrual entries. The account adjusted should be the non-default fund balance category for the GAAP fund.

  All other governmental funds will report all fund balance to their "default" category making fund balance reclassification entries unnecessary (except for nonspendable fund balance).

Required Entry (*for proprietary or fiduciary funds*):

Debit:	X2PRSNL Personal Services Expenses	XXX	
	X2SUPPL Supplies and Services Expenses	XXX	
	X2BENEF Benefit Exp or X2OTRBN Other Benefit Exp	XXX	
	X4* Other Expenses (Operating)	XXX	
	X4* Other Expenses (Nonoperating)	XXX	
	____________________________ *(Identify)*	XXX	
Credit:	W4PAY11 Accounts Payable		XXX
	W4DTOF0 Due to Other Funds		XXX
	W4DTCU0 Due to Component Units		XXX
	W4DTOG0 Due to Other Governments		XXX

<To record additional accounts payable for goods and services received by 6/30/XX but charged to the subsequent fiscal year based on a review of vouchers.>

Step 2 - Identify other payables that management determines to meet the criteria for liability recognition at June 30. In addition to those payables recorded in the STAR ACTUALS ledger or identified in Step 1, management may be aware other transactions which may meet the criteria for liability recognition.

If management is aware of such liabilities, agencies should consider if a GAAP entry is needed to increase the payable and the appropriate expenditure/expense/asset account. The entry would be similar to the one illustrated in Step 1.

Procedure C - Review the adjustment made by the SCO-FRS for the end of the fiscal year salary and related fringe benefits accrual and make adjustments as necessary.

Based on an analysis performed by SCO-FRS, this entry is immaterial; therefore, SCO-FRS will not make this entry this year. **As a result, agency accountants do not have to record an adjusting entry to reallocate for 14-day work schedules.**

Per the State's budgetary policy, if an entire payroll period ends prior to the end of the fiscal year but is paid in the new fiscal year, the payroll is appropriately recorded as an expenditure of the prior fiscal year and a liability at year-end. No provision, however, is made for a payroll that spans two fiscal years. Under these circumstances, the whole payroll is charged to the new fiscal year rather than accruing the portion of the payroll that was earned as of June 30. Similarly, the State's share of payroll-related items, retirement, social security, etc. for this pay period is also not accrued. Previously an accrual entry was prepared by SCO-FRS and included in the ACFR trial balances. This is no longer being done due to immateriality.

Approximately every 11 years there are 27 payperiods in a fiscal year. Essentially, the one day understatement that happens in every other year "catches up" and there is a larger overstatement. To avoid having a more significant misstatement in those years, SCO-FRS will make a restatement of beginning equity (i.e. an error correction) against the current year expenses of the first payroll in the fiscal year.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	9 - Construction Contract Retainages	**REVISION DATE:**	June 20, 2014
SUBJECT:	Policy	**PAGE:**	1 of 1

Retainages for construction contracts are a withholding of part of a contract payment until a project is successfully completed. There is no statutory reference to retainages; however, construction contracts executed by agencies such as the Department of Transportation (DOT), the Department of Administration (DOA), Division of Facilities Development (DFD) and the Department of Natural Resources (DNR) include provisions for retainages.

Generally accepted accounting principles (GAAP) require recognition of liabilities that exist at the end of the reporting period. A liability arises for contract retainages because, although the work has been performed, a portion of a contractor's payment was withheld until final inspection and acceptance of work has occurred.

The amount of the contract retainages withheld by agencies administering construction projects should be accrued in the financial statements as Accounts Payable.

All state agencies withholding a portion of a contractor's payment until final inspection and acceptance of completed work should determine the amount of contract retainages liability as it applies to their programs and make an entry in the applicable GAAP fund.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	9 - Construction Contract Retainages	**REVISION DATE:**	June 20, 2014
SUBJECT:	Procedure	**PAGE:**	1 of 1

The amount of contract retainages to be included in "Accounts Payable and Other Accrued Liabilities" will consist of amounts withheld from part of a contract payment until a project is successfully completed. All state agencies withholding these payments **[**for example the DOA, DNR and DOT**]** should determine the amount of contract retainages as of the balance sheet date and report this amount as a liability in the applicable GAAP fund.

The specific procedure used to compute the retainage amount is dependent upon the individual state agency's retainage accounting system. The amount of contract retainages may be based upon actual information using the state central accounting system (for example DOT), or an estimate based upon a percentage of total dollar value of "open" contracts (for example DOA).

Currently, contract retainages occur in governmental funds. Therefore, the following entry is required to be completed and submitted:

If a governmental fund:

Debit:	Commerce Expenditures	xxx	
Debit:	Education Expenditures	xxx	
Debit:	Transportation Expenditures	xxx	
Debit:	Environmental Resources Expenditures	xxx	
Debit:	Human Relations and Resources Expenditures	xxx	
Debit:	General Executive Expenditures	xxx	
Debit:	Judicial Expenditures	xxx	
Debit:	Legislative Expenditures	xxx	
Debit:	Tax Relief and Other General Expenditures	xxx	
Debit:	Intergovernmental Expenditures	xxx	
Debit:	Capital Outlay Expenditures	xxx	
Credit:	Accounts Payable and Other Accrued Liabilities		xxx

<To record contract retainages at June 30th>

If necessary, a similar entry may be made for other GAAP fund types adjusting the entry to report the appropriate type of expense. For additional guidance regarding accounts payable, see Section V - 8, titled, "Payables."

Use of STAR for Leases & Subscription Based Information Technology Arrangements (SBITAs)

Starting with FY22, the STAR Lease Administration (LA) module was implemented to comply with financial reporting standards for lease contracts introduced with the new GASB Statement 87 *Leases*. The STAR LA module works in conjunction with the STAR AM module to recognize a lease asset and liability. The STAR LA module is not used to create automated lease payments. Rather, payments for leases are based on payment schedules maintained by agencies. The payments are made using the STAR Accounts Payable module which pushes summarized information to the ACTUALS ledger.

Starting with FY23, SCO-FRS began using the STAR LA module to comply with financial reporting standards for SBITA contracts introduced with the new GASB Statement 96 *Subscription-Based IT Arrangements*. This processes mirrors that of leases under GASB 87, with slight adaptations centered around software subscriptions and the recognition of a SBITA asset and liability. The ways GASB 96 differs from GASB 87 are outlined in the GASB 96 - SBITA section below.

GASB 87 - Leases

Background

GASB 87 Leases was effective starting with the FY 2022 ACFR. GASB 87 increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. Before GASB 87, leases were classified as either capital or operating, with only capital leases recognizing an asset and liability in the financial statements. GASB 87 created a single model approach, with the major changes relating to previous operating leases now being required to recognize lease assets and liabilities. With certain exceptions, under GASB 87 all leases are considered finance leases and are reported accordingly. The concept is that leases represent a means to finance the right to use an underlying asset.

Examples of nonfinancial assets include buildings, land, vehicles, and equipment. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor (owner of an asset) is required to recognize a lease receivable and a deferred inflow of resources. The State may enter into contracts as either a lessee or a lessor.

Under the new standard agencies either:

1) purchase a right to use a capital asset (or sell a right to use a capital asset); or
2) purchase a capital asset (or sell a capital asset).

Accounting for the purchase and sale of capital assets is well-established. It is the lease accounting that is changing. The accounting used for the transaction is based on the characteristics of the contract at its inception. Agencies will no longer have to consider whether there is a bargain purchase option, whether the lease term covers 75% of the asset's useful life, etc. Those concepts are no longer applicable once GASB 87 became effective for FY 2022.

1. Under GASB 87, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
2. Alternatively, a contract that transfers ownership and does not contain termination options should be reported as a financed purchase of the asset by the buyer or sale of the asset by the lessor (para. 19 of GASB 87). The concept of capital leases is, practically speaking, eliminated from the GASB 87 standards beginning with FY 2022.

GASB 87 does NOT apply to:

a. A short-term lease that, at the start of the lease term, has a maximum term of 12 months (or less), including any options to extend;
b. Licensing contracts for computer software;
c. Leases of intangible assets, including rights for natural resources; licensing contracts for items such films, video recordings, plays, manuscripts; patents, and copyrights;
d. Leases of biological assets, including timber, living plants, and living animals;
e. Leases of inventory;
f. Contracts that are Public-Private and Public-Public Partnerships under GASB 94 (see section V-45);
g. Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor (owner);
h. Supply contracts, such as power purchase agreements

Materiality: In addition to the specifically excluded items above, the provisions of GASB 87 need not be applied to immaterial items. As a result, SCO-FRS has established a materiality policy of $100,000 similar to the threshold that was previously used for leases. The $100,000 threshold is for total lease payments over the contract life. Note that the contract life includes option periods that are reasonably expected to be exercised.

Agencies should use the flowchart in Attachment A for contracts over the $100,000 materiality threshold to determine if the contract should be reported as a lease under GASB 87.

Lessee Accounting

Lessees recognize a lease liability (representing the expense commitment) and an “intangible” asset (representing the right to use the underlying asset) on the balance sheet.

The lease liability is calculated as the present value of the payments the lessor expects to make during the lease term (including contract renewal options the lessee is reasonably certain to exercise). The asset is calculated as the lease liability plus payments made at the commencement of the lease.

As the lessee makes payments on the lease, the liability amount is reduced and interest expense is also recognized. The asset is amortized over the length of the lease term OR over the life of the asset (whichever is shorter).
For lease payments with a variable component based on sales or performance, those payment amounts are not considered part of the lease liability and should be expensed as incurred.

The lessee should assess each lease liability annually for changes in the terms of the lease, interest rate, impairment of the underlying leased asset, or other factors that may impact the expected lease payments. Lease amendments and other modifications could necessitate remeasuring the lease liability.

Lessor Accounting

Lessors recognize a lease receivable and deferred inflow of resources on the balance sheet.

At contract commencement, the lease receivable is calculated as the present value of the expected payments over the term of the lease. As the lessor receives payments, the lease receivable amount is reduced and interest revenue is also recognized.

The deferred inflow is calculated as the lease receivable plus payments made at the commencement of the lease, and is recognized as revenue in a consistent way over the life of the lease.

The lessor should assess each lease receivable annually for changes in the terms of the lease, interest rate, impairment of the underlying leased asset, or other factors that may impact the expected lease payments. Lease amendments and other modifications could necessitate remeasuring the lease receivable.

Intra-Entity Leases

Activity between a primary government and its component units should be accounted for as follows:

• For intra-entity leases between blended component units, the reporting elements of GASB 87 do not apply. The capital assets, related debt, and debt service activity of the lessor should be reported in the financial statements of the primary government.

• Eliminations for leases between blended component units should be made before the financial statements of these entities are aggregated with those of the primary government. The remaining cash payments between component units should be reported as inflows and outflows of resources.

• Lease arrangements between the primary government and discretely presented component units should be discretely presented in a manner consistent with GASB 87. Related receivables and payables should not be combined with other Due To/ Due From amounts, or with activity from organizations outside of the reporting entity.

Master Lease Financing

The Master Lease Program is a form of financing used by state agencies generally to acquire equipment or software. Though the term 'lease' is used, this program DOES NOT create a lease for accounting purposes under GASB 87, and the liability to finance 'leased' items should be reported as 'Certificates of Participation'. Certificates of Participation are neither capital nor operating leases, but rather are a type of debt, similar to bonds and notes. Section V-15 Installment Purchases has more information on the Master Lease Program.

Lease Interest Rate

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee’s estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

GLOSSARY OF TERMS

Lease – A contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Right to Use – The right to obtain the present service capacity from use of the underlying asset and the right to determine the nature and manner of its use.

Lease Term – The period during which a lessee has a non-cancelable right to use an underlying asset, plus periods covered by a lessee's or lessor's option to extend the lease (if reasonably certain the option will be exercised) and periods covered by the lessee's or lessor's option to terminate the lease (if reasonably certain the option will not be exercised). Note that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party or if both parties have to agree to extend, are excluded from the lease term.

Lease term should be reassessed if only one or more of the following occur:

- Lessee or lessor elects to exercise an option even though previously determined that it was reasonably certain they would not exercise that option.
- Lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain they would exercise that option.
- Event specified in the lease contract that requires an extension or termination takes place.

Lease Modification – A lease amendment or modification should be accounted for as a separate lease by both the lessee and the lessor if it adds one or more underlying assets that were not included in the original lease contract; and the increase in lease payments for the additional lease asset does not appear to be unreasonable.

Lease Terminations – An amendment which results in a decrease of the lessee's right to use the underlying asset is considered to be a full or partial termination.
- A lessee should reduce the carrying values of the lease liability and related asset, and recognize a gain or loss for the difference.
- A lessor should reduce the carrying values of the lease receivable and related deferred inflow of resources, and recognize a gain or loss for the difference.

Lease Incentives – Payments made to, or on behalf of, the lessee, for which the lessee has a right of offset with its obligation to the lessor, or other concessions granted to the lessee. Lease incentives reduce the amount that a lessee is required to pay for a lease.

Contracts with Multiple Components - A contract may contain both a lease component (such as the right to use a building) and a nonlease component (such as maintenance services for the building). The State should account for the lease and nonlease components as separate contracts.

If a lease involves multiple underlying assets and the assets have different lease terms, the lessee and the lessor should account for each underlying asset as a separate lease component. In addition, the lessee should account for each underlying asset as a separate lease component if the underlying assets are in different major classes of assets.

Nonlease Component – A distinct element of a contract that is not related to securing the use of the leased asset (i.e. maintenance services for a building).

Subleases – involves three parties: the original lessor, the original lessee (also lessor in the sublease) and the new lessee. The government that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions.

Sale-Leaseback Transactions – The sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). The sale must qualify as a sale under paragraphs 287-319 and 321-323 of GASB Statement 62. A sale-leaseback transaction that does not qualify as a sale should be accounted for as a borrowing activity by the seller-lessee and a lending activity by the buyer-lessor.

Lease-Leaseback Transactions – An asset leased by one party (first party) to another party and then leased back to the first party.

Intra-Entity Leases – Leases within the primary government (between state agencies), including blended component units, do not qualify as leases under GASB 87.

GASB 96 - SBITAs

Background

GASB 96 SBITAs was effective starting with the FY 2023 ACFR. The standards of GASB 96 are based on the standards established in GASB 87 with a focus on software-based subscription assets.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. This period of time must extend beyond 12 months in order to be recognized under GASB 96. SBITAs that are 12 months or less are treated as short-term and not capitalized under GASB 96.

In assessing whether a contract conveys control of the right to use the underlying IT assets, a government should determine whether it has <u>both</u> of the following:

a. The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract, and
b. The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Materiality: In addition to the specifically excluded items above, the provisions of GASB 96 need not be applied to immaterial items. As a result, SCO-FRS has established a materiality policy of $100,000 identical to the threshold that was used for GASB 87 leases. The $100,000 threshold is for total subscription payments over the contract life. Note that the contract life includes option periods that are reasonably expected to be exercised and included in the subscription term.

Agencies should use the flowchart in Attachment B for contracts over the $100,000 materiality threshold to determine if the contract should be reported as a SBITA under GASB 96.

Subscription Accounting

A government initially should measure the subscription liability at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA:

a. Fixed payments
b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term
c. Variable payments that are fixed in substance
d. Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
e. Any subscription contract incentives receivable from the SBITA vendor
f. Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors.

Variable payments other than those that depend on an index or a rate, such as variable payments based on future performance of a government, usage of the underlying IT assets, or number of user seats, should not be included in the measurement of the subscription liability. Rather, those variable payments should be recognized as outflows of resources (for example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the subscription liability.

SBITA Interest Rate

The future SBITA payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the contract. If the interest rate cannot be readily determined, the estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the SBITA payment amounts during the contract term) should be used.

Attachment A

Flowchart for Determining if GASB 87 Applies to a Contract

1) Does the contract convey control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction?

Note: GASB 87 paragraph 5 states that a contract conveys control of the right to use the underlying asset if it has **both** the right to obtain the present service capacity from use of the underlying asset as specified in the contract **and** the right to determine the nature and manner of use of the underlying asset as specified in the contract.

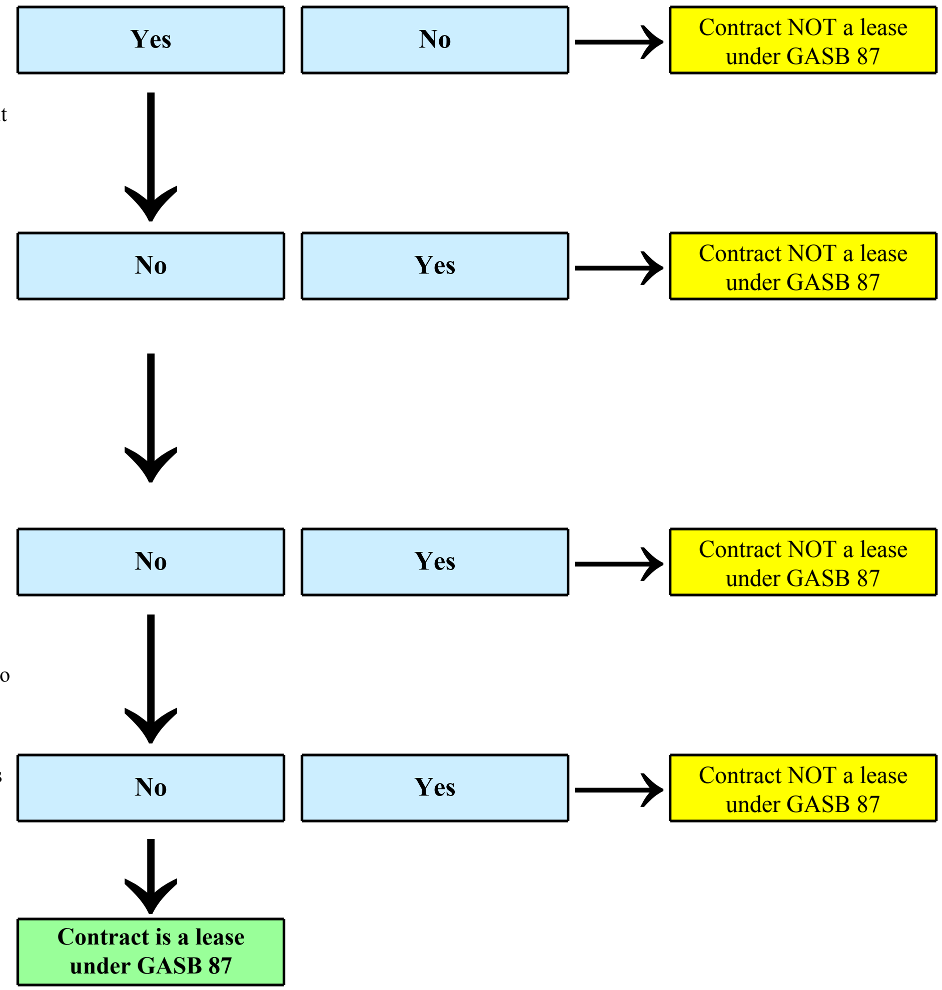
2) Does the contract meet any of the following exclusions?

a. Leases of intangible assets (i.e., licensing contracts for computer software and rights to explore natural resources)
b. Leases of biological assets, including timber, living plants and living animals
c. Leases of inventory
d. Contracts that meet the definition of a service concession arrangement under GASB 94
e. Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
f. Supply contracts, such as power purchase agreements

3) Is the contract a short-term lease?

Note: A short-term lease is a lease that has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised. The maximum possible term is the noncancelable period. The cancelable period is the period which **both** the lessee and lessor have the option to terminate the lease without permission from the other party. These include a rolling month-to-month or a year-to year lease.

4) Does the contract transfer ownership of the underlying asset to the lessee by the end of the contract **and** does not contain termination options?



Resources

[GASB Statement No. 87, Leases]

[GASB Implementation Guide No. 2019-3, Leases]

Attachment B

Flowchart for Determining if GASB 96 Applies to a Contract

1) Does the contract contain a subscription software component and the cost of the software component is significant?

Note: A contract can have a tangible capital asset (computer) that has pre-installed software (operating system), but to fall under GASB 96, the software component has to be significant. Contact SCO-FRS if you have a contract that contains both and you have questions as to whether your contract's software component is significant.

2) Is the contract solely for IT support services?

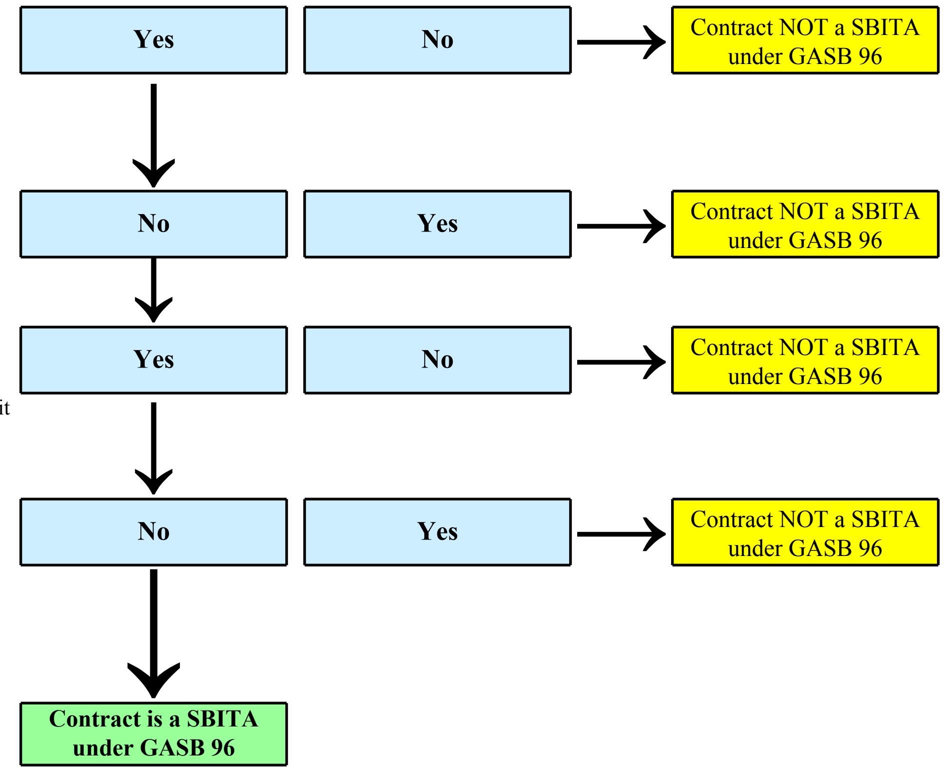
Note: A contract can contain both a right-to-use asset component and an IT support service component, but contracts only for IT support services are not SBITAs under GASB 96.

3) Does the contract convey control of the right to use another entity's IT software (the underlying asset) for a period of time in an exchange or exchange-like transaction?

Note: GASB 96 paragraph 7 states that a contract conveys control of the right to use the underlying asset if it has both the right to obtain the present service capacity from use of the underlying asset as specified in the contract and the right to determine the nature and manner of use of the underlying asset as specified in the contract.

4) Is the contract a short-term SBITA?

Note: A short-term SBITA is a SBITA that has a maximum possible term of 12 months (or less), including any options to extend, regardless of their probability of being exercised. The maximum possible term is the noncancelable period. The cancelable period is the period which both the government and SBITA have the option to terminate the SBITA without permission from the other party. These include a rolling month-to-month or a year-to year SBITA.



Resources

[GASB Statement No. 96, SBITAs]

Centralized Method for Capturing Lease and SBITA Information and Developing Entries and Note Disclosures

The requirements of GASB 87 are very complex. Beginning in FY 2022, numerous ACFR adjusting entries have been made at the fund level as well for the government-wide statements. The need for a specialized professional to complete the required lease entries suggested that centralized procedures would be effective. SCO-FRS is responsible for developing and posting required ACFR entries for leases to the ACFR trial balances and creating applicable note disclosures. This is like the centralized approach used for other ACFR processes (e.g. capital assets, OPEBs, compensated absences, net pension liability, etc.). However, unlike capital assets, which agencies are still responsible for entering and maintaining in the Asset Management (AM) Module in STAR, SCO-FRS enters and maintains leases in the Lease Administration (LA) Module in STAR, which also creates assets and entries through AM.

The standards of GASB 96 are based on the standards established in GASB 87, but were not required to be implemented until the following year, FY 2023, for the State. As a result, SCO-FRS will follow a similar approach as described in the GASB 87 section, with certain exceptions outlined in the GASB 96 section below. SCO-FRS will once again complete the necessary journal entries and reporting requirements. Attachment B in the policy section details a flowchart used to determine if your agency's contract qualifies as a reportable SBITA. SCO-FRS uses the same estimated borrowing rate schedule provided by the Capital Finance Office that was used for leases in GASB 87 for contracts without a stated interest rate, included as Attachment A of the procedure section.

Information Needed for Lease Reporting

SCO-FRS will collect lease information from three sources:

1. Division of Facilities and Transportation Services (DFTS) for building/tower leases
2. Agency specific leases that are material meet the definition of a lease under GASB 87
3. UW System

Agency Required Information

Although SCO-FRS will make all the required entries and maintain the leases in STAR, agencies will still need to identify contracts that qualify as leases and provide lease documents and other relevant information for all material leases. SCO-FRS will annually send a lease survey out to all agencies to identify any new contracts/agreements that meet the definition of a lease under GASB 87. Agencies should not include any building leases handled through DFTS or Master Leases through Capital Finance as that information has already been obtained by SCO-FRS. Please refer to Attachment A in the policy section to determine if your agency's contract is a lease under GASB 87.

Lease Interest Rate

If the interest rate for a lease isn't stated in the contract, the State will use an estimated borrowing rate (implicit rate) provided by the Capital Finance Office. Capital Finance subscribes to a service which provides the daily index relating to interest rates for AAA tax-exempt municipal debt for terms of 1 to 30 years provided by Capital Finance. This daily index is used by Capital Finance in its evaluation of the pricing of bonds sold by the State and this rate along with a spread represents a reasonable rate the State would be charged for borrowing the lease payment amounts during the lease term. Capital Finance will provide SCO-FRS with the rates each year on 9/1/XX, 12/1/XX, 3/1/XX and 6/1/XX. The rates on these dates will be used for leases starting during those time periods. For example, a lease starting 10/1/XX would use the rates provided on 9/1/XX. See Attachment A for the current year implicit rate schedule.

STAR ACFR Accounts for Lease-related Entries

Below is a list of the accounts that are more commonly used for leases and right to use capital asset entries pushed from LA/AM into the CAFR ledger. The accounts may also be used for additional SCO-FRS and agency adjusting entries in the CAFR ledger:

Account	Account Description	Account Type	Account Purpose
W2BLD31	Right to Use Asset-BLDG	Asset	ACFR & Reporting
W2BLD32	Accum Amort -Lease BLDG	Asset	ACFR & Reporting
W2EQP31	Right to Use Asset - EQUIP	Asset	ACFR & Reporting
W2EQP32	Accum Amort – Lease Equip	Asset	ACFR & Reporting
W5LEAS1	LT Liab: Leases Curr	Liability	ACFR & Reporting
W5LEAS2	LT Liab: Leases NonCur	Liability	ACFR & Reporting
X2INTLS	Interest Expense -Leases	Expense	ACFR & Reporting
X2AMRTL	Amortization Expense	Expense	ACFR & Reporting
X2SUPPL	Supplies & Service Exp	Expense	ACFR & Reporting
X3DSPCP	Gain Loss Disp of Captl NonOp	Revenue	ACFR & Reporting

Example Entries (All lease entries will be completed by SCO-FRS)

Governmental Fund Entries

Financial Activity Reported in ACTUALS Ledger for Monthly Lease Payments
Total Payments made in Year 1

Debit	Various Lease Expenditure Account Codes (Principal & Interest)	62,773	
Credit	Cash		62,773

FRS entry recording leases entered into during the current fiscal year (Year 1 of leases) - Year 1 CAFR Ledger

Debit	X2CPLEA Capital Outlay - Leases	521,051	
Credit	Revenue Accts Other Financing Sources		521,051

<This entry occurs for new leases in year 1 and when an amendment increases the asset value/future payment liability>

AM Generated Entries

Year 1 Entry AM Creation of Lease Asset & Liability in CAFR Ledger

Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	515,820	
Credit	W5LEAS2 Leases NonCur		515,820
Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	5,231	
Credit	X2SUPPL Supplies & Service Exp		5,231

<First month's lease payment made in advance of lease term (expensed)>

FRS entry recording leases entered into during the current fiscal year (Year 1 of leases) - Year 1 CAFR Ledger

Debit	X2CPLEA Capital Outlay - Leases	521,051	
Credit	Revenue Accts Other Financing Sources		521,051

AM Generated Entries (Continued)

Monthly AM CAFR Ledger Entry - Total Monthly Entries for Year 1

Debit	W5LEAS2 LT Liab: Leases NonCur	51,418	
Debit	X2INTLS Interest Expense	6,124	
Credit	X2SUPPL Supplies & Service Exp		57,542

<Total Monthly Lease Payments for Year 1>

Debit	X2AMRTL Amortization Expense	61,300	
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)		61,300

<Total monthly amortization for Year 1>

AM Lease Expiration/Termination (End of Lease) - Example is Lease Expiration

Debit	W5LEAS2 LT Liab: Leases NonCur	—	
Debit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings	521,051	
Debit/	X3DSPCP Gain Loss Disp of Captl NonOp*	—	
Credit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)		521,051

*Gain/Loss calculated if lease is terminated early

AUTO Entries - FRS Completes

Debit	X2COMRC X2EDUCA X2ENVRS X2GENEX X2HRREX X2JUDIC X2LEGIS Functional Exp	62,773	
Credit	X2FUNCT Supplies & Service Exp (X2FUNCT is the temp account set up as offset)		62,773

FRS Entry to Reclass Lease Expenditures to Lease Principal & Lease Interest

Debit	X2DEBT1 Debt Service: Principal	56,649	
Debit	X2DEBT2 Debt Service: Interest	6,124	
Credit	X2COMRC X2EDUCA X2ENVRS X2GENEX X2HRREX X2JUDIC X2LEGIS Functional Exp (Based on agency)		62,773

FRS Entries to remove AM activity from Governmental Funds/Add back to Govt-Wide

Year 1 Entry AM Creation of Lease Asset & Liability in CAFR Ledger

Debit	W5LEAS2 Leases NonCur	515,820	
Credit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)		515,820
Debit	X2SUPPL Supplies & Service Exp	5,231	
Credit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)		5,231

<First month’s lease payment made in advance of lease term (expensed)>

Monthly AM CAFR Ledger Entry

Debit	X2SUPPL Supplies & Service Exp	51,542	
Credit	X2INTLS Interest Expense		6,124
Credit	W5LEAS2 LT Liab: Leases NonCur		51,418

<Total Monthly Lease Payments for Year 1>

Debit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings	61,300	
Credit	X2AMRTL Amortization Expense		61,300

<Monthly amortization of right to use asset>

AM Lease Expiration/Termination

Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	521,051	
Debit/Credit	X3DSPCP Gain Loss Disp of Captl NonOp*	—	
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings		521,051
Credit	W5LEAS2 LT Liab: Leases NonCur*		—

*Gain/Loss and Liability calculated if lease is terminated early

Government-wide Entries

FRS entry recording leases entered into during the current fiscal year (Year 1 of leases) - Year 1 CAFR Ledger			
Debit	Revenue Accts Other Financing Sources	521,051	
Credit	X2CPLEA Capital Outlay - Leases		521,051

FRS End of Year Reclass Current Liability			
Debit	W5LEAS2 LT Liab: Leases NonCur	57,295	
Credit	W5LEAS1 LT Liab: Leases Cur		57,295

FRS Entries to remove AM activity from Governmental Funds/Add back to Govt-Wide

Year 1 Entry AM Creation of Lease Asset & Liability in CAFR Ledger			
Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	515,820	
Credit	W5LEAS2 Leases NonCur		515,820
Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	5,231	
Credit	X2DEBT1 Debt Service: Principal		5,231
	<First month’s lease payment made in advance of lease term (expensed)>		

Monthly AM CAFR Ledger Entry			
Debit	W5LEAS2 LT Liab: Leases NonCur	51,418	
Credit	X2DEBT1 Debt Service: Principal		51,418
	<Total Monthly Principal Lease Payments for Year 1>		
Debit	X2AMRTL Amortization Expense	61,300	
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)		61,300
	<Total monthly amortization for Year 1>		

AM Lease Expiration/Termination			
Debit	W5LEAS2 LT Liab: Leases NonCur	—	
Debit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)	521,051	
Credit	X3DSPCP Gain Loss Disp of Captl NonOp*	—	
Credit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)		521,051
	*Gain/Loss calculated if lease is terminated early		

FRS Entries to reestablish balances Year 2 - CAFR Ledger

Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	521,051	
Debit	W7UNRES Unrestricted Equity	4,651	
Credit	W5LEAS2 Leases NonCur		464,402
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)		61,300

Proprietary Fund Entries

Financial Activity Reported in ACTUALS Ledger for Monthly Lease Payments
Total Payments made in Year 1

Debit	Various Lease Expenditure Account Codes (Principal & Interest)	62,773	
Credit	Cash		62,773

AM Generated Entries

Year 1 Entry AM Creation of Lease Asset & Liability in CAFR Ledger

Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	515,820	
Credit	W5LEAS2 Leases NonCur		515,820
Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	5,231	
Credit	X2SUPPL Supplies & Service Exp		5,231

<First month's lease payment made in advance of lease term (expensed)>

Monthly AM CAFR Ledger Entry - Total Monthly Entries for Year 1

Debit	W5LEAS2 LT Liab: Leases NonCur	51,418	
Debit	X2INTLS Interest Expense	6,124	
Credit	X2SUPPL Supplies & Service Exp		57,542

<Total Monthly Lease Payments for Year 1>

Debit	X2AMRTL Amortization Expense	61,300	
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)		61,300

<Total monthly amortization for Year 1>

AM Lease Expiration/Termination (End of Lease) - Example is Lease Expiration

Debit	W5LEAS2 LT Liab: Leases NonCur	—	
Debit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)	521,051	
Debit/Credit	X3DSPCP Gain Loss Disp of Captl NonOp*	—	
Credit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)		521,051

*Gain/Loss calculated if lease is terminated early

FRS End of Year Reclass Current Liability

Debit	W5LEAS2 LT Liab: Leases NonCur	57,295	
Credit	W5LEAS1 LT Liab: Leases Cur		57,295

FRS Entries to reestablish balances Year 2 - CAFR Ledger

Debit	W2BLD31/W2EQP31 Right to Use Asset-Buildings (Equipment)	521,051	
Debit	W7UNRES Unrestricted Equity	4,651	
Credit	W5LEAS2 Leases NonCur		464,402
Credit	W2BLD32/W2EQP32 Accumulated Amortization-Lease Buildings (Equipment)		61,300

Footnote Requirements

Prior to GASB 87, agencies were responsible for completing footnote disclosure forms related to capital leases and operating leases. Beginning in FY22, agencies no longer need to submit forms as SCO-FRS will compile this and incorporate into the Notes to the Financial Statements.

<u>Lessee Requirements</u>

GASB 87 requires a lessee to disclose the following information in its Notes to the Financial Statements:

- A general description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability
- The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets
- The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability
- The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability
- Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter

Lessor Requirements

GASB 87 requires a lessor to disclose the following information in its Notes to the Financial Statements:

- A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined
- The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if that amount cannot be determined based on the amounts displayed on the face of the financial statements
- The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.

Information Needed for SBITA Reporting

Reporting for SBITAs was effective beginning with the State's FY 2023 ACFR. As noted above, GASB 96 guidelines followed those of GASB 87, so SCO-FRS is using a similar method of implementation as detailed in the GASB 87 section, with certain differences outlined below.

SCO-FRS will collect SBITA information from two sources:

1) Agency specific SBITAs that are material and meet the definition of a under GASB 96
2) UW System

STAR ACFR Accounts specific to SBITA-related Entries

With the implementation of GASB 96, SCO-FRS created a new account code in the STAR Actuals ledger for agencies to use for their SBITAs that qualify for capitalization under GASB 96. If agencies have SBITAs that qualify, these should be coded to account 7436000 - GASB 96 Subscriptions - SBITAs. Subscriptions that don't meet the criteria should be coded to a separate appropriate expense account.

Below is a list of accounts that were created specifically for SBITAs and right to use capital asset entries pushed from LA/AM into the CAFR ledger:

Account	Account Description	Account Type	Account Purpose
W2SBI31	Right to Use Asset- SBITA	Asset	ACFR & Reporting
W2SBI32	Accum Amort - SBITA	Asset	ACFR & Reporting
W5SBIT1	LT Liab: SBITA Curr	Liability	ACFR & Reporting
W5SBIT2	LT Liab: SBITA NonCur	Liability	ACFR & Reporting
X2INTSB	Interest Expense – SBITA*	Expense	ACFR & Reporting

*Note that interest expense is the only expense/revenue account differentiated from leases

Example Entries (All SBITA entries will be completed by SCO-FRS)

The SBITA CAFR ledger entries will follow the same structure as the lease entries under GASB 87, with the difference being the SBITA-specific accounts being used, detailed in the table above. Since the entries are similar to leases under GASB 87, they are not provided in detail here.

Footnote Requirements

GASB 96 requires a government to disclose the following information in its Notes to the Financial Statements:

- A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
- The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability
- The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
- Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter
- Commitments under SBITAs before the commencement of the subscription term
- The components of any loss associated with an impairment (the impairment loss and any related change in the subscription liability).

Attachment A

Daily Index Yield Curve - Provided to Capital Finance by Municipal Market Analytics, Inc

6/1/2023

Mat.	Year	Yield	Spread	Final Rate
1	2024	3.21	0.25	3.46
2	2025	3.01	0.25	3.26
3	2026	2.80	0.25	3.05
4	2027	2.63	0.25	2.88
5	2028	2.57	0.25	2.82
6	2029	2.57	0.25	2.82
7	2030	2.63	0.25	2.88
8	2031	2.70	0.25	2.95
9	2032	2.77	0.25	3.02
10	2033	2.84	0.25	3.09
11	2034	2.91	0.25	3.16
12	2035	2.98	0.25	3.23
13	2036	3.05	0.25	3.30
14	2037	3.11	0.25	3.36
15	2038	3.16	0.25	3.41
16	2039	3.20	0.25	3.45
17	2040	3.23	0.25	3.48
18	2041	3.25	0.25	3.50
19	2042	3.27	0.25	3.52
20	2043	3.29	0.25	3.54
21	2044	3.31	0.25	3.56
22	2045	3.34	0.25	3.59
23	2046	3.35	0.25	3.60
24	2047	3.36	0.25	3.61
25	2048	3.37	0.25	3.62
26	2049	3.38	0.25	3.63
27	2050	3.39	0.25	3.64
28	2051	3.40	0.25	3.65
29	2052	3.41	0.25	3.66
30	2053	3.42	0.25	3.67

9/1/2023

Mat.	Year	Yield	Spread	Final Rate
1	2024	3.26	0.25	3.51
2	2025	3.13	0.25	3.38
3	2026	2.96	0.25	3.21
4	2027	2.79	0.25	3.04
5	2028	2.76	0.25	3.01
6	2029	2.73	0.25	2.98
7	2030	2.78	0.25	3.03
8	2031	2.85	0.25	3.10
9	2032	2.93	0.25	3.18
10	2033	3.00	0.25	3.25
11	2034	3.07	0.25	3.32
12	2035	3.14	0.25	3.39
13	2036	3.21	0.25	3.46
14	2037	3.27	0.25	3.52
15	2038	3.33	0.25	3.58
16	2039	3.38	0.25	3.63
17	2040	3.41	0.25	3.66
18	2041	3.44	0.25	3.69
19	2042	3.46	0.25	3.71
20	2043	3.48	0.25	3.73
21	2044	3.50	0.25	3.75
22	2045	3.51	0.25	3.76
23	2046	3.52	0.25	3.77
24	2047	3.53	0.25	3.78
25	2048	3.54	0.25	3.79
26	2049	3.55	0.25	3.80
27	2050	3.56	0.25	3.81
28	2051	3.57	0.25	3.82
29	2052	3.58	0.25	3.83
30	2053	3.59	0.25	3.84

12/1/2023

Mat.	Year	Yield	Spread	Final Rate
2024	3.00	0.25	3.25	
2025	2.87	0.25	3.12	
2026	2.72	0.25	2.97	
2027	2.63	0.25	2.88	
2028	2.60	0.25	2.85	
2029	2.57	0.25	2.82	
2030	2.62	0.25	2.87	
2031	2.70	0.25	2.95	
2032	2.77	0.25	3.02	
2033	2.84	0.25	3.09	
2034	2.91	0.25	3.16	
2035	2.98	0.25	3.23	
2036	3.05	0.25	3.30	
2037	3.11	0.25	3.36	
2038	3.17	0.25	3.42	
2039	3.22	0.25	3.47	
2040	3.26	0.25	3.51	
2041	3.28	0.25	3.53	
2042	3.30	0.25	3.55	
2043	3.32	0.25	3.57	
2044	3.34	0.25	3.59	
2045	3.36	0.25	3.61	
2046	3.37	0.25	3.62	
2047	3.38	0.25	3.63	
2048	3.39	0.25	3.64	
2049	3.40	0.25	3.65	
2050	3.41	0.25	3.66	
2051	3.42	0.25	3.67	
2052	3.43	0.25	3.68	
2053	3.44	0.25	3.69	

3/1/2024

Mat.	Year	Yield	Spread	Final Rate
1	2025	2.98	0.25	3.23
2	2026	2.71	0.25	2.96
3	2027	2.56	0.25	2.81
4	2028	2.41	0.25	2.66
5	2029	2.38	0.25	2.63
6	2030	2.34	0.25	2.59
7	2031	2.39	0.25	2.64
8	2032	2.44	0.25	2.69
9	2033	2.48	0.25	2.73
10	2034	2.54	0.25	2.79
11	2035	2.61	0.25	2.86
12	2036	2.71	0.25	2.96
13	2037	2.82	0.25	3.07
14	2038	2.95	0.25	3.20
15	2039	3.08	0.25	3.33
16	2040	3.19	0.25	3.44
17	2041	3.26	0.25	3.51
18	2042	3.31	0.25	3.56
19	2043	3.34	0.25	3.59
20	2044	3.36	0.25	3.61
21	2045	3.38	0.25	3.63
22	2046	3.39	0.25	3.64
23	2047	3.40	0.25	3.65
24	2048	3.41	0.25	3.66
25	2049	3.42	0.25	3.67
26	2050	3.43	0.25	3.68
27	2051	3.44	0.25	3.69
28	2052	3.45	0.25	3.70
29	2053	3.46	0.25	3.71
30	2054	3.47	0.25	3.72

6/1/2024

Mat.	Year	Yield	Spread	Final Rate
1	2025	3.39	0.25	3.64
2	2026	3.29	0.25	3.54
3	2027	3.15	0.25	3.40
4	2028	3.03	0.25	3.28
5	2029	2.98	0.25	3.23
6	2030	2.93	0.25	3.18
7	2031	2.90	0.25	3.15
8	2032	2.91	0.25	3.16
9	2033	2.94	0.25	3.19
10	2034	2.99	0.25	3.24
11	2035	3.05	0.25	3.30
12	2036	3.14	0.25	3.39
13	2037	3.24	0.25	3.49
14	2038	3.36	0.25	3.61
15	2039	3.51	0.25	3.76
16	2040	3.66	0.25	3.91
17	2041	3.77	0.25	4.02
18	2042	3.81	0.25	4.06
19	2043	3.84	0.25	4.09
20	2044	3.86	0.25	4.11
21	2045	3.88	0.25	4.13
22	2046	3.90	0.25	4.15
23	2047	3.91	0.25	4.16
24	2048	3.92	0.25	4.17
25	2049	3.93	0.25	4.18
26	2050	3.94	0.25	4.19
27	2051	3.95	0.25	4.20
28	2052	3.96	0.25	4.21
29	2053	3.97	0.25	4.22
30	2054	3.98	0.25	4.23

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences by state and local governmental entities for which employees will be paid such as vacation, sick leave, and sabbatical leave. Using the criteria in Statement 16, a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the State and its employees should be accrued as employees earn the rights to the benefits. Those compensated absences which relate to future services or that are contingent on a specific event that is outside the control of the State and its employees should be accounted for in the period those services are earned or those events occur.

It is the State's policy that the following compensated absences will be accrued based on the requirements of Statement 16:

- Vacation Leave and Other Compensated Absences with Similar Characteristics (Personal Holiday and Legal/Saturday Holiday). Beginning in FY 2016, Compensation Time will no longer be included due to immateriality.
- Sabbatical Leave (Annual Leave Banking Option)
- Sick Leave (Only the Portion of Accumulated Sick Leave to be Converted to Health Insurance Premiums as administered by the Accumulated Sick Leave Conversion Program)
- Additional Salary-Related Payments

Sick leave (other than the liability reported in the Accumulated Sick Leave Program as reported by ETF) will not be accrued because sick leave benefits become part of an employee's compensation when -- and only when -- the employee becomes ill, not when the sick leave is accumulated.

The liability for the value of compensated absences (other than sick leave) shall be calculated at the end of each fiscal year and adjusted to current salary costs. The liability will be based on June 30th hourly rates of pay plus add-ons. Scheduled pay increases will not be factored into the computation. Any negative amounts will be netted against the positive totals. The sick leave liability will be measured as of December 31st.

Vacation Leave and Other Compensated Absences with Similar Characteristics

Other compensated absences have characteristics similar to vacation leave and should be accrued as a liability as the benefits are earned by employees. In the State, these types of similar compensated absences include: personal holidays and legal/Saturday holidays.

These compensated absences (vacation both earned and unused, and prior year carryover; personal time; and legal/ Saturday holiday) will continue to be accrued as a liability because both of the Statement 16 accrual conditions are met:

(1) the employees' rights to receive compensation are attributable to services already rendered, and

(2) it is probable that the employer will compensate the employees for the benefits through time off or some other means, such as cash payments at termination or retirement.

The methodology to calculate the liability will be similar to that used in prior years, See the procedures portion of Section V-11 – Compensated Absences.

Sabbatical (Annual Leave Banking Option)

The accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of the leave or, instead, for past service. If the nature of the sabbatical leave is employer restricted, that is, payment for sabbatical occurs for services during the period of leave, then an accrual of the liability is not required. However, if sabbatical is permitted/paid as compensation for past service, accrual of this liability is required.

In the State, eligible employees are provided the option of “banking” (deferring) a specified amount of annual leave in an account to be used in a subsequent year to:

(1) extend the annual leave, or

(2) extend an employees’ termination date or for payment in a lump sum payment upon termination.

As a result, Sabbatical Leave will be accrued as a liability. The methodology to calculate the Sabbatical Leave liability will be similar to that used in prior years. See the procedures portion of Section V-11 – Compensated Absences.

Sick Leave (Accumulated Sick Leave to be Converted into Health Insurance Premiums)

For most State employees, sick leave accrues at the rate of 5 hours every two weeks to a maximum of 16 days per year. Unused portions accumulate from year-to-year and are converted at retirement as indicated below.

Currently, for sick leave, three options exist:

(1) if a State employee terminates State service, sick leave is forfeited unless the employee returns to State service within three (3) years to a position that would earn sick leave. If this occurs the sick leave is restored to the employee,

(2) if an employee retires, the accumulated sick leave will be converted at the employee’s highest hourly base rate of pay (not including add-ons) to be used to pay health insurance, if applicable, or

(3) if an employee dies and had family health insurance coverage, the accumulated sick leave will be converted at the employee’s highest hourly base rate of pay (not including add-ons) to be used to pay health insurance premiums.

If option 2 or 3 is used, a conversion credit is computed at the time of retirement or death by multiplying the number of days of unused sick leave by the highest base rate of pay. The conversion credit is then used to cover the cost of monthly health insurance premiums. Unused portions are carried forward from year-to-year without interest and when total health insurance premiums paid on behalf of the retired employee equal or exceed the conversion credit, no further payments are made under the program. Payments from the sick leave account may be escrowed after retirement for participants who provide evidence of comparable health insurance coverage from another source.

Based upon the characteristics of the State's accumulated sick leave conversion program (e.g., the State allows the value of accumulated sick leave to be used to pay a retiring employee's share of post employment healthcare insurance premiums), a liability will be accrued but only to the extent it is probable that the State will compensate employees. This conclusion is consistent with GASB Statement 16, Footnote 6 to Paragraph 8a, which states in part ". . . these amounts, like cash payments made directly to employees, are termination payments. . ."

The liability will be calculated by the Department of Employee Trust Funds using an actuarial methodology, consistent with the approaches discussed in GASB Statement 16, and reported as a liability of the Accumulated Sick Leave fund.

Additional Salary-Related Payments

GASB Statement No. 16, as modified by GASB Statement No. 68, requires an additional amount to be accrued for salary-related payments directly and incrementally associated with the payment of compensated absences. The salary-related payments subject to accrual are only those items for which an employer (the State) is liable to make payment directly and incrementally associated with payments made for compensated absences on termination. Such salary-related items include:

- employer's share of social security taxes,
- employer's share of Medicare taxes,
- employer's contributions to the State's accumulated sick leave conversion program.

- Social Security and Medicare Taxes

An additional amount will be accrued as a liability for social security and Medicare taxes for the employer's (the State) share of these payments. The accrual will be based on the entire liability for each type of compensated absence to which the salary-related payments apply (accumulated sick leave converted to health insurance premiums payments is non-taxable). Therefore, the calculation will be determined for each compensated absence by compensated absence type as follows:

- vacation liability x 7.65 percent
- personal holiday liability x 7.65 percent
- legal/Saturday holiday liability x 7.65 percent
- Sabbatical leave time liability x 7.65 percent

An assumption built into the calculation is that a full year's social security and Medicare tax rate is used because few employees would earn more than the taxable wage bases.

- Employer Contributions

Footnote 7 to Paragraph 11 of GASB Statement No. 16 requires an accrual for the required contribution to a defined contribution or a cost-sharing multiple-employer defined benefit pension plan if the employer is liable for a contribution to the plan based on termination payments made to employees for vacation leave, sick leave or other compensated absences.

However, question 266 of the GASB Statement No. 68 Implementation Guide clarifies that employer's contributions to a pension plan (i.e. the WRS) that are based on employee's salary are not to be included as part of the compensated absences liability. These contributions are included in the projection of pension benefit payments and, therefore, are included as part of the net pension liability rather than the compensated absences liability.

As such, an additional amount will be accrued as a liability only for the sick leave contributions for the employer's (the State) share of the compensated absences payments. The accrual will be based on the entire liability for each type of compensated absence to which the contribution-related payments apply.

Because lump sum payments made upon an employee's termination (sabbatical time) are not subject to sick leave contributions, the additional liability accrual, for employer's (the State) contributions to the sick leave program will be accrued for only the following compensated absences types:

- vacation,
- personal holiday, and
- legal/Saturday holiday.

Identical to the methodology for calculating the additional liability accrual for social security and Medicare taxes, the liability accrual for employer's contributions to the sick leave program will be calculated by GAAP fund based upon a State-wide average percentage rate applied to the total of each compensated absence type. For FY 2024, this rate will be 0.90 percent. Rates can be found on the ETF website here.

Liability Reporting

In the proprietary fund statements, the liability will be presented in both current and noncurrent classifications. In the government-wide statements, the current and noncurrent portions of the liability will be included in the respective current and noncurrent portions of long-term liabilities.

The State's accumulated sick leave conversion program's liability will be reported in the Accumulated Sick Leave Fund.

Liability Calculation and Recording of Entries

The calculation of the compensated absence liability will be performed centrally by the STAR Team using information from the central STAR HCM system. This calculation will be performed for all state agencies except those not using the HCM system, including the University of Wisconsin, legislative service agencies, and SWIB. Only the University of Wisconsin is considered material for ACFR reporting purposes.

The allocation of the liability to applicable governmental functions and the calculation of the current and non-current percentage split, will be performed by SCO-FRS. They will use the information to create applicable GAAP adjusting entries and record them in the ACFR trial balances provided to agencies.

Provide Additional Information Relating to Compensated Absences (only for agencies not on the State STAR HCM System but required to report compensated absence liabilities)

GASB 34 requires that the current and long-term portion of long-term liabilities must be reported separately on the government-wide financial statements. The following compensated absences have been designated as either current or long-term:

Element Type	Designation
Vacation	Current
Personal Holiday	Current
Sabbatical	Current and Long-term
Legal/Saturday Holiday	Current

-- Agencies Using the STAR HCM System

For those agencies that are on the STAR HCM system, the SCO-FRS will perform the calculation of the current and long-term components of the liability using an estimation method based on an average historical percentage. Specifically, the split between the sabbatical current and long-term liability will be 2.33% and 96.67%, respectively.

The current and long-term portions of the liability for the accumulated sick leave program will be provided by the Department of Employee Trust Funds.

No additional work will need to be completed by agency GAAP accountants.

-- Agencies NOT Using the STAR HCM System

The University of Wisconsin System should calculate and report its compensated absences liability.

The legislative service agencies i.e., Legislative Council, Fiscal Bureau, Reference Bureau, Technology Services Bureau, and the Revisor of Statutes Bureau, along with the Senate and the Assembly, are not required to calculate and submit the liability for compensated absences because they are considered “minor” General Fund agencies. In addition, SWIB (BU 53600) is not using time and labor in STAR and need not calculate and report compensated absences due to immateriality.

Annually SCO-FRS will initiate a request to the STAR HCM team to obtain a report of the compensated absences liability for the fiscal year ended June 30th. The information used to determine and calculate the liability for each GAAP fund will be obtained for state agencies using the STAR HCM system. Agencies not using the central HCM system but required to submit GAAP statements, such as the University of Wisconsin, are required to calculate and report the liability for compensated absences for the ACFR.

The following steps should be performed in computing the values for individual compensated absence liability items.

<u>Vacation and Approved Prior Calendar Year Vacation Carry-over</u>

The vacation liability will be computed as follows (5 Steps):

(1) Calculate the vacation liability for each individual employee:

A. Divide the January 1st credited vacation hours in half to arrive at an amount earned by each employee for the period January 1st through June 30th.
B. Add approved carry-over vacation hours (vacation hours carried into the second half of the calendar year).
C. Subtract the amount of vacation hours used during the period January 1st through June 30th.
D. Multiply by the employee's June 30th rate of pay (including add-ons).

Putting the above into a mathematical equation: ([A/2 + B] - C) x D.

(2) Add the amounts of individual employee's vacation liability calculated in Step [1] to arrive at a vacation liability.

An additional liability amount should be accrued for vacation-related payments. These vacation-related amounts include the employer's share of social security and medicare taxes(Steps 3 and 4).

(3) Calculate the additional vacation-related accrual for social security and medicare taxes:

Vacation liability (from Step [2])	$XXXX.XX
Social security and medicare taxes	x .0765
Additional accrual for social security and medicare taxes	$ XX.XX

(4) Calculate the additional vacation-related accrual for sick leave contribution:

Vacation liability (from Step [2])	$XXXX.XX
Sick leave contribution	x .009
Additional accrual for sick leave contribution	$ XX.XX

(5) Calculate the total vacation liability accrual:

Vacation liability (from Step [2])	$XXXX.XX
Vacation-related accrual for social security and medicare taxes (from Step [3])	XX.XX
Accrual for sick leave contribution (from Step [4])	XX.XX
Total vacation liability accrual	$XXXX.XX

Sabbatical Leave (Annual Leave Banking Option)

The Sabbatical Leave (annual leave banking option) liability will be computed as follows (5 steps):

(1) Multiply the total amount in each employee's account times the individual employee's June 30th rate of pay (including add-ons).

(2) Add all the amounts of individual employee's sabbatical leave liability calculated in Step [1] above to arrive at a sabbatical leave liability.

An additional liability amount should be accrued for sabbatical leave-related payments. These sabbatical leave-related amounts include the employer's share of social security and medicare taxes (Step 3).

(3) Calculate the additional sabbatical leave-related accrual for social security and medicare taxes:

Sabbatical leave liability (from Step [2])	$XXXX.XX
Social security and medicare taxes	x .0765
Additional accrual for social security and medicare taxes	$ XX.XX

(4) Calculate the total sabbatical leave liability accrual:

Sabbatical leave liability (from Step [2])	$XXXX.XX
Accrual for social security and medicare taxes (from Step [3])	XX.XX
Total sabbatical leave liability accrual	$XXXX.XX

(5) Estimate the split between the short and long-term portions of the sabbatical liability. Beginning in FY 2016, SCO-FRS will use historic average rates of 2.33% and 97.67%, respectively, to estimate the short and long-term portions of the liability. These percentages will be used on an on-going basis. Agencies, such as the University of Wisconsin, should base their short and long term estimates on information available to them.

Personal Holiday Time

The personal holiday time liability will be computed as follows (5 steps):

(1) Multiply the balance of any unused personal holiday hours times each employee's June 30th rate of pay (including add-ons).

(2) Add all the amounts of individual employee's personal time liability calculated in Step [1] above to arrive at a personal holiday time liability.

An additional liability amount should be accrued for personal holiday time-related payments. These amounts include the employer's share of social security and medicare taxes, and sick leave contributions (Steps 3 and 4).

(3) Calculate the additional personal holiday time-related accrual for social security and medicare taxes:

Personal holiday time liability (from Step [2])	$XXXX.XX
Social security and medicare taxes	x .0765[1]
Additional accrual for social security and medicare taxes	$ XX.XX

(4) Calculate the additional personal holiday time-related accrual for sick leave contribution:

Personal holiday time liability (from Step [2])	$XXXX.XX
Sick leave contribution	x .009[2]
Additional accrual for sick leave contribution	$ XX.XX

(5) Calculate the total personal holiday time liability accrual:

Personal holiday time liability (from Step [2])	$XXXX.XX
Accrual for social security and medicare taxes (from Step [3])	XX.XX
Accrual for sick leave contribution (from Step [4])	XX.XX
Total personal holiday time liability accrual	$XXXX.XX

[1,1] Rate comes from required OASDI SS + Medicare employer portion rate
[2,2] Rate given by ETF https://etfonline.wi.gov/ETFCalculatorWeb/etf/internet/employer/ETFemployerrates.js

Saturday/Legal Holiday Hours

The State provides nine legal holidays with pay. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion, if the employee worked that particular Saturday. Unused holiday hours can be carried into the following calendar year. Furthermore, employees can receive permission, prior to June 30, to carry holiday hours into the second half of the calendar year. To compute the Saturday/legal holiday liability, perform the following steps (5 steps):

(1) Calculate the Saturday/legal liability for each individual employee:

A. Determine the holiday hours earned and vested during the period January 1 through June 30.
B. Add prior calendar year holiday hours carried forward into the current calendar year.
C. Subtract the holiday hours used during the period January 1 through June 30.
D. Multiply by the employee's June 30th rate of pay (including add-ons).

Putting the above into a mathematical equation: (A+B-C) x D.

(2) Add all the amounts of individual employee's Saturday/legal liability calculated in Step [1] above to arrive at a Saturday/legal liability.

An additional liability amount should be accrued for Saturday/legal-related payments. These related amounts include the employer's share of social security and medicare taxes, and sick leave contributions (Steps 3 and 4).

(3) Calculate the additional Saturday/legal-related accrual for social security and medicare taxes:

Saturday/legal liability (from Step [2])	$XXXX.XX
Social security and medicare taxes *(see prior page footnotes)*	x .0765
Additional accrual for social security and medicare taxes	$ XX.XX

(4) Calculate the additional Saturday/legal-related accrual for sick leave contribution:

Saturday/legal liability (from Step [2])	$XXXX.XX
Sick leave contribution *(see prior page footnotes)*	x .009
Additional accrual for sick leave contribution	$ XX.XX

(5) Calculate the total Saturday/legal liability accrual:

Saturday/legal liability (from Step [2])	$XXXX.XX
Accrual for social security and medicare taxes (from Step [3])	XX.XX
Accrual for sick leave contribution (from Step [4])	XX.XX
Total Saturday/legal liability accrual	$XXXX.XX

Accumulated Sick Leave Conversion Program

The liability accrual for the accumulated sick leave conversion program will be calculated by the Department of Employee Trust Funds using an actuarial methodology consistent with the approaches discussed in GASB Statement 16. Because the conversion program's credits are non-taxable, an additional accrual for social security and medicare taxes will not be included in the liability computation. Further, salary add-ons are not included.

The liability for this program will be reported in the Accumulated Sick Leave (ASL) GAAP Fund submitted by ETF for the ACFR. This liability is funded from employer contributions made by all of the other GAAP funds. In FY 2024, the employers contributed 0.90 percent of employee earnings to the ASL GAAP Fund. This 0.90 percent is used as a multiplier in the calculations above because it is a liability that the employers owe when their employees earn it (similar to vacation time). It is not a liability that is dependent on the employees using sick time.

Recording the Compensated Absence Liability (full accrual accounting):

The following journal entries should be prepared to record the liability:

Governmental Funds

The following entry should be made to report the liability in the government-wide financial statements:

Debit:	Net Position	XXX	
Debit:	Expense _________ (Identify function)	XXX	
Credit:	Compensated Absences Payable – Current Portion		XXX
Credit	Compensated Absences Payable – Noncurrent Portion		XXX

<To record compensated absences at fiscal year end – governmental activity>

SCO-FRS will make this government-wide entry centrally for governmental fund agencies using the STAR HCM system.

Proprietary Funds

For proprietary funds, the following entry is made in the *fund* statements:

Debit:	Operating Expenses-Personal Services	XXX	
Debit:	Net Position (the 6/30/XX recorded compensated absence amount)	XXX	
Credit:	Compensated Absences Payable – Current Portion		XXX
Credit	Compensated Absences Payable – Noncurrent Portion		XXX

<To record compensated absences at fiscal year end – proprietary funds>

Except for the University of Wisconsin, this entry is already included in the trial balance worksheet completed by the SCO-FRS for enterprise funds, internal service funds, and fiduciary funds reporting compensated absences. Because the trial balance will already report the amounts, there is no need for agency GAAP accounts to record this entry separately.

The University of Wisconsin should annually determine and record the amounts for their enterprise fund.

INCLUSION OF PENSION PLAN IN THE STATE'S FINANCIAL REPORTING ENTITY

The Wisconsin Retirement System (WRS) is a cost-sharing multiple employer defined benefit public employee retirement system. All assets of the WRS are invested by the state through the State of Wisconsin Investment Board (SWIB). The contributions to and benefits of (and associated liabilities) the WRS are managed by the Department of Employee Trust Funds (ETF).

The WRS is considered part of the primary government and, therefore, will be included in the State's ACFR. The Wisconsin Retirement System GAAP fund presents financial activity pertaining to the public employee pensions (the “Plan”). It is presented as a fiduciary fund in the ACFR.

A fiscal year-end of December 31 will be used for financial reporting by the WRS in the State’s ACFR, beginning with the FY 2014 ACFR. This date is used because it: 1) corresponds with ETF’s operational model designed for compliance with the federal Internal Revenue Code and Wisconsin Statutes; 2) ensures consistent presentation between the WRS financial statements and note disclosures, in compliance with GASB standards. GASB Statements No. 67 and 68 made significant changes to pension reporting and were the catalyst for changing the WRS presentation to a December 31 reporting date.

The WRS implemented the financial reporting guidance of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, effective with the FY 2015 ACFR. Because, as noted above, the WRS reports on a calendar year basis, the FY 2015 ACFR presented the WRS’ calendar year 2014 activity.

GASB Statement No. 67 replaces the requirements of GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27* for pension plans that are administered through trusts that meet the following criteria:

- Contributions and earnings on those contributions are irrevocable;
- Plan assets are dedicated to providing pensions to plan members in accordance with benefit terms; and
- Plan assets are legally protected from creditors.

The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. The Statement, along with GASB Statement No. 68, establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The Statement establishes standards of financial reporting for separately issued financial reports. It specifies requirements for financial statements, note disclosures, required supplementary information, and the required approach to measuring the pension liability of employers, about which information is required to be presented.

Statement of Fiduciary Net Position

The assets and liabilities of a defined benefit pension plan should be recorded using the accrual basis of accounting; however, plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan. Employers' financial statements are responsible for reporting net pension assets or liabilities associated with actuarially overfunded or underfunded pension plans.

A statement of fiduciary net position includes information about the plan assets, deferred outflows, liabilities, deferred inflows, and net position as of the end of the plan's fiscal year (reporting date). The statement of plan net position should provide information about the fair value and composition of net position. The statement should *not* report the actuarially determined funded status of the plan. That information, along with other information, should be provided from a long-term, ongoing plan perspective in a historical trend table as Required Supplementary Information.

Investments will generally be the most significant amount reported in the statement of fiduciary net position. Investments should be reported at fair value as of the reporting date; however, unallocated insurance contracts may be reported at contract value. The trade date basis should be used for recording investment transactions.

Statement of Changes in Fiduciary Net Position

This statement comprises two major categories: *additions* to plan net position and *deductions* from plan net position, with the difference between total additions and deductions identified as the net increase, or decrease, in plan net position for the period. Additions to plan net position include contributions from employers, employees, or other entities as well as investment income. Investment income should include realized and unrealized gains and losses on investments - these amounts should not be reported separately in the financial statements. They may be reported separately in the notes to the financial statements. Deductions from plan net position include benefits and refunds paid to plan members and beneficiaries. Administrative expenses should be reported separately.

Footnotes to the Financial Statements

GASB Statement No. 67 contains requirements for footnote disclosures not only in stand-alone plan financial statements, but also in limited disclosures in which an employer includes the plan as a pension trust fund in its own financial statements.

The disclosure requirements include descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's board. Such pension plans also should disclose information about pension plan investments, including the pension plan's investment policies, a description of how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan's fiduciary net position, and the annual money-weighted rate of return on pension plan investments. Other required note disclosures include information about contributions, reserves, and allocated insurance contracts.

Cost-sharing pension plans also should disclose the following information:

- The portion of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service (the total pension liability), the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability

- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc cost-of-living adjustments [COLAs]), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

Required Supplementary Information

Four schedules are required for cost-sharing plans with actuarially determine contributions.

1. A schedule covering each of the 10 most recent fiscal years that includes sources of changes in the net pension liability.
2. A schedule covering each of the 10 most recent fiscal years that includes information about the components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
3. A schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios.
4. A schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on pension plan investments for each year.

Footnotes to the Required Supplementary Information

GASB Statement No. 67 requires identification of the actuarial methods and of significant assumptions used for the most recent year reported in the required schedules. In addition, factors that affect the identification of trends in the amounts reported, such as changes in benefit provisions, should be disclosed.

Parameters for Actuarial Calculations for Defined Benefit Pension Plans

Statement No. 67 requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the pension plan's fiscal year-end, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 24 months prior to the pension plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end and to incorporate the effects of projected salary changes (if the pension formula incorporates compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes (including automatic COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each plan member individually, from the period when the plan member first accrues pensions through the period when the plan member retires.

FINANCIAL REPORTING BY AN EMPLOYER (STATE OF WISCONSIN) THAT PROVIDES EMPLOYEES WITH PENSION PLAN BENEFITS

GASB Statement No. 68, *Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, a companion statement to GASB Statement No. 67, was effective beginning with FY 2015. It addresses the accounting and financial reporting standards for pensions that are provided to employees of governments through pension plans.

GASB Statement No. 68 requires the liability of employers for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on updated procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and one day prior to the employer's most recent year-end). The net pension liability is to be measured in accordance with the parameters outlined in GASB Statement No. 67.

In financial statements prepared using the accrual basis of accounting, a cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows and inflows related to pensions. The collective deferred outflows and inflows of resources include: differences between expected and actual experience, changes of actuarial assumptions, and differences between projected and actual investment earnings.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows or inflows. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

Modified accrual financial statements should not show a portion of the net pension liability as long as the plan has enough assets to make benefit payments that are due and payable in the next year.

GASB Statement No. 68 requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities. They should also disclose information about how contributions to the pension plan are determined.

GASB Statement No. 68 requires cost-sharing employers to present in required supplementary information 10-year schedules containing the net pension liability and certain related ratios. The Statement also requires information about statutorily or contractually required contributions to be presented as an RSI schedule.

REPORTING IN THE ACFR

SCO-FRS will work with ETF to obtain all required asset/liability, deferred inflow/outflow, expenditure/expense, financial statements, schedules, and footnote disclosures for inclusion in the State's ACFR as required by GASB Statements No. 67 and 68.

ETF shall annually contract with an actuary to develop the information required by applicable GASB standards, contract for the audit of the information, and make the information available to SCO-FRS in a timeframe that allows for timely and efficient preparation of the ACFR.

As long as the WRS has sufficient assets to make benefit payments, governmental funds are not affected by these pronouncements. As a result, only the government-wide, proprietary fund, and fiduciary fund financial statements, which reflect accrual accounting, will report a net pension asset/liability, pension-related deferred inflows/outflows, and pension expenses. SCO-FRS will make the required adjusting journal entries to report these accounts on the funds' trial balances and for the government-wide statements.

A net pension asset meets the definition of a restricted asset under GASB 34 and 46. Therefore, if the State has a net pension asset, it will be presented as Restricted Asset on the government-wide Statement of Net Position and the Statement of Net Position for Proprietary Funds. Moreover, the net position related to the net pension asset will be reported as Restricted Net Position.

Deferred inflows and outflows are not considered when determining the amount of net position to restrict. Only the net pension asset is considered. Essentially, if the State has a net pension asset, the State will have an amount of Restricted Net Position exactly equal to the asset. If the State has an NPL, no restriction is needed.

GASB guidance indicates that if a stand-alone report is available that presents the notes and RSI information required by GASB 67, the ACFR does not have to present such information. Per the language in the Implementation Guide, "Statement 67 limits the applicability of note disclosures and RSI… to circumstances in which… statements are presented *solely*" in the ACFR (GASB's emphasis).

Because ETF creates a stand-alone report that includes the WRS, the disclosure requirements of GASB 67 do not apply to the ACFR. However, it does not preclude the ACFR from presenting additional relevant information. Therefore, in addition to presenting the note and RSI information required in GASB 68 outlined above, the ACFR may also present information about WRS participating employers, asset valuation practices, employer contributions, and measurement practices. This disclosure of other relevant information is subject to the professional judgment of SCO-FRS.

Based on actuarial information provided by ETF, SCO-FRS will prepare ACFR adjusting entries at the fund and government-wide levels to report the State's net pension liability/asset, and associated expenses and deferrals, associated with the WRS.

Allocation of Net Pension Asset/Liability and Creation of Adjusting Entries

To calculate the amounts needed for financial reporting, the SCO-FRS will allocate the net pension asset/liability, pension expenses, and pension-related deferred inflows and outflows computed by the actuaries to GAAP funds. The allocation will be based on a percentage of each agency's pension retirement expenditures per GAAP fund in the preceding fiscal year. For the current fiscal year (6/30/xy) ACFR, SCO-FRS will allocate the 12/31/xx balances based on the prior FYxx expenditures in STAR account codes:

- 7261000 – Teacher Retirement
- 7268000 – Early Retirement Unclass Fac/Staff and
- 7269000 – Other Retirement

When the data is available, the required adjusting entries will be prepared by SCO-FRS for the impacted GAAP funds and included on the STAR nVision ACFR trial balances provided to agencies. Entries will be included on the ACFR trial balances for individual funds reporting on a full accrual basis of accounting for which pension-related activity exists. This is true for most, but not all, proprietary funds.

SCO-FRS will also prepare and make the entry at the government-wide level for governmental activities.

Because the entries are completed by SCO-FRS staff and are complex and lengthy, they are not presented here. Rather, information is maintained within SCO-FRS workfiles on the required entries.

Agency Inclusion of Pension Entries in Individual GAAP Fund Statements

Agencies preparing individual GAAP fund statements should report the pension-related entries as provided by SCO-FRS. It is important for agencies to include the appropriate level of detail on the information submitted to SCO-FRS to allow for accurate and complete financial reporting and efficient desk review.

The table below summarizes the appropriate presentation of the many different pension-related accounts that should be followed for the financial statements submitted to SCO-FRS:

Statement	Account	Present on Separate ACFR Line?
Statement of Net Position	Restricted Assets - Net Pension Asset (Long Term)	Yes
Statement of Net Position	Net Pension Liability (Long Term)	Yes
Statement of Net Position	Deferred Outflows - Pension Differences Between Expected & Actual Experience	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Outflows - Pension Change of Assumptions	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Outflows - Pension Net Difference Between Projected & Actual Investment Earnings	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Outflows - Pension Change in Proportionate Share	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Outflows - Pension Contributions Subsequent to the Measurement Date	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Inflows - Pension Differences Between Expected & Actual Experience	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Inflows - Pension Change of Assumptions	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Inflows - Pension Net Difference Between Projected & Actual Investment Earnings	Yes – detail is needed for note disclosure
Statement of Net Position	Deferred Inflows - Pension Change in Proportionate Share	Yes – detail is needed for note disclosure
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Decrease (Increase) in Net Pension Assets	Yes – do not combine with other asset accounts; do not combine with Deferred Outflows
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Increase (Decrease) in Net Pension Liability	Yes – do not combine with other liability accounts such as OPEBs or compensated absences; do not combine with Deferred Inflows
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Decrease (Increase) in Deferred Outflows of Resources	No – all Deferred Outflows are combined on one line on the SOCF
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Increase (Decrease) in Deferred Inflows of Resources	No – all Deferred Inflows are combined on one line on the SOCF

Attachment A shows the net pension asset/liability and deferred outflows and deferred inflows in the manner that should be used for the statement of net position and the reconciling portion of the statement of cash flows.

Note Disclosure and Required Supplementary Information

SCO-FRS will also prepare the notes required to meet the GASB 67 and 68 disclosure requirements. ETF, in conjunction with their actuaries, will provide the information needed for this note. Further, Required Supplementary Information (RSI), covering funding progress and trend factors, will also be provided by ETF.

****

Classified Statement of Net Position - Proprietary Funds

June 30, 20XX

Fund Name: -

Assets and Deferred Outflows of Resources		
Current Assets:		
Cash and Cash Equivalents	$	
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Veterans Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due from Other Funds		
Due from Component Units		
Interfund Receivables		
Due from Other Governments		
Inventories		
Prepaid Items		
Advances to Other Funds		
Capital Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Other Assets		
Total Current Assets		0.00
Noncurrent Assets:		
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Veterans Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due from Other Governments		
Prepaid Items		
Advances to Other Funds		
Capital Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Net Pension Assets NPA		
OPEB Asset (Life + SHICC)		
Depreciable Capital Assets		
Accumulated Depreciation		
Nondepreciable Capital Assets *(includes Construction in Progress)*		
Other Assets		
Total Noncurrent Assets		0.00
Total Assets		0.00
Deferred OUTFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Pension Subsequent Contributions		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Life OPEB Subsequent Contributions		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
Health OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Investment Earnings		
Asset Retirement Obligations		
Advance to Recipient(s) by State (only time requirement remains)		
Loss on Debt Refunding		
Accumulated Decrease in Fair Value of Hedging Derivatives		
Other		
Total Deferred Outflows of Resources		0.00
Total Assets and Deferred Outflows of Resources		0.00

A classified statement of net position for proprietary funds will be created from the STAR ACFR ledger for those accountants uploading ACFR adjusting journals.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.

Agencies may not sum all types of Deferred Inflows of Resources or Deferred Outflow of Resources and present them on one line. Rather, each detailed type of deferred inflow and deferred outflows must be presented separately to allow SCO-FRS to develop related note disclosures.

Similarly, assets and liabilities should not be combined e.g. do not combine NPL, OPEBs and Comp Abs together. They are reported on their own lines in the ACFR.

F3

Classified Statement of Net Position - Proprietary Funds

June 30,	20XX	
Fund Name:		-
Liabilities, Deferred Inflows of Resources, and Fund Equity		
Current Liabilities:		
Accounts Payable and Other Accrued Liabilities	$	
Due to Other Funds		
Due to Component Units		
Interfund Payables		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Interest Payable		
Advances from Other Funds		
Advance from Federal Government		
Short Term Notes Payable (Commercial Paper)		
Current Portion of Long-term Liabilities:		
Future Benefits and Loss Liabilities		
Capital Leases		
Installment Contracts Payable		
Compensated Absences COMP ABS		
General Obligation Bonds Payable		
Revenue Bonds and Note Payable		
Total Current Liabilities		0.00
Noncurrent Liabilities:		
Accounts Payable and Other Long-term Liabilities		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Advances from Other Funds		
Advance from Federal Government		
Noncurrent Portion of Long-term Liabilities:		
Future Benefits & Loss Liabilities		
Capital Leases		
Installment Contracts Payable		
Compensated Absences COMP ABS		
Net Pension Liability NPL		
Other Postemployment Benefits OPEBs (Health + Life + SHICC)		
Asset Retirement Obligations		
General Obligation Bonds Payable		
Revenue Bonds and Notes Payable		
Total Noncurrent Liabilities		0.00
Total Liabilities		0.00
Deferred INFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Difference in Investment Earnings		
Gain on Debt Refunding		
Advance Received by State (only time requirement remains)		
Accumulated Increase in Fair Value of Hedging Derivatives		
Other		
Total Deferred Inflows of Resources		0.00
Net Position:		
Net Investment in Capital Assets		
Restricted for Unemployment Compensation		
Restricted for Environmental Improvement		
Restricted for Expendable Trusts		
Restricted for Nonexpendable Trusts		
Restricted for Net Pension Asset & OPEB		
Restricted for Future Benefits		
Restricted for Other Purposes		
Unrestricted		
Total Net Position		0.00
Total Liabilities and Net Position F3	$	0.00

Statement of Cash Flows for Fiscal Year Ended June 30, 20XX

Fund Name:		-	
Net Increase (Decrease) in Cash and Cash Equivalents		-	
Cash and Cash Equivalents, Beginning of Year			
Cash and Cash Equivalents, End of Year	$	-	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:			
Operating Income (Loss)	$		
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation			
Amortization			
Provision for Uncollectible Accounts			
Operating Income (Investment Income) Classified as Investing Activity			
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity			
Miscellaneous Nonoperating Income (Expense)			
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:			
Decrease (Increase) in Receivables			
Decrease (Increase) in Due from Other Funds			
Decrease (Increase) in Due from Component Units			
Decrease (Increase) in Due from Other Governments			
Decrease (Increase) in Inventories			
Decrease (Increase) in Prepaid Items			
Decrease (Increase) in Net Pension Assets			
Decrease (Increase) in Postemployment Benefit Asse			
Decrease (Increase) in Other Assets			
Decrease (Increase) in Deferred Outflows of Resourc			
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities			
Increase (Decrease) in Due to Other Funds			
Increase (Decrease) in Due to Component Units			
Increase (Decrease) in Due to Other Governments			
Increase (Decrease) in Tax and Other Deposits			
Increase (Decrease) in Unearned Revenue			
Increase (Decrease) in Interest Payable			
Increase (Decrease) in Future Benefits and Loss Liab			
Increase (Decrease) in Compensated Absences Liability			
Increase (Decrease) in Postemployment Benefit Liability			
Increase (Decrease) in Asset Retirement Obligation Liability			
Increase (Decrease) in Net Pension Liability			
Increase (Decrease) in Deferred Inflows of Resources			
Total Adjustments		-	
Net Cash Provided by Operating Activities	$	-	
Noncash Investing, Capital and Financing Activities:			
Assets Acquired through Capital Leases	$		
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds			
Lottery Prize Annuity Investment Assumption			
Lottery Prize Annuity Investment Liability			
Net Change in Unrealized Gains and Losses			
Other			

The accounts the agency uses must be consistent with this presentation used for the State's ACFR.

Agencies must separately present the increase (decrease) in Postemployment Benefits, Net Pension liabilities, and compensated absences liabilities. That is why we have separate lines for those accounts.

Conversely, because only one line is presented for deferred outflows of resources in the SOCF, those amounts should be summarized. Similarly, because only one line is presented for deferred inflows of resources, those amounts should also be summarized. *Note*: Deferred outflows and deferred inflows *must* be broken out into detailed lines shown in the balance sheet.

F5

The State has incurred long-term debt through the sale of general obligation bonds which are authorized by law by the State Building Commission. In addition, Chapter 18, Wis. Stats. authorizes the State to issue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these revenue obligations - revenue bonds. Further, Wis. Stats. 16.527 authorizes the State to issue appropriation obligations to obtain proceeds to 1) pay the State's anticipated unfunded prior service liability and the State's unfunded liability for accumulated unused sick leave credits and 2) to purchase any of the tobacco settlement revenues sold under Wis. Stats. 16.63.

General obligation bonds are issued to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. They are also issued for the purpose of providing funds for veterans housing loans and to refund (refinance) existing general obligation bonds.

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 set limits on the amount of general debt that the State can contract in total and in any year. General obligation bonds are customarily repaid over a twenty to thirty years.

General obligation bonds are full faith and credit obligations of the State and, therefore will be reported in the financial statements. Revenue bonds, which are issued for various purposes, are not considered full faith and credit obligations of the State. However, based upon application of GASB Codification, Section 2100, criteria for entity determination, revenue bond programs will also be included as part of the reporting entity (the State). Similarly, appropriation bonds are also not general obligations of the State, and the bonds do not constitute “public debt” of the State. The payment of the principal, premium, and interest on these bonds is subject to annual appropriation, that is, payments due will be made only to the extent appropriated by the legislature.

General Obligation Bonds (G.O. Bonds)

For governmental funds, the liability for general obligation bonds (G.O. bonds) outstanding at the end of the fiscal year will be reported on the government-wide statement of net position.

For proprietary funds, the liability relating to G.O. bonds that are to be ***repaid*** (principal and interest) from the proceeds/ revenues generated by a specific proprietary fund (e.g. UW System) will be reported as a liability of that fund. The intended source for repayment (revenues generated from a proprietary fund rather than general resources of the State) is the factor determining when a liability for G.O. bonds will be classified as a fund-specific liability.

The SCO Capital Accounting Section is the primary source of accounting and reporting information for G.O. bonds. Agency accountants should use the information provided to them by Capital Accounting. If differences occur, the agency accountant should communicate directly with Capital Accounting to resolve any such differences.

In fiscal year 2015, the State issued Long-term ***General Obligation Refunding Notes***. These are presented with G.O. bonds (as General Obligation Bonds & Notes Payable) in the statement of net position. The reporting requirements within this G.O. bond section are the same as for G.O. refunding notes.

However, for note disclosure purposes, the long term ***G.O. refunding notes*** must be disaggregated from G.O. bonds. Furthermore, the G.O. refunding notes should **not** be confused with the more common short-term ‘commercial paper’ notes, which are presented differently on the face of the financial statements. Separate ACFR reporting accounts have been established in STAR for the various debt obligations.

General Obligation Bond Liability Valuation

The reported G.O. bond & long term G.O. note liability will be the outstanding face value net of premiums/discounts.

General Obligation Bond Proceeds

Proceeds derived from the sale of G.O. bonds which are to be repaid out of the revenues or receipts of a particular proprietary fund will be accounted for in that fund's financial statements. Proceeds derived from the sale of all other G.O. Bonds will be accounted for in the financial statements of the Capital Improvement Fund, a Capital Projects Fund.

General Obligation Bond Issuance Costs

Most costs of a bond issue (e.g., fees, insurance, underwriting) of a proprietary fund should be expensed when incurred. Prepaid insurance costs are the only amortized costs that will be reported as an asset and expensed over the life of the bond. The effective interest method will be used to amortize the costs <u>unless</u> the straight-line amortization method produces results that are not significantly different from the effective interest method.

Bond issuance costs relating to a governmental fund will be reported as an expenditure when those costs are first incurred because they require the use of current financial resources. These costs, except for prepaid insurance costs, will be also expensed on the government-wide financial statements, as well. Prepaid insurance costs will be reported as an asset and expensed over the life of the bond on the government-wide financial statements.

General Obligation Bond Premium/Discount

Discounts on bonds payable in a proprietary fund are a liability valuation, that is, a reduction of the face amount of the related liability, while premiums on bonds payable are an addition of the face of the liability. Therefore, the discount and/or premium will be netted against the liability.

General obligation bonds of governmental activities will be reported in the government-wide financial statements net of premiums or discounts.

General Obligation Bond Accrued Interest Payable

For Proprietary Funds:

The State of Wisconsin will record accruals for interest payable for each proprietary fund that has interest costs attributable to the current fiscal year. The portion allocable to the current fiscal year will be either:

a) The portion of the fiscal year between the most recent trustee payment date and the end of the fiscal year, *or*,

b) For *new bond issues*, the portion of the fiscal year between the closing date of the bond issue and the end of the fiscal year. The interest expense incurred between the dated date of the issue and the fiscal year end date will be accrued, less the amount of allocated accrued interest for the issue.

For the Bond Security and Redemption Fund:

The State will extract the proprietary fund portion of accrued interest for a bond issue to the applicable proprietary fund, based upon the policy stated above. The Bond Security and Redemption Fund will reduce the amount of accrued interest in the Fund by the amount allocated out.

For Governmental Funds:

Consistent with the treatment for long-term debt, governmental funds typically do not report a liability for accrued interest until it is due and payable, however, accrued interest must be reported as a liability in the government-wide financial statements.

Early Extinguishments of Debt/Advance Refundings/Current Refundings

The State will comply with the reporting, and footnote disclosure standards for extinguishments of debt as provided by paragraph 6 of GASB Statement No. 65, the GASB Codification Section D20, and other relevant authoritative pronouncements.

Therefore, to ensure compliance with existing authoritative literature relating to early extinguishment of debt, the Division of Capital Finance will (1) provide the State Controller's Office-Financial Reporting Section (SCO-FRS) with the required footnote disclosures, and (2) provide Capital Accounting with pertinent financial calculations necessary to make financial statement presentations.

General Obligation Bond Footnote Disclosure

The State will fully disclose general obligation bond activity for each major issue outstanding to include (not all inclusive) a schedule by bond issue indicating the amount of debt outstanding, bonds issued, bonds redeemed, and debt service to maturity. Long term G.O. refunding notes must be disaggregated from G.O. bonds in documents pertaining to the note disclosures (as noted on page 1 of this section).

The SCO-FRS will compile all applicable footnote disclosure information provided from the following:

- The Capital Accounting Section will provide the SCO-FRS the information relative to completion of the schedule of G.O. bonds outstanding, the schedule of debt service to maturity, and other schedules and data upon request.
- The State Capital Finance Office will perform the necessary calculations to ensure that all footnote disclosures are made in accordance with the GASB Codification, Section D20, "Debt Extinguishments," and other applicable authoritative pronouncements.

In addition, the State Capital Finance Office will provide the SCO-FRS other pertinent G.O. bond information as required, e.g., subsequent events for G.O. bonds issued or refunded.

Derivative Instruments

The accounting and financial reporting standards including footnote disclosure requirements as established in the GASB Standard No. 53, *Accounting and Financial Reporting for Derivative Instruments*, shall also be provided to the SCO-FRS, if applicable. Additional requirements may also be required by GASB 64 and GASB 72. See information on page 8 of this subsection and **Section 44 – *Derivative Instruments*** of the GAAP Manual for additional guidance.

REVENUE BONDS

Chapter 18, Wisconsin Statutes, created in 1977, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these revenue obligations. Any such program must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State. Repayment is secured only by funds, fees, loan repayments, and other generated program income, to be generated within the financed program.

Revenue Bond Programs Included in Reporting Entity

The State includes the following revenue bond programs in the reporting entity (the State):

- Environmental Improvement Fund (EIF) Revenue Bonds
- Transportation Revenue Bond Program
- University of Wisconsin Hospital and Clinics Authority *(a component unit)*
- Wisconsin Housing and Economic Development Authority *(a component unit)*

While the EIF trustee is the fiduciary of the EIF Revenue Bonds, the trustee is controlled by the EIF (a proprietary fund) and its activity is limited by the indenture document. Therefore, the EIF revenue bond activity will be presented within the EIF rather than as a separate fund in the ACFR.

Multiple accounts with different purposes have been established and are maintained by the trustee for the DOT Transportation Revenue Bond (TRB) program. Because these accounts serve different purposes, two different GAAP funds have been established dependent on the nature of the account:

Trustee Account	GAAP Fund
Program capital account	TRB capital projects fund
Bond redemption account	TRB Debt service fund
Debt service account	TRB Debt service fund
Program expense account	TRB Debt service fund

The Wisconsin Housing and Economic Development Authority's, and the University of Wisconsin Hospitals and Clinics Authority's bonds will be reported as liabilities for those component units of the State's reporting entity.

Revenue Bond Restricted Assets

Obligations arising out of a revenue bond indenture typically are paid out of accounts created specifically within the bond program to comply with the indenture requirements. Typically the accounts accommodate the flow of revenues and specifies the order of application of moneys acquired.

The revenue bond indenture and/or resolution may contain a provision(s) requiring certain assets be held and invested in a specified account (Fund) and/or placed with a trustee. For example, a revenue bond indenture may contain a provision that a portion of cash and investments are to be restricted and pledged to the payment of the principal, interest and sinking fund installments.

To demonstrate compliance with the provisions of bond indentures, these restricted assets are normally presented within the financial statements. Therefore, if certain assets are externally restricted as to their use based upon bond indentures and/or resolutions, those assets will be presented as "Restricted Assets" in the ACFR. Further, these assets will be sub-classified as:

- Cash and Cash Equivalents
- Investments
- Other Restricted Assets.

Also, unless the bond indenture states otherwise, fund equity for the proprietary funds will be reserved for the amount of restricted assets in excess of related liabilities.

It is the responsibility of the State agency GAAP accountant to review all pertinent revenue bond documents to determine whether certain assets are required to be restricted and to report those assets to the SCO-FRS based upon the above classification policy.

Revenue Bond Footnote Disclosures

To comply with all footnote disclosure requirements, the revenue bond programs will provide the footnote related items discussed below.

<u>Restricted Assets</u> - When a revenue bond program presents restricted assets, a note in the Summary of Significant Accounting Principles will disclose the types of restricted assets, e.g., cash, investments (United States Government securities, repurchase agreements, mortgage backed securities, etc.) and the functions of the restricted assets, i.e., restricted and pledged to the payment of principal, interest and sinking fund payments. Therefore, the revenue bond program managers will provide the SCO-FRS with the above discussed information which will be included in Note 1, "Summary of Significant Account Policies".

<u>Bonds</u> - To fully disclose revenue bond activity at fiscal year-end and provide supplemental revenue bond information in the *Statistical Section* of the ACFR, revenue bond fund managers will provide the following information to the SCO-FRS:

a. By issue, the amount issued and outstanding, issued date, maturity through (dates), and interest rates (range of).
b. The aggregate total of authorized and issued revenue bonds by program.
c. Early extinguished, refunding/defeased, revenue bonds in the aggregate total, issues extinguished, economic gain or loss, conditions/terms of defeasance, reduction in debt service requirements, etc.
d. A schedule of debt service requirements for principal and interest for the next five years and in five-year increments thereafter.
e. Information, specified by the SCO-FRS, to complete the required schedules presented in the *Statistical Section* of the ACFR.

Derivative Instruments

In addition, the accounting and financial reporting standards including footnote disclosure requirements as established in the GASB Standard No. 53, *Accounting and Financial Reporting for Derivative Instruments*, shall also be provided to the SCO-FRS. Additional requirements may also be required by GASB 64 and GASB 72. See information on page 8 of this subsection and **Section 44 – *Derivative Instruments*** of the GAAP Manual for additional guidance.

APPROPRIATION BONDS

The State issued appropriation bonds (the bonds) in Fiscal Year 2004 to pay its entire unfunded accrued service (pension) liability and to fund its entire unfunded accrued liability for sick leave conversion credits. The State issued additional appropriation bonds in Fiscal Year 2009 to purchase tobacco settlement revenues that had been sold in Fiscal Year 2002 to the Badger Tobacco Asset Securitization Corporation, a non-stock public corporate entity.

Appropriation bonds are not general obligations of the State, and the bonds do not constitute "public debt" of the State as the term is used in the Constitution and in the Wisconsin Statutes. The payment of the principal, premium, and interest on the bonds is subject to annual appropriation, that is, payments due in any fiscal year will be made only to the extent sufficient amounts are appropriated by the legislature. The State is not legally obligated to appropriate any amounts for payment of debt service on the bonds, and if it does not do so, it incurs no liability to the beneficial owners of the bonds. Thus, payment of the bonds is at the discretion of the Legislature.

The appropriation bonds issued in Fiscal Year 2004 were issued in two series – 2003 Series A and 2003 Series B. The Series A bonds are dated the date of their issuance with interest rates from that date payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 until its maturity date. The Series B bonds were multi-modal bonds that were initially issued in multiple subseries, as auction rate certificates and were subject to redemption prior to maturity. In April and June 2008, the State issued $1.0 billion of General Fund annual appropriation refunding bonds to refund the Series B taxable auction rate certificates. The 2008 issuance consisted of 2008 Series A (taxable fixed rate) and 2008 Series B and C (taxable floating rate notes).

The appropriation bonds issued in Fiscal Year 2009, to purchase tobacco settlement revenues (TSRs), were issued as 2009 Series A. These bonds are dated the date of their delivery with interest rates from that date payable on November 1, 2009 and semiannually thereafter on each May 1 and November 1 until maturity date.

The bond proceeds received directly by the State should be reported in the General Fund, gross of discounts and issuance costs. At the government-wide level, the face value of the bonds should be reported as a liability on the statement of net position (net of the bond discount). Further, issuance costs (except for prepaid insurance, which is reported as an asset and recognized as an expense over the life of the bond) should be expensed in the period incurred.

Receipt of Bond Proceeds by Trustee and Others

For fund purposes, the off-system activity of the Trustee and the insurance companies should be reported as activity in a debt service fund. The face value of the bonds received by the Trustee and insurance companies should be reported at the government-wide level as a liability.

Reporting of Debt Principal and Interest

The payment of debt principal and interest should be reported in a debt service fund. Contributions made by funds/agencies should be reported as a transfer in of that fund.

Note Disclosure

To fully disclose appropriation bond activity at fiscal year-end and provide supplemental bond information in the *Statistical Section* of the ACFR, the following information shall be provided to the SCO-FRS:

a. By issue, the amount issued and outstanding, issued date, maturity through (dates), and interest rates (range of).
b. The aggregate total of authorized and issued bonds.
c. A schedule of debt service requirements for principal and interest for the next five years and in five-year increments thereafter.
d. Information, specified by the SCO-FRS, to complete the required schedules presented in the *Statistical Section* of the ACFR.

Derivative Instruments

In addition, the accounting and financial reporting standards including footnote disclosure requirements as established in the GASB Standard No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Standard No. 72, *Fair Value Measurement and Application* shall also be provided to the SCO-FRS. Additional requirements may also be required by GASB 64 related to hedge termination provisions. See information on page 8 of this subsection and **Section 44 – *Derivative Instruments*** of the GAAP Manual for additional guidance.

DERIVATIVE INSTRUMENTS

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governments. The State may enter into derivative financial instruments, such as interest rate swap agreements, in relation to outstanding debt obligations.

A key provision of GASB Statement No. 53 is that derivative instruments covered within its scope are reported at fair value. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net position as deferred inflows or outflows of resources.

For the Fiscal Year 2012 ACFR, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, became effective. The objective Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

For the Fiscal Year 2016 ACFR, GASB Statement No. 72, *Fair Value Measurement and Application*, became effective. Statement 72 requires disclosure of valuation techniques and inputs for interest rate swaps such as those applicable to the pension appropriation bonds. The valuation techniques (e.g. settlement value based on the forward interest rate swap curve) as well as the level and type of inputs to that technique (e.g. the derivatives market's forward swap rate curve – a level one input) are to be disclosed. The Capital Finance Office should provide the information to SCO-FRS for the ACFR..

Consideration of GASB 53, 64 and 72 reporting requirements should be made for those GAAP funds reporting derivative instruments associated with debt obligations. For additional information see ***Section V-44 - Derivative Instruments***.

GENERAL OBLIGATION BONDS

Governmental Fund Types

General obligation bond liabilities relating to the governmental funds are presented in the government-wide statements. The State Controller's Office-Financial Reporting Section (SCO-FRS) will develop the appropriate entries using information provided by the State Controller's Office-Capital Accounting Section, who is the primary source of accounting and reporting information relating to general obligation bonds.

Proprietary Fund Types

Proprietary funds presenting general obligation bond information within their financial statements will use the information provided by Capital Accounting in developing adjusting entries and preparing their financial statements as discussed in Section IV – 2, "Agency Procedures" of the *Uniform GAAP Conversion Policies and Procedures Manual*.

Premiums/Discounts

When the State of Wisconsin issues bonds or notes, the issue may be sold at a premium, discount or at par, depending upon market conditions, primarily the interest rates contained in the issue in comparison to market interest rates. A premium or discount represents the difference between the proceeds received from the issue and the *face value* (face) amount of the issue. If the issue is sold at a premium, more proceeds will be received than the face amount; if at a discount, less proceeds will be received than the face amount. This differential, less underwriter compensation, which is netted out against the proceeds to be received, represents the actual cash transfer made to the State at the time of closing.

The State has sold issues at a discount, meaning that less proceeds are received than the face of the bonds. However, the State most often sells bonds at a premium, and beyond the underwriter compensation paid. This "net premium" is treated as additional cash received to be used to reduce future debt service of the bond issue. The net premium is recorded in the Bond Security and Redemption Fund, along with accrued interest, and applied against the first interest payment of the issue.

For GAAP purposes, any premium (or discount) related to bond issues reported by proprietary funds are extracted out of the Bond Security and Redemption Fund (or the Capital Improvement Fund) and systematically amortized over the life of the bonds reported by the funds.

Illustrative Example Entries

Attachment A of this *GAAP Manual* sub-section presents examples of ACFR adjusting entries related to general obligation debt reported in proprietary funds based on information provided by the Capital Accounting Section. The various scenarios addressed in Attachment A are as follows:

Attachment A
Page #:
1. Bond issue sold at a premium – program revenue (PR)
2. Bond issue sold at a discount – PR
3. Debt service payment from a proprietary fund (premium and accrued interest) – PR
4. Debt service payment from a proprietary fund (no premium or accrued interest credit) – PR
5. Bond issue sold at a premium – general purpose revenue (GPR)
6. Bond issue sold at a discount – GPR
7. Debt service payment from a proprietary fund (premium and accrued interest) – GPR
8. Advanced refunding bond issue – PR
9. Advanced refunding bond issue – GPR
10. Current refunding bond issue – PR
11. Current refunding bond issue – GPR
12. Sale of a Building for a Proprietary Fund

Derivative Instruments

If applicable, accounting and financial reporting information, including footnote disclosure requirements such as those established in the GASB Standard No. 53, *Accounting and Financial Reporting for Derivative Instruments*, shall also be provided to the SCO-FRS. **Section V-44 – Derivative Instruments** provides additional information on reporting requirements specific to derivatives.

REVENUE BONDS

Revenue bond programs included within the reporting entity must follow the conversion process overview and agency reporting procedures discussed in Section IV – 2, “Agency Procedures” of the *Uniform GAAP Conversion Policies and Procedures Manual*. Financial statements along with other required documents must be submitted to SCO-FRS for review and following the prescribed formatting.

Managers of revenue bond programs must also submit revenue bond information needed to fully comply with revenue bond footnote disclosure requirements. Revenue bond managers may submit audited, stand-alone financial reports as the source of such data. However, the audited, stand-alone reports must comply with GAAP requirements and provide the footnote information disclosed in the preceding policy section.

Supplemental information needed to compile revenue bond information in the *Statistical Section* of the ACFR will be provided in the manner requested by SCO-FRS.

Derivative Instruments

If applicable, accounting and financial reporting information, including footnote disclosure requirements such as those established in GASB Standard No. 53, *Accounting and Financial Reporting for Derivative Instruments*, shall also be provided to SCO-FRS. **Section V-44 – Derivative Instruments** provides additional information on reporting requirements specific to derivatives.

APPROPRIATION BONDS

The Department of Administration is responsible for preparing the appropriate General Fund entries and debt service fund financial statements to report the bond proceeds and debt service payments of the annual appropriation bonds in the State's ACFR. This will include developing reclassification entries, if needed, to properly reflect the individual funds' contributions toward debt service principal and interest payments.

DERIVATIVE INSTRUMENTS

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* and GASB Statement No. 72, *Fair Value Measurement and Application* address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governments. The State may be party to derivative contracts, such as swap agreements, in relation to debt obligations.

The accounting and financial reporting information including footnote disclosure requirements as established in applicable GASB standards shall be provided to the SCO-FRS when the GAAP reporting package is submitted.

Additional information regarding derivatives is available in ***Section V-44 - Derivative Instruments***.

STAR ACCOUNTS FOR DEBT

Section 02-05 of the Wisconsin Accounting Manual contains a list of STAR accounts including those specific to ACFR reporting. The ACFR accounts were set up to: 1) facilitate clear and accurate reporting of debt on the statement of net position and 2) guide in the creation and reconciliation of complex footnote disclosures.

The accounts are designed to capture information at a more detailed level so that the information in the entries will generate information also needed for note disclosures. They differentiate between the various types of debt and related accounts for general obligation, revenue, and appropriation bonds. The accounts also differentiate between the current and non-current portions of long-term debt as well as between premiums and discounts.

For consistency and to reduce the risk of errors, the Capital Accounting GAAP Accountant will use consistent debt account names in the extracted entries provided to SCO-FRS and proprietary fund GAAP Accountants.

Below is a list of the ACFR liability accounts related to debt. Note that long term debt accounts begin with “W5”. *This is true even for the current portion of long term debt.*

Account	Description	Account Type	Account Purpose
W4PAY15	Interest Payable	Liability	ACFR & Reporting
W4PAY16	Short-term Notes Payable	Liability	ACFR & Reporting
W5APPN1	LT Liab: Appn Bond Curr	Liability	ACFR & Reporting
W5APPN2	LT Liab: Appn Bond NonCurr	Liability	ACFR & Reporting
W5APPN3	LT Liab: Appn Bond Premium Cur	Liability	ACFR & Reporting
W5APPN4	LT Liab: Appn Bond Premium NC	Liability	ACFR & Reporting
W5APPN5	LT Liab: App Bond Discnt Curr	Liability	ACFR & Reporting
W5APPN6	LT Liab: Appn Bond Discnt NC	Liability	ACFR & Reporting
W5GOBD1	LT Liab: GO Bonds Curr	Liability	ACFR & Reporting
W5GOBD2	LT Liab: GO Bonds NonCur	Liability	ACFR & Reporting
W5GOBD3	LT Liab: GO Bond Premium Curr	Liability	ACFR & Reporting
W5GOBD4	LT Liab: GO Bond Premium NC	Liability	ACFR & Reporting
W5GOBD5	LT Liab: GO Bond Discnt Curr	Liability	ACFR & Reporting
W5GOBD6	LT Liab: GO Bond Discnt NC	Liability	ACFR & Reporting
W5LTNT1	LT Liab: GO Long Trm Note Curr	Liability	ACFR & Reporting
W5LTNT2	Lt Liab: GO Long Trm Note NC	Liability	ACFR & Reporting
W5RVBD1	LT Liab: Rev Bonds Curr	Liability	ACFR & Reporting
W5RVBD2	LT Liab: Rev Bonds NonCurr	Liability	ACFR & Reporting
W5RVBD3	LT Liab: Rev Bond Premium Curr	Liability	ACFR & Reporting
W5RVBD4	LT Liab: Rev Bond Premium NC	Liability	ACFR & Reporting
W5RVBD5	LT Liab: Rev Bond Discnt Curr	Liability	ACFR & Reporting
W5RVBD6	LT Liab: Rev Bond Discnt NC	Liability	ACFR & Reporting
W6DEBT0	Def In - Debt Refunding	Liability	ACFR & Reporting
W6HEDGE	Def In - Incr FV Hedge Deriv	Liability	ACFR & Reporting

The SCO-FRS ACFR journal uploader drop down lists show these in the choices.

In contrast to long term debt, short term debt (such as extendible municipal commercial paper) should be recorded to account W4PAY16, Short-Term Notes Payable. Prior to FY 2015 "Notes Payable" was the only non-bond debt account used in the statement of net position. With the issuance of the long-term GO refunding notes in FY 2015, confusion arose about how to differentiate between short term note liabilities (consisting of commercial paper) and the *current portion* of long term note liabilities (consisting of a long term loan). Due to its nature, the long term GO refunding note liability is included with GO bond liabilities on the Long Term GO Bonds and Notes Payable line of the statement of net position.

It should be noted that short term notes payable are the more common debt type and these are never included with 'long-term' liabilities. Whereas commercial paper is issued out of the Capital Improvement Fund (36300) for capital improvement projects, the long-term refunding notes were issued in a refunding transaction and recorded as part of the Bond Security and Redemption Fund (31500). Capital Accounting's extraction entries distributed to agencies shall properly distinguish between the short term notes payable versus the long-term GO bond liability.

The following table illustrates the significance of the characters in the long-term debt account values* as well as how to determine the correct accounts for making accurate entries that successfully upload to the STAR CAFR ledger.

1st and 2nd Characters: W5 - Long-Term Liabilities (includes both Current & Noncurrent portions.) Look for accounts that begin with W5 to find applicable accounts.	**7th Character:** 1 - Face Value - Current Portion 2 - Face Value - Noncurrent Portion 3 - Premium - Current Portion 4 - Premium - Noncurrent Portion 5 - Discount - Current Portion 6 - Discount - Noncurrent Portion
3rd - 6th Characters (type of LT debt): GOBD - General Obligation Bonds RVBD - Revenue Bonds APPN - Appropriation Bonds LTNT – Long-Term General Obligation Notes	

* The conventions used to establish other ACFR accounts generally did not use such a structured approach although there is some meaning included in the alphanumeric values.

Example: Account value W5GOBD3 relates to a long term liability for the current portion of premiums on general obligation bonds. (The account description is appropriately, ‘LT Liab: GO Bond Premium Curr’). This account, therefore, would also be used to amortize premiums above face value received on a GO bonds debt issue.

Usage of these detailed ACFR accounts is important because SCO-FRS must track the amortization of premiums and discounts separately from the face value and report on both current and non-current portions of the debt components.

ACFR - Example of bond issue sold at a premium - PR

Face Value	$ 100,000,000
Premium	$ 4,000,000
Accrued Interest	$ 25,000
Underwriter Discount	$ 60,000
Issuance Cost By DOAS*	$ 40,000

The underwriter discount is the difference between the purchase price paid by the underwriter to the issuer (i.e. the State) and the price at which the bonds are resold to investors. It represents the underwriter's profit and is an expense to the State that should be recognized immediately.

A bond discount (or premium) is the difference between the price paid to the issuer and its par or face value.

NOTE: All of the following examples assume the bonds are GO Bonds. For refunding or annual appropriation bonds the ACFR Bond liability accounts used will differ e.g. W5GOBD4 would become W5RVBD4 for the non-current revenue bond liability.

In addition, these entries assume that the bond liabilities are 100% noncurrent and do not show the reclassification between current and noncurrent portions of the accounts. For example, an entry would be needed to classify a current portion of the bond liability from account W5GOBD2 to W5GOBD1. This also applies to the premium and discount balance sheet accounts.

In addition, Costs of Issuance are assumed to be an 'other' nonoperating expense for proprietary funds, which translates to account X4OTHER. If a particular fund more appropriately classifies the expenses as operating, account X2OTHER should be used instead. As governmental funds do not make the operating vs. non-operating distinction, the governmental funds all use account X2OTHER instead.

*** Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.**

ACTUALS LEDGER ENTRIES in Fund 36300 and 31500

Account	Debit	Credit
Fund 36300		
Cash (1000000)	$ 10,000,000	
Bond Proceeds Rev (6000000)		$ 10,000,000
<Receive the good faith deposit.>		

Account	Debit	Credit
Fund 36300		
Cash (1000000)	$ 90,000,000	
Bond Proceeds Rev (6000000)		$ 90,000,000
Fund 315000		
Cash (1000000)	$ 3,965,000	
Interest Payments - GO Bonds (7862000)		$ 25,000
Bond Premium Liability (2290000)		$ 3,940,000
<Fund 36300 receives the remaining proceeds. Cash deposited in Fund 31500 for the Bond Premium and Accrued Interest. Bond Premium is net of underwriter discount.>		

Account	Debit	Credit
Fund 36300		
Agency Charges (Various Supplies & Services)	$ 40,000	
Bond Proceeds Rev (6000000)		$ 40,000
<Record agency costs by DOAS through JV transactions.>		

Account	Debit	Credit
Fund 36300		
Bond Proceeds Rev (6000000)	$100,000,000	
Cash (1000000)		$100,000,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

ACTUALS LEDGER ENTRIES IN PROPRIETARY FUNDS

Account	Debit	Credit
Fund 36300		
Expenditures (Various)	$ 100,000,000	
Voucher Payable (2000000)		$ 100,000,000
<Expenditures incurred in the proprietary funds.>		

Account	Debit	Credit
Fund 36300		
Cash (1000000)	$ 100,000,000	
Bond Proceeds Rev (6000000)		$ 100,000,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

OFF-SYSTEM ACFR ENTRIES IN FUND 31500 AND 36300

Account	Debit	Credit
Fund 36300		
Cost of Issuance (X2OTHER - Other Expenses)	$ 40,000	
Agency Charges (Various Supplies & Services)		$ 40,000
<Reclassify the Agency Charges to Cost of Issuance (Other Expenditures).>		

Account	Debit	Credit
Fund 36300		
Interest Earnings (X3INVST Invest & Interest Inc NonOper)	$ 40,000	
Cost of Issuance (X2OTHER - Other Expenses)		$ 40,000
<Extract Cost of Issuance to proprietary fund.>		

Account	Debit	Credit
Fund 31500		
Cost of Issuance (X2OTHER - Other Expenses)	$ 60,000	
Bond Premium Liability (W5GOBD4)		$ 60,000
<Reclassify the underwriter discount to Cost of Issuance because underwriter discount is netted with Bond Premium in ACTUALS Ledger.>		

Account	Debit	Credit
Fund 31500		
Bond Premium Liability (W5GOBD4)	$ 4,000,000	
Interest Payments - GO Bonds (X2DEBT2)	$ 25,000	
Cost of Issuance (X2OTHER - Other Expenses)		$ 60,000
Cash (W1CASH1)		$ 3,965,000
<Extract Bond Premium, Accrued Interest, and Cost of Issuance (underwriter discount) to proprietary funds.>		

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Account	Debit	Credit
Fund 36300		
Cost of Issuance (X4OTHER-Oth. Non-Op Exp)	$ 40,000	
Bond Proceeds Rev (6000000)		$ 40,000
<Extract issuance costs to proprietary fund.>		

Account	Debit	Credit
Fund 31500		
Cash (W1CASH1)	$ 3,965,000	
Cost of Issuance (X2OTHER-Other Exp)	$ 60,000	
Bond Premium Liability (W5GOBD4)		$ 4,000,000
Interest Expense (X2DEBT2)		$ 25,000
<Extract Bond Premium, Accrued Interest, and Cost of Issuance (underwriter discount) to proprietary funds.>		

Account	Debit	Credit
Fund 36300		
Bond Issuance Proceeds Rev (X3DEBT1)	$ 100,000,000	
Bonds Payable (W5GOBD2)		$ 100,000,000
<Reclassify Bond Proceeds to Bonds Payable assume PR Debt Service.>		

Fund 36300

Cash (1000000 & W1CASH1)	
$ 10,000,000	$ 1,000,000
$ 90,000,000	
	$ 40,000
	$ 40,000

Bond Proceeds Rev(6000000 & X3DEBT1)	
$1,000,000,00	$ 10,000,000
	$ 90,000,000
$ —	

Agency Charges (Var. Supp. & Srvc.)	
$ 40,000	$ 40,000
$ —	

Cost of Issuance (7865000 & X2OTHER)	

Interest Earnings (5800000 & X3INVST) *	
40000	

Fund 36300

Expenditures (Various)	
$ 100,000,000	

Cash (1000000 & W1CASH)	
$ 100,000,000	

Voucher Payable (2000000 & W4PAY11)	
	$ 100,000,000

Bonds Payable (2951000 & W5GOBD2)	
0	$ 100,000,000

Bond Proceeds Rev (6000000 & X3DEBT1)	
$ 100,000,000	$ 100,000,000
$ —	

Cost of Issuance (7865000 & X4OTHER)	
$ 40,000.00	

Interest Earnings (5800000 & X3INVST) *	
	$ 40,000

Fund 31500

Cash (1000000 & W1CASH1)	
$ 3,965,000	$ 3,965,000

Interest Payments - GO Bonds (7862000 & X2DEBT2)	
25000	$ 25,000
$ —	

Bond Premium Liab. (2290000 & W5GOBD4)	
$4,000,000	$ 3,940,000
	$ 60,000
$ —	

Cost of Issuance (7865000 & X2OTHER)	
$ 60,000	$ 60,000
$ —	

Fund 31500

Cash (1000000 & W1CASH1)	
$ 3,965,000	

Non-Op Exp. Cost of Issuance (7865000 & X4OTHER)	
$ 60,000	

Bond Premium Liability (W5GOBD4)	
$ —	$ 4,000,000

Interest Expense (7858000 & X2DEBT2)	
$ —	$ 25,000

* A credit entry is made as an off-system entry to gross up the charges for bond administration issuance costs. These are off-set by debits (expenses) for the issuance of bonds.

ACFR - Example of bond issue sold at a discount - PR

Face Value	$100,000,000
Premium	$ 4,000,000
Accrued Interest	$ 25,000
Underwriter Discount - see page 1 of this	$ 60,000
Issuance Cost By DOAS*	$ 40,000

*** Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.**

ACTUALS LEDGER ENTRIES in Fund 36300 and 31500

Fund 36300		
Cash (1000000)	$ 10,000,000	
Bond Proceeds Rev		$ 10,000,000
<Receive the good faith deposit.>		

Fund 36300		
Cash (1000000)	$ 85,940,000	
Bond Proceeds Rev		$ 85,940,000
Fund 315000		
Cash (1000000)	$ 25,000	
Interest Payments - GO Bonds		$ 25,000
<Fund 36300 receives the remaining proceeds net of underwriter discount and discount. Cash deposited in Fund 31500 for the accrued interest.>		

Fund 36300		
Agency Charges (Various Supplies &	$ 40,000	
Cash (1000000)		$ 40,000
<Record agency costs by DOAS through JV transactions.>		

Fund 36300		
Bond Proceeds Rev (6000000)	$ 95,940,000	
Cash (1000000)		$ 95,940,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

ACTUALS LEDGER ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Expenditures (Various)	$ 95,940,000	
Voucher Payable		$ 95,940,000
<Expenditures incurred in the proprietary funds.>		

Fund 36300		
Cash (1000000)	$ 95,940,000	
Bond Proceeds Rev (6000000)		$ 95,940,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

OFF-SYSTEM ACFR ENTRIES IN FUND 31500 AND 36300

Fund 36300		
Cost of Issuance (X2OTHER - Other Expenses)	$ 40,000	
Agency Charges (Various Supplies & Services)		$ 40,000
<Reclassify the Agency Charges to Cost of Issuance (Other		

Fund 36300		
Interest Earnings (X3INVST Invest & Interest Inc	$ 40,000	
Cost of Issuance (X2OTHER - Other Expenses)		$ 40,000
<Extract Cost of Issuance to proprietary fund.>		

Fund 36300		
Cost of Issuance (X2OTHER - Other Expenses)	$ 60,000	
Bonds Issued Rev (X3DEBT1)		$ 60,000
<Reclassify the underwriter discount to Cost of Issuance because underwriter discount is netted with Bond Premium in ACTUALS Ledger.>		

Fund 36300		
Bond Discount (X4DISCT)	$ 4,000,000	
Bonds Issued (X3DEBT1)		$ 4,000,000
<Reestablish Bonds Payable and Discount.>		

Fund 36300		
Bonds Issued (X3DEBT1)	$ 4,060,000	
Cost of Issuance (X2OTHER - Other Expenses)		$ 60,000
Bond Discount (X4DISCT)		$ 4,000,000
<Extract Bond Premium and Cost of Issuance (underwriter discount) to proprietary funds.>		
Fund 31500		
Interest Payments - GO Bonds	$ 25,000	
Cash (W1CASH1)		$ 25,000
<Extract Accrued Interest to proprietary funds.>		

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Cost of Issuance (X4OTHER-Oth. Non-Op Exp)	$ 40,000	
Interest Earnings (X3INVST)		$ 40,000
<Extract Cost of Issuance to proprietary fund.>		

Fund 31500		
Cost of Issuance - Non-Op Exp	$ 60,000	
Bond Discount Contra-Liability	$ 4,000,000	
Bonds Payable Liability (W5GOBD2)		$ 4,060,000
<Extract Bond Premium and Cost of Issuance (underwriter discount) to proprietary funds.>		
Fund 31500		
Cash (W1CASH1)	$ 25,000	
Interest Payments - GO Bonds		$ 25,000
<Extract Accrued Interest to proprietary funds.>		

Fund 36300		
Bond Issuance Proceeds Rev (X3DEBT1)	$ 95,940,000	
Bonds Payable		$ 95,940,000
<Reclassify Bond Proceeds to Bonds Payable assume PR Debt Service.>		

Fund 36300

Cash (1000000 & W1CASH1) Debit	Credit
$ 10,000,000	$ 40,000
$ 85,940,000	$ 95,940,000
	$ 40,000

Bond Proceeds Rev(6000000 & Debit	Credit
$ —	$ 10,000,000
$95,940,0[illegible]	$ 85,940,000
$ —	

Bond Discount (2959000 & X4DISCT) Debit	Credit
$ 40,000,000	$ 40,000,000
$ —	

Cost of Issuance (7865000 & Debit	Credit
$ 60,000	$ 60,000
$ —	

Bonds Issued Rev (2951000 & X3DEBT1) Debit	Credit
$ —	$ 60,000
$ 4,060,000	$ 4,000,000
$ —	

Agency Charges (Various Supp. & Srvc.) Debit	Credit
$ 40,000	$ 40,000
$ —	

Agency Charges (Various Supp. & Srvc.) Debit	Credit
$ 40,000	$ 40,000
$ —	

Interest Earnings (5800000 & X3INVST) * Debit	Credit
$ 40,000	

Cash (1000000 & W1CASH1) Debit	Credit
$ 3,965,000	$ 3,965,000

Interest Payments - GO Bonds (7862000 & X2DEBT2) Debit	Credit
25000	$ 25,000
$ —	

Fund 36300

Expenditures (Various) Debit	Credit
$ 95,940,000	

Cash (1000000 & W1CASH) Debit	Credit
$ 95,940,000	

Non-Op Exp. Cost of Issuance (7865000 & X4OTHER) Debit	Credit
$ 40,000	$ 100,000,000
$ 60,000	
$ 100,000	

Voucher Payable (2000000 & W4PAY11) Debit	Credit
0	$ 95,940,000

Bonds Pay able (2951000 & W5GOBD4) Debit	Credit
	$ 4,060,000
	$ 95,940,000
	$ 100,000,000

Bond Discount (2959000 & W5GOBD6) Debit	Credit
$ 4,000,000	

Bond Issue Rev (6000000 & X3DEBT1) Debit	Credit
$ 95,940,000	$ 95,940,000
$ —	

Interest Earnings (5800000 & X3INVST) * Debit	Credit
	$ 40,000

Cash (1000000 & W1CASH1) Debit	Credit
$ 3,965,000	

Non-Op Exp. Cost of Issuance (7865000 & X4OTHER) Debit	Credit
$ 60,000	

Fund 31500

Cash (1000000 & W1CASH1) Debit	Credit
$25,000	$ 25,000
$ —	

Interest Payments (7862000 & X2DEBT2) Debit	Credit
$ 25,000	$ 25,000
$ —	

Fund 31500

Cash (1000000 & W1CASH1) Debit	Credit
$ 25,000	

Interest Payments (7862000 & X2DEBT2) Debit	Credit
$ —	$ 25,000

* A credit entry is made as an off-system entry to gross up the charges for bond administration issuance costs. These are off-set by debits (expenses) for the issuance of bonds.

ACFR - Example of a Debt Service Payment from a Proprietary Fund (Premium and Accrued Interest) - PR

Principal	$	150,000
Interest	$	100,000
Less:		
Interest Credit	$	(5,000)
Premium*	$	(20,000)
Accrued Interest	$	(25,000)
Total Billed	$	200,000

Total Billed = Principal + Interest - Interest Credit - Premium - Accrued Interest

ACTUALS Ledger ENTRY AT THE SALE OF THE BOND ISSUE

Fund 31500	Debit	Credit
Cash (1000000)	$ 45,000	
Interest Payments - GO Bonds (7862000)		$ 25,000
Premium Liability (2290000)		$ 20,000
<Cash deposited for the Premium and Accrued Interest.>		

OFF-SYSTEM ACFR ENTRIES IN FUND 31500 AND 36300

Fund 31500	Debit	Credit
Bond Premium Liability (W5GOBD4)	$ 20,000	
Interest Payments - GO Bonds (X2DEBT2)	$ 25,000	
Cash (W1CASH1)		$ 45,000
<Extract Bond Premium and Accrued Interest to the proprietary fund.>		

Fund 31500	Debit	Credit
Cash (W1CASH1)	$ 45,000	
Bond Premium Liability (W5GOBD4)		$ 20,000
Interest Payments - GO Bonds (X2DEBT2)		$ 25,000

ACTUALS Ledger ENTRIES in 31500 - Debt Service

Fund 31500	Debit	Credit
Cash (1000000)	$ 5,000	
Interest Earnings (5800000)		$ 5,000
<Extract Cost of Issuance to proprietary fund.>		

Fund 31500	Debit	Credit
Cash (1000000)	$ 200,000	
Interfund Transfers In (6530000)		$ 200,000
<Debt Service Payment on Agency Date.>		

Fund 31500	Debit	Credit
Principal Payments - GO Bonds (9000000)	$ 150,000	
Interest Payments - GO Bonds (7862000)	$ 100,000	
Cash (1000000)		$ 250,000
<Debt Service Payment on Trustee Date.>		

ACTUALS Ledger ENTRIES IN Fund 10000 - Debt Service

Fund 10000	Debit	Credit
Interfund Transfer Out - Principal (9510000)	$ 150,000	
Interfund Transfer Out - Interest (9520000)	$ 50,000	
Cash (1000000)		$200,000
<Debt Service Payment on Agency Date.>		

Account	Debit	Credit
Cash 1000000	$ 45,000	$ 45,000
	$ 5,000	$ 250,000
	$ 200,000	$ —
		$ 45,000
Interest Earnings (5800000)	$ —	$ 5,000
Cash 1000000	$ 45,000	$ 200,000
		$ 155,000
Interfund Transfers Out - Principal (9510000)	$ 150,000	
Principal Payments - GO Bonds (9000000)	$ 150,000	$ —
Interest Payments - GO Bonds (7862000)	$ 25,000	$ 25,000
	$ 100,000	
	$ 100,000	
Interfund Transfers Out - Interest (9520000)	$ 50,000	
Premium (2290000 & W5GOBD4)		$ 20,000
Interfund Transfers In (6530000)		$ 200,000
Premium (2290000 & W5GOBD4)	$ 20,000	$ 20,000
	$ —	
Interest Pmt (7862000 & X2DEBT2)	$ —	$ 25,000

OFF-SYSTEM CAFR ENTRIES IN Fund 31500 and 36300

Fund 31500	Debit	Credit
Interfund Transfers In (X5INTER)	$ 250,000	
Principal Payments - Bonds (X2DEBT1)		$ 150,000
Interest Payments - Bonds (X2DEBT2)		$ 100,000
<Extract principal and interest payments to the proprietary funds.>		

Fund 31500	Debit	Credit
Interest Earnings (X3INVST)	$ 5,000	
Interfund Transfers In (X5INTER)		$ 5,000
<Extract interest credit to the proprietary funds.>		

Fund 31500	Debit	Credit
Cash (W1CASH1)	$ 45,000	
Interfund Transfers In (X5INTER)		$ 45,000
<Extract the accrued interest and premium credit toward billing to the proprietary funds.>		

OFF-SYSTEM CAFR ENTRIES IN PROPRIETARY FUNDS (PR DEBT)

Funds 31500	Debit	Credit
Bonds Payable (W5GOBD2)	$150,000	
Interest Payments - GO Bonds (X2DEBT2)	$100,000	
Interfund Transfers Out - (X5OUTER)		$250,000
<Extract principal and interest payments to the proprietary funds.>		

Fund 31500	Debit	Credit
Interfund Transfers Out (X5OUTER)	$ 5,000	
Interest Earnings (X3INVST)		$ 5,000
<Extract interest credit to the proprietary funds.>		

Fund 31500	Debit	Credit
Interfund Transfers Out (X5OUTER)	$ 45,000	
Cash (W1CASH1)		$ 45,000
<Extract the accrued interest and premium credit toward billing to the proprietary funds.>		

Account	Debit	Credit
Cash (1000000 & W1CASH1)	$ 45,000	$ 45,000
	$ 205,000	$ 250,000
	$ 45,000	
	$ —	
Interfund Transfers In (6530000 & X5INTER)	$250,000	$ 200,000
		$ 5,000
		$ 450,000
	$ —	
Cash (1000000 & W1CASH1)	$ 45,000	$ 200,000
		$ 45,000
		$ 20,000
Interfund Transfers Out (9520000, 9510000, X5OUTER)	$ 50,000	$ 250,000
	$ 150,000	
	$ 45,000	
	$ 5,000	
	$ —	
Principal Pmt - GO Bonds (9000000 & X2DEBT1)	$ 150,000	$ 150,000
	$ —	
Interest Pmt (7862000 & X2DEBT2)	$ 25,000	$ 25,000
	$100,000.	$ 100,000
	$ —	
Interest Earnings (5800000 & X3INVST)		$ 5,000
Bonds Payable (2951000 & W5GOBD2)	$ 150,000	
Interest Pmt (7862000 & X2DEBT2)	$ 100,000	$ 25,000
	$ 75,000	
Interest Earnings (5800000 & X3INVST)	$ 5,000	$ 5,000
	$ —	
Premium (2290000 & W5GOBD4)	$ —	$ 20,000

ACFR - Example of a Debt Service Payment from a Proprietary Fund (No premium or accrued interest) - PR

Principal	$	150,000
Interest	$	100,000
Less:		
Interest Credit	$	(5,000)
Total Billed	$	245,000
Total Billed = Principal + Interest - Interest Credit		

ACTUALS Ledger ENTRIES in 31500					ACTUALS Ledger ENTRIES IN Fund 10000				
Fund 31500									
Cash (1000000)	$	5,000							
Interest Earnings (5800000)			$	50,000					
<Record the interest earnings.>									
Fund 31500					Fund 10000				
Cash (1000000)	$	245,000			Interfund Transfer Out - Principal (9510000)	$	150,000		
Interfund Transfers In (6530000)			$	245,000	Interfund Transfer Out - Interest (9520000)	$	95,000		
<Debt Service Payment on Agency Date.>					Cash (1000000)				$245,000
					<Debt Service Payment on Agency Date.>				
Fund 31500									
Principal Payments - GO Bonds (9000000)	$	150,000							
Interest Payments - GO Bonds (7862000)	$	100,000							
Cash (1000000)			$	250,000					
<Debt Service Payment on Trustee Date.>									

Cash (1000000)

Debit	Credit
$ 5,000	$ —
$ 245,000	$ 250,000
$ —	

Interest Earnings (5800000)

Debit	Credit
$ —	$ 5,000

Cash (1000000)

Debit	Credit
$ —	$ 245,000

Interfund Transfers Out - Principal (9510000)

Debit	Credit
$ 150,000	

Principal Payments - GO Bonds (9000000)

Debit	Credit
$ 150,000	

Interest Payments - GO Bonds (7862000)

Debit	Credit
$ 100,000	

Interfund Transfers Out - Interest (9520000)

Debit	Credit
$ 95,000	

Interfund Transfers In (6530000)

Debit	Credit
	$ 245,000

OFF-SYSTEM ACFR ENTRIES IN Fund 31500 and 36300					OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS (PR DEBT)				
Fund 31500					**Funds 31500**				
Interfund Transfers In (X5INTER)	$	250,000			Bonds Payable (W5GOBD2)	$150,000			
Principal Payments - Bonds (X2DEBT1)			$	150,000	Interest Payments - GO Bonds (X2DEBT2)	$100,000			
Interest Payments - Bonds (X2DEBT2)			$	100,000	Interfund Transfers Out - (X5OUTER)		$	250,000	
<Extract principal and interest payments to the proprietary funds.>					<Extract principal and interest payments to the proprietary funds.>				
Fund 31500					**Fund 31500**				
Interest Earnings (X3INVST)	$	5,000			Interfund Transfers Out (X5OUTER)	$	5,000		
Interfund Transfers In (X5INTER)			$	5,000	Interest Earnings (X3INVST)		$	5,000	
<Extract interest credit to the proprietary funds.>					<Extract interest credit to the proprietary funds.>				

Cash (1000000 & W1CASH1)

Debit	Credit
$ 5,000	$ —
$ 245,000	$ 250,000
$ —	

Interfund Transfers In (6530000 & X5INTER)

Debit	Credit
$250,000	$ 245,000
	$ 5,000
$ —	

Cash (1000000 & W1CASH1)

Debit	Credit
	$ 245,000

Interfund Transfers Out (9520000, 9510000, X5OUTER)

Debit	Credit
$ 150,000	$ 150,000
$ 95,000	$ 100,000
$ 5,000	
$ —	

Principal Pmt - GO Bonds (9000000 & X2DEBT1)

Debit	Credit
$ 150,000	$ 150,000
$ —	

Interest Pmt (7862000 & X2DEBT2)

Debit	Credit
$100,000	$ 100,000
$ —	

Interest Pmt (7862000 & X2DEBT2)

Debit	Credit
$ 100,000	$ —

Int Earnings (5800000 & X2INVST)

Debit	Credit
	$ 5,000

Interest Earnings (5800000 & X3INVST)

Debit	Credit
$ 5,000	$ 5,000
$ —	

Bonds Payable (2951000 & W5GOBD2)

Debit	Credit
$ 150,000	

ACFR - Example of bond issue sold at a premium - GPR

Face Value	$	100,000,000
Premium	$	4,000,000
Accrued Interest	$	25,000
Underwriter Discount - see page 1 of this attachment	$	60,000
Issuance Cost By DOAS*	$	40,000

* Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.

ACTUALS LEDGER ENTRIES in Fund 36300 and 31500

Fund 36300		
Cash (1000000)	$ 10,000,000	
Bond Proceeds Rev (6000000)		$ 10,000,000

<Receive the good faith deposit.>

Fund 36300		
Cash (1000000)	$ 90,000,000	
Bond Proceeds Rev (6000000)		$ 90,000,000
Fund 315000		
Cash (1000000)	$ 3,965,000	
Interest Payments - GO Bonds (7862000)		$ 25,000
Bond Premium Liability (2290000)		$ 3,940,000

<Fund 36300 receives the remaining proceeds. Cash deposited in Fund 31500 for the Bond Premium and Accrued Interest. Bond Premium is net of underwriter discount.>

Fund 36300		
Agency Charges (Various Supplies & Services)	$ 40,000	
Cash (1000000)		$ 40,000

Issuance costs on the bond issue (Bond Administration JV by DOAS).>

Fund 36300		
Bond Proceeds Rev (6000000)	$100,000,000	
Cash (1000000)		$100,000,000

<Bond Proceeds transferred to projects in the proprietary funds.>

ACTUALS LEDGER ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Expenditures (Various)	$ 100,000,000	
Voucher Payable (2000000)		$ 100,000,000

<Expenditures incurred in the proprietary funds.>

Fund 36300		
Cash (1000000)	$ 100,000,000	
Bond Proceeds Rev (6000000)		$ 100,000,000

<Bond Proceeds transferred to projects in the proprietary funds.>

OFF-SYSTEM ACFR ENTRIES IN FUND 31500 AND 36300

Fund 36300		
Cost of Issuance (X2OTHER - Other Expenses)	$100,000,000	
Agency Charges (Various Supplies & Services)		$100,000,000

<Reclassify Bond Proceeds to Transfers Out assume GPR Debt Service.>

Fund 36300		
Cost of Issuance (X2OTHER - Other Expenses)	$ 40,000	
Agency Charges (Various Supplies & Services)		$ 40,000

<Reclassify Agency Charges to Cost of Issuance.>

Fund 31500		
Cost of Issuance (X2OTHER)	$ 4,000,000	
Premium Liability (W5GOBD2)	$ 25,000	
Premium Revenue on Bonds (X3PREMI)		$ 60,000

<Reclassify the Premium (BS Account) to Premium on Bonds (Expenditure Account and the Underwriter Discount to Cost of Issuence.>

* Reported UNDER FINANCING SOURCES (USES)

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Bond Proceeds Rev (X3DEBT1)	$ 100,000,000	
Interfund Transfers In (X5INTER)		$ 100,000,000

<Reclassify Bond Proceeds to Transfers In assume GPR Debt Service.>

Fund 36300

Cash (1000000 & W1CASH1)

$ 10,000,000	$ 40,000
$ 90,000,000	$ 100,000,000
	$ 40,000

Bond Proceeds Rev(6000000 & X3DEBT1)

$100,000,000	$ 10,000,000
	$ 90,000,000
	$ 100,000,000
	$ 100,000,000

Agency Charges (Var. Supp. & Srvc.)

$ 40,000	$ 40,000
$ —	

Interfund Transfers Out (9500000 & X5OUTER)

$ 100,000,000	

Cost of Issuance (7865000 & X2OTHER)

$ 40,000	

Fund 36300

Expenditures (Various)

$ 100,000,000	

Cash (1000000 & W1CASH)

$ 100,000,000	

Voucher Payable (2000000 & W4PAY11)

	$ 100,000,000

Interfund Transfers In (6500000 & X5INTER)

	$ 100,000,000

Bond Proceeds (6000000 & X3DEBT1)

$ 100,000,000	$ 100,000,000

Fund 31500

Cash (1000000 & W1CASH1)

$ 3,965,000	

Interest Payments - GO Bonds (7862000 & X2DEBT2)

	$ 25,000
$ —	

Bond Premium Liab. (2290000 & W5GOBD4)

$3,940,000	$ 3,940,000
$ —	

Cost of Issuance (7865000 & X2OTHER)

$ 60,000	

Premium on Bonds (6400000 - Revenue)

	$ 4,000,000

ACFR - Example of bond issue sold at a discount - GPR

Face Value	$100,000,000
Premium	$ 4,000,000
Accrued Interest	$ 25,000
Underwriter Discount - see page 1 of this attachment	$ 60,000
Issuance Cost By DOAS*	$ 40,000

*** Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.**

ACTUALS LEDGER ENTRIES in Fund 36300 and 31500

Fund 36300		
Cash (1000000)	$ 10,000,000	
Bond Proceeds Rev (6000000)		$ 10,000,000
<Receive the good faith deposit.>		

Fund 36300		
Cash (1000000)	$ 85,940,000	
Bond Proceeds Rev (6000000)		$ 85,940,000
Fund 315000		
Cash (1000000)	$ 25,000	
Interest Payments - GO Bonds (7862000)		$ 25,000
<Fund 36300 receives the remaining proceeds net of underwriter discount and discount. Cash deposited in Fund 31500 for the accrued interest.>		

Fund 36300		
Agency Charges (Various Supplies & Services)	$ 40,000	
Cash (1000000)		$ 40,000
<Issuance costs on the bond issue (Bond Administration JV by DOAS).>		

Fund 36300		
Bond Proceeds Rev (6000000)	$ 95,940,000	
Cash (1000000)		$ 95,940,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

ACTUALS LEDGER ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Expenditures (Various)	$ 95,940,000	
Voucher Payable (2000000)		$ 95,940,000
<Expenditures incurred in the proprietary funds.>		

Fund 36300		
Cash (1000000)	$ 95,940,000	
Bond Proceeds Rev (6000000)		$ 95,940,000
<Bond Proceeds transferred to projects in the proprietary funds.>		

OFF-SYSTEM ACFR ENTRIES IN FUND 31500 AND 36300

Fund 36300		
Interfund Transfers Out (X5OUTER)	$ 95,940,000	
Bonds Proceeds (X2DEBT1)		$ 95,940,000
<Reclassify Bond Proceeds to Transfers Out assume GPR Debt Service.>		

Fund 31500		
Cost of Issuance (X2OTHER)	$ 60,000	
Discount on Sale of Bonds (X4DISCT)	$ 4,000,000	
Bonds Proceeds (X2DEBT1)		$ 4,060,000
<To Gross up the Bond Proceeds (OS Account) and setup Discount (Expenditure Account and the Underwriter discount cost issuance..>		
* Reported UNDER FINANCING SOURCES (USES)		

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Fund 36300		
Bond Proceeds (X2DEBT1)	$ 95,940,000	
Interfund Transfers In (X5INTER)		$ 95,940,000
<Reclassify Bond Proceeds to Transfers In assume GPR Debt Service.>		

Fund 36300

Cash (1000000 & W1CASH1)

Debit	Credit
$ 10,000,000	$ 40,000
$ 85,940,000	$ 95,940,000
	$ 40,000

Bond Proceeds Rev(6000000 & X3DEBT1)

Debit	Credit
$ —	$ 10,000,000
$95,940,0(	$ 85,940,000
	$ 95,940,000
	$ 4,060,000
	$ 100,000,000

Agency Charges (Various Supp. & Srvc.)

Debit	Credit
$ 40,000	$ 40,000
$ —	

Interfund Trf Out (9500000 & X5OUTER)

Debit	Credit
$ 95,940,000	

Cost of Issuance (7865000 & X2OTHER)

Debit	Credit
$ 40,000	
$ 60,000	
$ 100,000	

Discount on Sale of Bonds (X4DISCT)

Debit	Credit
$ 95,940,000	

Fund 36300

Expenditures (Various)

Debit	Credit
$ 95,940,000	

Cash (1000000 & W1CASH)

Debit	Credit
$ 95,940,000	

Voucher Payable (2000000 & W4PAY11)

Debit	Credit
	$ 95,940,000

Interfund Transfers In (6500000 & X5INTER)

Debit	Credit
	$ 95,940,000

Bond Proceeds (6000000 & X2DEBT1)

Debit	Credit
$ 95,940,000	$ 95,940,000
$ —	

Fund 31500

Cash (1000000 & W1CASH1)

Debit	Credit
$25,000	

Interest Payments (7862000 & X2DEBT2)

Debit	Credit
	$ 25,000

ACFR - Example of a Debt Service Payment from a Proprietary Fund (Premium and Accrued Interest) - GPR

Principal	$	150,000
Interest	$	100,000
Less:		
Interest Credit	$	(5,000)
Premium*	$	(20,000)
Accrued Interest	$	(25,000)
Total Billed	$	200,000
Total Billed = Principal + Interest - Interest Credit - Premium - Accrued Interest		

ACTUALS Ledger ENTRY AT THE SALE OF THE BOND ISSUE				
Fund 31500				
Cash (1000000)	$	45,000		
Interest Payments - GO Bonds (7862000)			$	25,000
Premium Liability (2290000)			$	20,000
<Cash deposited for the Premium and Accrued Interest.>				

ACTUALS Ledger ENTRIES in 31500 - Debt Service				
Fund 31500				
Cash (1000000)	$	5,000		
Interest Earnings (5800000)			$	50,000
<Record the interest earnings.>				
Fund 31500				
Cash (1000000)	$	200,000		
Interfund Transfers In (6530000)			$	60,000
<Debt Service Payment on Agency Date.>				
Fund 31500				
Principal Payments - GO Bonds (9000000)	$	150,000		
Interest Payments - GO Bonds (7862000)	$	100,000		
Cash (1000000)			$	250,000
<Debt Service Payment on Trustee Date.>				

ACTUALS Ledger ENTRIES IN Fund 10000 - Debt Service			
Fund 10000			
Interfund Transfer Out - Principal (9510000)	$	150,000	
Interfund Transfer Out - Interest (9520000)	$	50,000	
Cash (1000000)			$200,000
<Debt Service Payment on Agency Date.>			

Cash (1000000 & W1CASH1)

Debit	Credit
$ 45,000	$ 250,000
$ 5,000	
$ 200,000	
	$ —

Interest Earnings (5800000)

Debit	Credit
$ —	$ 5,000

Cash (1000000 & W1 CASH1)

Debit	Credit
	$ 200,000

Interfund Transfers Out - Principal (9510000)

Debit	Credit
$ 150,000	

Principal Payments - GO Bonds (9000000)

Debit	Credit
$ 150,000	

Interest Payments - GO Bonds (7862000)

Debit	Credit
$ 100,000	$ 25,000
$ 75,000	

Interfund Transfers Out - Interest (9520000)

Debit	Credit
$ 50,000	

Interfund Transfers In (6530000)

Debit	Credit
	$ 200,000

Premium (2290000) - B/S

Debit	Credit
$ 20,000	

ACFR - Accounting for an Advanced Refunding Bond Issue - PR Funding

Closing Documents			
Sources			
Principal Amount of the Bonds (6)	$	117,200,000	
Net Original Issue Premium (7)	$	6,599,000	
TOTAL SOURCES	$	123,799,000	See pg1 of this Attchment
Uses			
Deposit to Escrow Fund (4)	$	122,800,000	
Underwriters' Discount * (8)	$	639,000	
Bond Insurance ** (9)	$	360,000	
TOTAL USES	$	123,799,000	

* expensed immediately per the requirements of GASB 65

** reported as a prepaid asset and recognized as an expense in a systematic and rational manner over the life of the debt, per the requirements of GASB 65

Reacquisition Price ***		
Total Bond Sources	$	123,799,000
Used for Cost of Issuance	$	(999,000)
	$	122,800,000
Net Carrying Amount		
Amount due at maturity (old bonds)	$	113,200,000
Unamortized (premium & discount) = (2)-(3)	$	2,700,000
	$	115,900,000

Reacquisition Price > Net Carrying Amount ---> DEFERRED OUTFLOW OF RESOURCES (5)

$ 6,900,000

*** calculated for an advanced refunding, per the guidance in Illustration 2 of Appendix C of GASB Statement 23

Additional Information		
Outstanding Bonds Refunded (1)	$	113,200,000
Issuance Cost by DOAS ****	$	100,000
Premium Writedown (2)	$	3,000,000
Discount Writedown (3)	$	300,000

**** Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.

ACTUALS Ledger ENTRIES in Fund 36300 and 31500

Fund 36300				
Agency Charges (Various Supp. &	$	100,000		
Cash (1000000)			$	100,000
<Record agency costs by DOAS through JV transactions.>				

ACTUALS Ledger ENTRIES IN PROPRIETARY FUNDS

OFF-SYSTEM ACFR ENTRIES IN Fund 31500 and 36300

Fund 36300				
Cost of Issuance (X2OTHER)	$	100,000		
Agency Charges (Various Supp. & Srvc)			$	100,000
<Reclassify the Agency Charges to Cost of Issuance (Other				

Fund 36300				
Interest Earnings (X3INVST)	$	100,000		
Cost of Issuance (X2OTHER)			$	100,000
<Extract Cost of Issuance to proprietary fund.>				

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Fund 36300				
Cost of Issuance (X2OTHER)	$	100,000		
Interest Earnings (X3INVST)			$	100,000
<Extract Cost of Issuance to proprietary fund.>				

Fund 315				
Bonds Payable (W5GOBD2) - (1)	$	113,200,000		
Cost of Issuance (X4OTHER) - (8)	$	639,000		
Prepaid Bond Insurance (W2NCPRE) - (9)	$	360,000		
Deferred Outflows (W3DEBT0) - (5)	$	6,900,000		
Premium (W5GOBD4) - (2)	$	3,000,000		
Bonds Payable (W5GOBD2)			$	117,200,000
Premium (W5GOBD4)			$	6,599,000
Discount (W5GOBD6) - (3)			$	300,000
<Record the sale of refunding bonds.>				

Insurance - Other (X2OTHER)	$	12,000		
Prepaid Bond Insurance (W2NCPRE)			$	12,000

<Record 1/30th of the Prepaid Bond Insur. as expense in the current year (assumes a 30 yr bond).>

T-Account Summary:

Fund 36300

Account	Debit	Credit
Agency Charges (Various Supp. & Srvc.)	$ 100,000	$ 100,000
Cash (1000000 & W1CASH1)		$ 100,000
Cost of Issuance (7865000 & X2OTHER)	$ 100,000	$ 100,000
Interest Earnings (5800000 & X3INVST) *	$ 100,000	

* A credit entry is made as an off-system entry to gross up the charges for bond administration issuance costs. These are off-set by ACTUALS Ledger debits (expenses) for the issuance of bonds

Fund 36300

Account	Debit	Credit
Cost of Issuance (7865000 & X4OTHER)	$ 100,000	
Interest Earnings (5800000 & X3INVST)		$ 100,000

Fund 31500

Account	Debit	Credit
Bonds Payable (2951000 & W5GOBD2)	$113,200,000	
Bonds Payable (2951000 & W5GOBD2)		$ 117,200,000
Deferred Outflows of Resources (W3DEBT0)	$ 69,000,000	
Cost of Issuance (7865000 & X4OTHER)	$ 639,000	
Bond Premium (2290000 & W5GOBD4)	$ 3,000,000	
Bond Premium (2290000 & W5GOBD4)		$ 6,599,000
Bond Discount (2959000 & W5GOBD6)		$ 300,000
Prepaid Bond Insurance (W2NCPRE)	$ 360,000	$ 12,000
Insurance - Other (X2OTHER)	$ 12,000	

ACFR - Accounting for an Advanced Refunding Bond Issue - GPR Funding

Closing Documents	
Sources	
Principal Amount of the Bonds (6)	$117,200,000
Net Original Issue Premium (7)	$ 6,599,000
TOTAL SOURCES	$123,799,000
Uses	
Deposit to Escrow Fund (4)	$122,800,000
Underwriters' Discount - see page 1 of this attachment	$ 639,000
Bond Insurance ** (9)	$ 360,000
TOTAL USES	$123,799,000

Additional Information	
Outstanding Bonds Refunded (1)	$113,200,000
Issuance Cost by DOAS *	$ 100,000

* Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.

ACTUALS Ledger ENTRIES in Fund 36300 and 31500		
Fund 36300		
Agency Charges (Various Supplies & Services)	$ 100,000	
Cash (1000000)		$ 100,000
<Record agency costs by DOAS through JV transactions.>		

OFF-SYSTEM ACFR ENTRIES IN Fund 31500 and 36300		
Fund 36300		
Cost of Issuance (X2OTHER)	$ 100,000	
Agency Charges (Various Supp. & Srvc)		$ 100,000
<Reclassify the Agency Charges to Cost of Issuance (Other		

Fund 31500		
Expenditures - Debt Service - Other - Ref Bond Issuance (X2DEBT3)	$ 999,000	
Other Financing Uses - Payments to Refunded Bond Escrow (X4DEBT2)	$ 122,800,000	
Other Financing Sources - Refunding Bonds Issued (X3DEBT2)		$ 117,200,000
Other Financing Sources - Premium on Bonds (X3PREMI)		$ 6,599,000
<Record the sale of refunding bonds.>		

T-Account Summary:

Fund 36300

Agency Charges (Various Supp. & Srvc)	
$ 100,000	$ 100,000

Cash (1000000 & W1CASH1)	
	$ 100,000

Expenditures - Debt Service - Other Ref Bond Issuance (X3DEBT2)	
$ 100,000	

Fund 31500

Other Financing Sources - Premium on Refunding Bonds (X3PREMI)	
	$ 6,599,000

Other Financing Uses - Payments to Refunded Bond Escrow (X4DEBT2)	
$ 122,800,000	

Expenditures - Debt Service - Other Ref Bond Issuance (X3DEBT3) **	
$ 999,000	

Refunding Bond Proceeds (X3DEBT2)	
	$ 117,200,000

** Because this refunding takes place entirely in governmental funds, the provisions of GASB 65, para. 15 do not apply and all bond issuance and insurance costs are expensed. However, when converted to a government-wide basis, entries will be needed to eliminate the expense related to bond insurance, set-up a prepaid asset, and expense a portion of that asset. Prepaid bond insurance purchased by the State should not be confused with the concept of bonds insured by the underwriter. The differentiating factor is the party that enters into the insurance contract. For prepaid insurance, the State has entered into a direct contract and will benefit directly from the insurance. In the latter, the bond underwriter has entered into a direct contract and would benefit from the insurance.

ACFR - Accounting for an Current Refunding Bond Issue - PR Funding

Closing Documents		
Sources		
Principal Amount of the Bonds (6)	$	75,000,000
Accrued Interest	$	100,000
Net Original Issue Premium (7)	$	4,500,000
TOTAL SOURCES	$	79,600,000
Uses		
Deposit to Fund 31500 *	$	79,000,000
Underwriters' Discount ** - see page 1 of this attachment	$	500,000
Bond Insurance ** (9)	$	100,000
TOTAL USES	$	79,600,000

* To be use for principal payments for a future debt service.
** expensed immediately per the requirements of GASB 65

Reacquisition Price ***		
Old Bonds Outstanding	$	79,000,000
Call Premium on Old Bonds	$	—
	$	79,000,000
Net Carrying Amount		
Amount due at maturity (old bonds)	$	79,000,000
Unamortized (premium & discount) = (2)-(3)	$	—
	$	79,000,000

Reacquisition Price = Net Carrying Amount ---> NO DEFERRED OUTFLOW OR INFLOW

*** calculated for an advanced refunding, per the guidance in Illustration 2 of Appendix C of GASB Statement 23

Additional Information		
Outstanding Bonds Refunded (1)	$	79,000,000
Issuance Cost by DOAS ****	$	100,000
Premium Writedown (2)	$	300,000
Discount Writedown (3)	$	300,000

**** Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.

ACTUALS Ledger ENTRIES in Fund 36300 and 31500

Fund 36300	Debit	Credit
Agency Charges (Various Supp. & Srvc)	$100,000	
Cash (1000000)		$ 100,000

<Record agency costs by DOAS through JV transactions.>

Fund 31500	Debit	Credit
Cash (1000000)	$ 79,100,000	
Refunding Bond Proceeds (6100000)		$ 79,000,000
Interest Payments (7862000)		$ 100,000

<Record agency costs by DOAS through JV transactions.>

Fund 31500	Debit	Credit
Principal Payments (9000000)	$ 79,000,000	
Cash (1000000)		$ 79,000,000

<Record agency costs by DOAS through JV transactions.>

ACTUALS Ledger ENTRIES IN PROPRIETARY FUNDS

OFF-SYSTEM ACFR ENTRIES IN Fund 31500 and 36300

Fund 36300	Debit	Credit
Cost of Issuance (X2OTHER)	$ 100,000	
Agency Charges (Various Supp. & Srvc)		$ 100,000

<Reclassify the Agency Charges to Cost of Issuance (Other

Fund 36300	Debit	Credit
Interest Earnings (X3INVST)	$ 100,000	
Cost of Issuance (X2OTHER)		$ 100,000

<Extract Cost of Issuance to proprietary fund.>

Fund 31500	Debit	Credit
Interest Payments (X2DEBT2)	$ 100,000	
Refunding Bond Proceeds (X3DEBT2)	$ 79,000,000	
Principal Payments (X2DEBT1)		$ 79,000,000
Cash (W1CASH1)		$ 100,000

OFF-SYSTEM ACFR ENTRIES IN PROPRIETARY FUNDS

Fund 36300	Debit	Credit
Cost of Issuance (X2OTHER)	$ 100,000	
Interest Earnings (X3INVST)		$ 100,000

<Extract Cost of Issuance to proprietary fund.>

Fund 31500	Debit	Credit
Cash (W1CASH1)	$ 100,000	
Bonds Payable (W5GOBD2) - (1)	$ 79,000,000	
Cost of Iss.(X4OTHER)-Underwriters Disc.	$ 500,000	
Premium (W5GOBD4) - (2)	$ 300,000	
Interest Payments (X2DEBT2)		$ 100,000
Bonds Payable (W5GOBD2)		$ 75,000,000
Discount (W5GOBD6) - (3)		$ 300,000
Bond Premium (W5GOBD4)		$ 4,500,000

<Record the sale of refunding bonds.>

T-Account Summary:

Fund 36300

Account	Debit	Credit
* Interest Earnings (5800000 & X3INVST)	$ 100,000	
Agency Charges (Various Supplies & Services)	$ 100,000	$ 100,000
Cost of Issuance (7865000 & X2OTHER)	$ 100,000	$ 100,000
Cash (1000000 & W1CASH1)		$ 100,000

* A credit entry is made as an off-system entry to gross up the charges for bond administration issuance costs. These are off-set by ACTUALS Ledger debits (expenses) for the issuance of bonds

Fund 31500

Account	Debit	Credit
Cash (1000000 & W1CASH1)	$ 79,100,000	$ 79,000,000
		$ 100,000
	$ —	
Refunding Bond Proceeds (6100000 & X3DEBT2)	$ 79,000,000	$79,000,000
Principal Payments (9000000 & X2DEBT1)	$ 79,000,000	$ 79,000,000
Interest Payments (7862000 & X2DEBT2)	$ 100,000	$ 100,000

Fund 36300

Account	Debit	Credit
Interest Earnings (5800000 & X3INVST)		$ 100,000
Cost of Issuance (7865000 & X4OTHER)	$ 100,000	

Fund 31500

Account	Debit	Credit
Bonds Payable (2951000 & W5GOBD2)	$ 79,000,000	
Bonds Payable (2951000 & W5GOBD2)		$ 75,000,000
Interest Payments (7862000 X2DEBT2)		$ 100,000
Cost of Issuance (7865000 & X4OTHER)	$ 500,000	
Bond Premium (2290000 & W5GOBD4) - Write down	$ 3,000,000	
Bond Premium (2290000 & W5GOBD4)		$ 4,500,000
Bond Discount (2959000 & W5GOBD6)		$ 300,000
Cash (1000000 & W1CASH1)	$ 100,000	

ACFR - Accounting for a Current Refunding Bond Issue - GPR Funding

Closing Document	
Sources	
Principal Amount of the Bonds	$ 75,000,000
Accrued Interest	$ 100,000
Net Original Issue Premium	$ 4,500,000
TOTAL SOURCES	$ 79,600,000
Uses	
Deposit to Fund 31500 *	$ 79,000,000
Underwriters' Discount - see page 1 of this attachment	$ 500,000
Accrued Interest	$ 100,000
TOTAL USES	$ 79,600,000

Additional Information	
Outstanding Bonds Refunded	$ 7,900,000
Issuance Cost by DOAS *	$ 100,000

* Capital Accounting reviews Capital Finance records to determine issuance costs for new bond issues. These costs are originally recorded as agency costs by DOAS through JV transactions.

ACTUALS Ledger ENTRIES in Fund 36300 and 31500

Fund 36300		
Agency Charges (Various Supplies & Services)	$ 100,000	
Cash (1000000)		$ 100,000
<Record agency costs by DOAS through JV transactions.>		

Fund 31500		
Cash (1000000)	$ 79,100,000	
Refunding Bond Proceeds (6100000)		$ 79,000,000
Interest Payments (7862000)		$ 100,000
<Record the sale of refunding bond.>		

Fund 31500		
Principal Payments (9000000)	$ 79,000,000	
Cash (1000000)		$ 79,000,000
<Use the cash for principal payments for debt service.>		

OFF-SYSTEM ACFR ENTRIES IN Fund 31500 and 36300

Fund 36300		
Expenditures - Debt Service - Other - Ref Bond Issuance (X2OTHER	$ 100,000	
Agency Charges (Various Supplies & Services)		$ 100,000
<Reclassify the Agency Charges to Cost of Issuance (Other Expenditures).>		

Fund 31500		
Expenditures - Debt Service - Other - Ref Bond Issuance (X2DEBT3)	$ 500,000	
Refunding Bond Proceeds (X3DEBT2)	$ 4,000,000	
Other Financing Sources - Premium on Bonds (X3PREMI)		$ 4,500,000
<Record the sale of refunding bonds.>		

Fund 31500		
Other Financing Uses - Payments to Refunded Bond Escrow (X4DEBT2)	$ 79,000,000	
Principal Payments (X2DEBT1)		$ 79,000,000
<Reclassify Principal Payments to Other Financing Uses - Payments to Refunded Bond Escrow.>		

T-Account Summary:

Fund 36300

Agency Charges (Various Supp. & Service)	
$ 100,000	$ 100,000

Cash (1000000 & W1CASH1)	
	$ 100,000

Expenditures - Debt Service - Other Ref Bond Issuance (X3DEBT2)	
$ 100,000	

Fund 31500

Cash (1000000 & W1CASH1)	
$ 79,100,000	$ 79,000,000
$ 100,000	

Refunding Bond Proceeds (X3DEBT2)	
$ 4,000,000	$ 79,000,000
	$ 75,000,000
	$ —

Other Financing Sources - Premium on Refunding Bonds (X3PREMI)	
	$ 4,500,000

Principal Payments (X2DEBT1)	
$ 79,000,000	$ 79,000,000

Expenditures - Debt Service - Other Ref Bond Issuance (X3DEBT3) **	
$ 500,000	

Other Financing Uses - Payments to Refunded Bond Escrow (X4DEBT2)	
$ 79,000,000	

Interest Payments (7862000 & X2DEBT2)	
	$ 100,000

Sale of a Building for a Proprietary Fund
(Building Financed with Bonds Reported in the Fund)

Project A - Capitalized	$	200,000
Project B - Capitalized		700,000
Project C - Capitalized		99,000
Capitalized Interest		1,000
Total Building Cost	$	1,000,000
Accumulated Depreciation	$	250,000
Outstanding Debt (Principal and Interest)	$	800,000
Sale Price	$	1,500,000

Governmental Fund (31500) - By Capital Accounting	**Proprietary Fund**

ACTUALS Ledger ENTRY AT THE SALE OF THE BUILDING

Governmental Fund	Proprietary Fund
	Recorded by the Agency Cash (1000000) ** $ 1,500,000 Sales - Building & Structure (5941000) $ 1,500,000 <Agency records the sale of the building.> ** Assumption that the money is deposited into the General Fund.

OFF-SYSTEM ACFR ENTRY for the SALE OF THE BUILDING in the year it was sold.

Governmental Fund	Proprietary Fund
Recorded by Capital Accounting Sales - Building & Structure (X1CHARG) $ 800,000 Due to Other Funds (W4DTOF0) $ 800,000 <Transfer revenue to proprietary fund as Due to/from Other Funds.>	Recorded by Capital Accounting Due From Other Funds (W1DFOF0) $ 1,500,000 Sales - Building & Structure (X1CHARG) $ 1,500,000 <Transfer revenue to proprietary fund as Due to/from Other Funds.>
	Recorded by the Agency Accumulated Depreciation $ 250,000 Sales - Building & Structure $ 1,500,000 Building $ 1,000,000 Gain on the Sale of the Building $ 750,000 <Record the Sale of the Building.>

Capital Accounting will prepare an amortization schedule of the outstanding debt in the proprietary fund at the time of the sale. Each fiscal year for remaining years of the schedule, the following entries will be made:

Debt Service Schedule for the Building

Fiscal Year		Principal		Interest		Total
X1	$	20,000	$	50,000	$	70,000
X2	$	50,000	$	100,000	$	150,000
X3	$	100,000	$	250,000	$	350,000
X4	$	50,000	$	100,000	$	150,000
X5	$	20,000	$	60,000	$	80,000
Totals	$	240,000	$	560,000	$	800,000

ACTUALS Ledger ENTRY FOR DEBT SERVICE BUILDING CREDIT for Fiscal Year X1

Governmental Fund	Proprietary Fund
Prepared by Capital Accounting Intrafund Transfers In/Out (9910) $ 70,000 Intrafund Transfers In (9900) $ 70,000 <Transfer debt service credit.>	

OFF-SYSTEM ENTRY FOR DEBT SERVICE BUILDING CREDIT for Fiscal Year X1

Governmental Fund	Proprietary Fund
Prepared by Capital Accounting Due to Other Funds (W4DTOF0) $ 700,000 Interest Payment - Bonds (X2DEBT2) $ 50,000 Interest Payment - Bonds (X2DEBT2) $ 20,000 <Extract the building principal and interest credit related to past sale of a building.>	**Prepared by Capital Accounting** Interest Payment - Bonds (X2DEBT2) $ 50,000 Bonds Payable (W5GOBD2) $ 20,000 Due From Other Funds (W1DFOF0) $ 70,000 <Extract the building principal and interest credit related to past sale of a building.>
Prepared by Capital Accounting Intrafund Transfers In (X5INTER) $ 70,000 Intrafund Transfers In (X5INTER) $ 70,000 <Eliminate debt service transfer on trustee date.>	

LITIGATION AND CONTINGENCIES

A loss contingency, as defined by GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is "an existing condition, situation or set of circumstances involving uncertainty as to possible loss to a government that will ultimately be resolved when one or more future events occur or fail to occur."

Recognition Criteria

The following terms help to identify when and how the contingency should be recognized and reported in the ACFR:

Probable - The future events are likely to occur.
Remote - The chance of the future event occurring is slight.
Reasonable possibility - The chance of the future event occurring is more than remote but less than likely.

A contingent loss should be accrued by a charge to income (expenditure or refund of revenues) if before the financial statements are issued, information becomes available that:

1. Is it *probable* that an asset has been impaired or a liability incurred at the date of the financial statements, and
2. The amount of the loss can be *reasonably estimated*.

Loss contingencies not meeting both these criteria should be disclosed in the notes to the financial statements if there is a reasonable possibility that a loss may have been incurred.

Materiality

Agencies should not report or disclose litigation or contingencies for an individual event or occurrence unless the individual event or occurrence equals or exceeds $1.0 million.

Reporting Requirements

While the criteria for recognizing a contingency is the same for all GAAP funds, the reporting treatment differs.

Governmental funds should report only the current portion of a contingent liability in the fund at the fund level. Any long-term portion will be reported in the government-wide financial statements. Agencies should continue to report both the short-term and long-term portions of contingencies to the SCO-FRS using the current reporting form.

Proprietary fund types and similar trust funds should follow GASB 62 without modification. This statement requires that all fund assets and liabilities, current and noncurrent, are accounted for in the fund.

The reporting model in Appendix I of this subsection assists in applying these criteria and requirements.

Guidelines

The ACFR should reflect loss liabilities in accordance with the recognition criteria and reporting requirements presented in GASB 62. The State Controller's Office - Financial Reporting Section (SCO-FRS) and individual agencies should identify those items that meet the recognition criteria for contingent liabilities.

To identify a potential contingent liability, the SCO-FRS should contact the Bureau of State Risk Management and the State Attorney General's Office (Department of Justice). In addition, **each agency should contact appropriate individuals within their agency to determine whether there are any events that have occurred prior to fiscal year end which could result in a loss to the state of $1.0 million or more after the occurrence of some future event**.

The Bureau of State Risk Management, the Department of Justice and State agencies should report all pertinent information to the SCO-FRS, who will determine the appropriate treatment of the event for the ACFR. Since contingency disclosure requires the most current information, the data should be obtained as close to the issuance of the financial statements as practicable.

Further, any event occurring subsequent to the end of the fiscal year but prior to the issuance of the ACFR may need to be disclosed in the notes to the financial statements as a subsequent event. This information would have to be obtained in a manner similar to that used for identifying contingencies.

Items that could potentially produce contingencies include, but are not limited to:

- *Claims, judgments and retained risks*. To identify potential contingencies at fiscal year-end, the SCO-FRS should contact both the Attorney General and the Bureau of State Risk Management. In addition, each agency should contact their legal counsel.

- *Federal audit disallowances for reimbursed expenditures*. Agency financial managers should contact their federal program reporting staff to determine if any potential audit disallowances exist that would require repayment to the federal government.

- *Loan guarantees*. Financial managers involved with loans guaranteed (but not owned) by the state should contact the appropriate program staff within their agency to identify any material amounts of defaulting loans that are more likely than not to default. See Section V-46 Nonexchange Financial Guarantees in this Manual for guidance on reporting requirements.

- *Pollution Remediation*. Being named a potentially responsible party (PRP) for remediation work, or the State being named in a lawsuit, compelling it to commence pollution remediation work at a particular polluted site. See Section V, Sub-Section 42 Pollution Remediation Obligations for specific guidance.

COMMITMENTS

Section 2300.106 of the *Codification* requires the disclosure of significant long-term commitments. A commitment, within the context of note disclosures, is a contingent obligation at the balance sheet date, arising from the terms of an executory contract.

The most common disclosures of this type are construction contracts outstanding; loan guarantees, commitments and subsidies, leases, SBITAs, installment purchases, long-term debt (bonds and notes), and encumbrances. It is the State's policy that significant long-term commitments not recognized in the financial statements be disclosed. Therefore, agencies should complete the *Note Disclosure Information - Commitments* form.

Note: Specific guidance for lease and SBITA commitments are contained in Section V - 10, Installment Purchases in Section V - 15, Bonds in Section V - 13, Encumbrances in Section V - 16, and Construction Contracts Outstanding see below.

Construction contract commitment disclosures should identify the type of project (e.g., facilities, roads, bridges) and the outstanding balance by project type at June 30. Agencies should complete the Commitment Disclosure Form for construction contracts outstanding on those contracts managed by <u>their</u> agency. Construction contracts outstanding that are managed/administered by the Department of Administration - Division of Facilities Development (DOA - DFD) and the Department of Transportation (DOT) will be identified by the DOA - DFD and DOT.

Agencies should report such commitments to the SCO-FRS for footnote disclosure.

LITIGATION AND CONTINGENT LIABILITIES

Legal issues or contingent liabilities associated with all the State's concerns or activities may be handled in a number of ways. To obtain information needed for the ACFR, GAAP accountants must submit relevant information pertaining to legal issues to SCO-FRS. In addition, SCO-FRS will inquire of the Wisconsin Department of Justice and the DOA Bureau of State Risk Management to obtain information from those entities.

Litigation, Claims and Judgments Reported by State Agencies

Each agency should report litigation, claims and judgments *not* handled by State Risk Management or the Department of Justice ***if an individual event or occurrence is equal to or exceeds $1.0 million***. These types of potential contingent liabilities might include, but are not limited to:

- treaty rights issues
- income tax and sales tax disputes
- federal program disallowances
- state liability from landfill use
- hazardous waste disposal
- pollution remediation responsibilities, see Section V, Sub-Section 42 for specific guidance.

The timing, likelihood and amount of potential loss must be considered when determining if a loss may have to be reported in the ACFR. **Appendix I** provides a flowchart of relevant GASB guidance.

GAAP accountants should inquire to their legal counsel about potential litigation, claims and judgments. The primary means of obtaining this information is the "Attorney Inquiry Letter". Agencies may use the "Sample Form - Attorney Inquiry Letter Sent by State Agencies to Their Legal Counsel" **(Appendix II)** as a guide in requesting the necessary information.

Property, Liability , Worker's Compensation and Pollution Remediation Obligation Liabilities Reported by Risk Management

The State Controller's Office (SCO – FRS) will obtain from the Department of Administration - State Risk Management the following information:

Liability claims for property and bodily damages to third parties - The State administers statewide comprehensive programs in property and casualty. Based on information maintained by State Risk Management, the SCO - FRS should request the estimated liability for such claims that have been incurred but not paid or have been incurred but not filed as of June 30.

Workers Compensation - The State administers a statewide comprehensive program in workers compensation. Based on claims outstanding and a projection of claims to be submitted (using prior years' experience), the SCO - FRS should request the workers compensation estimated unfunded liability as of June 30.

Pollution Remediation Obligations - Based on information maintained by State Risk Management, the SCO - FRS should request the estimated liability for such claims that have been incurred but not paid as of June 30.

Litigation Reported by the Department of Justice

The SCO-FRS will inquire of the Wisconsin Department of Justice (Office of the State Attorney General) to determine whether the State is subject to any litigation, claims or judgments which are not covered by the State Risk Management function. The primary means of obtaining the required information is the letter of inquiry sent to that office by the State Controller. **Appendix III** provides an example of this letter that will be written by SCO-FRS.

COMMITMENTS

State agencies should report to the SCO - FRS any other commitments existing at June 30. (Note: see Policy Section for specific guidance)

For example, those agencies with June 30 outstanding encumbrances that represent commitments on long-term, multi-year contracts should report the amount of such encumbrances that will not be liquidated during the fiscal year subsequent to the year being reported on as commitments.

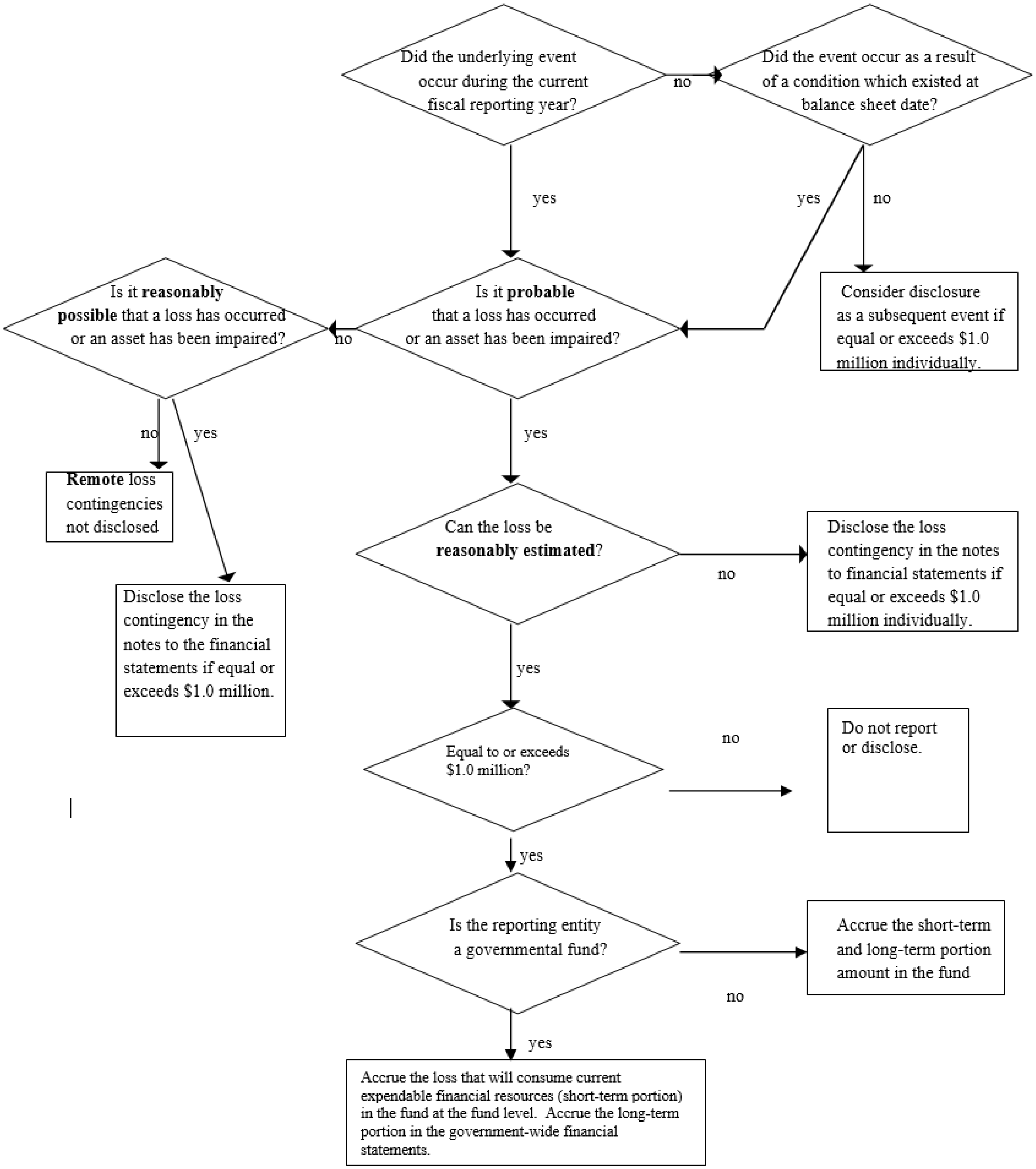
In addition, those agencies with construction commitments should report the appropriate disclosure information to the SCO - FRS.

Note: GASB 54 does not change these note disclosure requirements.

Loss Contingencies Reporting Model ($1.0 million or more)

(Excluding Pollution Remediation or Nonexchange Financial Guarantees)

Note: agencies are not required to report or disclose litigation or contingencies for an individual event or occurrence unless the individual event or occurrence equals or exceeds $1,000,000.00.



- GASB 62 provides that if a range of loss can be estimated, then some loss has occurred. If a best estimate in the range does not exist, use the minimum amount in the range.

Sample Letter
Attorney Inquiry Letter Sent by State Agencies to Their Legal Counsel

_______________, ____

____
____
____

Dear _______________________:

In connection with the preparation of the Annual Comprehensive Financial Report of the State of Wisconsin for the year ended June 30, ____, the State Controller's Office - Financial Reporting Section has requested the management of the (AGENCY NAME) (Agency) to prepare and furnish a description and evaluation of all loss contingencies not reported through the Bureau of State Risk Management or not handled by the State Department of Justice, involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the Agency in the form of legal consultation or representation. All events or occurrences that equals or exceeds $1.0 million individually are regarded by the management of the Agency as material for this purpose. Your response should include matters that existed at June 30, ____ and during the period from that date to the date of your response.

Please provide the following information:

(1) the nature of the litigation;
(2) the progress of the case to date;
(3) how management is responding or intends to respond to litigation (for example, to contest the case vigorously or to seek an out-of-court settlement); and
(4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Please furnish such information, including an explanation, if any, that you consider necessary to supplement the foregoing information, and a statement that the list of such matters is complete.

We understand that, while providing legal services for the Agency, you may recognize a matter that involves an unasserted possible claim or assessment that may call for financial statement disclosure, and you may form a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment. We therefore request that, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of The Governmental Accounting Standards Board Statement No. 62.

Please specifically identify the nature of and reasons for any limitations on your response. Your response should be sent directly to (AGENCY REPRESENTATIVE) .

If you have any questions, please call me at _______________. Thank you for your assistance.

Sincerely,

cc:

Sample Letter
Attorney Inquiry Letter Submitted by the State Controller
to the Department of Justice

____
Department of Justice
123 West Washington Avenue
Madison, Wisconsin 53707-7857

Dear ____________:

In connection with the preparation of the Annual Comprehensive Financial Report of the State of Wisconsin for the year ended June 30, ____, we are requesting a description and evaluation of certain contingencies not reported through the Bureau of State Risk Management, involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the State of Wisconsin in the form of legal consultation or representation or matters for which the Department of Justice has retained the services of outside legal counsel. All contingencies that equal or exceed $1.0 million either individually or in the aggregate by type of case, are considered material and should be included in your response, for this purpose. Your response should include matters that existed at June 30, ____ and during the period from that date to the date of your response.

Pending or Threatened Litigation (excluding unasserted claims)

Please provide directly to the State Controller's Office - Financial Reporting Section (SCO - FRS) the following information relating to pending or threatened litigation:

(1) the nature of the litigation;
(2) the progress of the case to date;
(3) how management is responding or intends to respond to the litigation (for example, to contest the case vigorously or to seek an out-of-court settlement); and
(4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Please furnish the SCO - FRS such explanation, if any, that you consider necessary to supplement the foregoing information.

Unasserted Claims and Assessments

Please include any matters which involve an unasserted claim or assessment considered to be probable of assertion, and that if asserted, would have at least a reasonable possibility of an unfavorable outcome. Please provide the following information relating to these claims or assessments:

(1) the nature of the matter;
(2) how management intends to respond if the claim is asserted; and
(3) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Please furnish the SCO - FRS such explanation, if any, that you consider necessary to supplement the foregoing information.

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of The Governmental Accounting Standards Board Statement No. 62.
Please specifically identify the nature of and reasons for any limitation on your response.

Your response should be sent directly to ___________________________, Department of Administration, State Controllers Office, 5th Floor, 101 E. Wilson, before ____________, ____.

Thank you for your assistance.

Sincerely,

___________________, State Controller

cc: ________________

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2021
SUB-SECTION:	15 - Installment Purchases	**REVISION DATE:**	June 30, 2022
SUBJECT:	Policy	**PAGE:**	1 of 2

An installment purchase is a form of purchase financed with fixed payments over a specified period of time. Title typically passes to the buyer at the inception of the contract with the seller maintaining a lien on the property. There may be some exceptions where the seller retains legal title until all of the payments have been made. As long as the economic substance of the transaction is that of a purchase, it should be considered an installment purchase. State agencies should refer to the provisions of the individual contract to determine proper classification as installment purchases.

Master Lease Program: Prior to FY 2021, certain items acquired through the State's Master Lease Program were recorded as installment purchases if the substance of the transaction was a purchase. However, starting in FY 2021 all l**iabilities under the Master Lease program should be reported as long-term debt under the account Certificates of Participation** (current & non-current). The Master Lease Program is a form of *financing* used by state agencies generally to acquire equipment or software.

Assets acquired under the Master Lease Program may be capitalizable or not. Agencies should evaluate whether the item acquired meets the definition of a capital asset from a GAAP reporting perspective prior to reporting it as such. Items not meeting the criteria for capitalization should generally be reported as operating expenses; the classification impacts financial reporting.

Equipment or other items acquired via Master Lease financing shall be capitalized using the following conventions:

- An agency utilizing the master lease program should ensure that the entire liability under the master lease program is allocated among the funds under their purview. Full-accrual funds (Enterprise and internal service funds should match their entire master lease liability in their fund-level statements. Governmental funds must account for program activities under the requirements of modified accrual accounting. The long-term liability for certificates of participation will be a government-wide liability, not a fund level liability.

- If the financed item does not meet capitalization criteria (including intangible assets), debt service payments for the certificates of participation should result in regular rental expenditure/expenses.

If the item acquired is determined to be a tangible capital asset (i.e. fair value of $5,000 or greater and useful for more than one year) or an intangible asset equal to or greater than $1.0 million:

- The amount capitalized shall be the "Purchase Price" (the first dollar amount appearing in the column titled Purchase Price) identified in the *Lease Payment Schedule* provided by the DOA-Capital Finance Office. GAAP accountants should contact the DOA-Capital Finance Office for the *Lease Payment Schedule*.

- The *Lease Payment Schedule* should be used as the amortization schedule to amortize principal and interest (P&I). Annually, the P&I schedule shall be adjusted, if applicable, to account for changes in interest rates, if any.

Payments made as a result of the agreement will be reported as an expenditure in the STAR ACTUALS ledger as those payments are made. Additional ACFR entries and disclosures are necessary to appropriately reflect the financial activity in the ACFR.

On the ***fund statements***, the type of fund reporting the installment purchase determines how the transaction will be reflected. Governmental funds report a capital outlay expenditure and an "other financing source" on the operating statement in the initial year of the contract. Proprietary funds report a capital asset and liability on the balance sheet.

On the ***government-wide statements***, both governmental activities and business-type activities report the capital asset and liability on the statement of net position. The current portion of the installment purchase must be reported separately from the noncurrent portion. Further, on the statement of activities, interest expense on the liability should be reported on a separate "Interest" line, rather than with the function.

In the first year of an installment purchase, agency GAAP accountants must make ACFR entries to appropriately reflect the installment purchases liability in the fund-level or government-wide statements, as applicable. The payments recorded in the ACTUALS ledger in the current fiscal year should be reclassified via an ACFR entry to reduce the outstanding liability as of June 30th. How the payments were coded in the ACTUALS ledger will impact the adjusting entry needed for the ACFR.

SCO-FRS will make the entry to re-establish the liability in Year 2 of an installment purchase. Generally those entries are made for agencies of proprietary funds using the CUTE files to upload entries. If SCO-FRS has communicated that all their entries have been uploaded to the CAFR ledger and the entries above do not appear on the ACFR trial balance report, the agency GAAP accountant should make them.

In the year the asset was acquired, agencies must set up a *capital asset* in the STAR Asset Management module. The cost of the capital asset should be based on the acquisition price excluding interest.

Reporting Capital Assets Related to Installment Purchases

Capital assets will be established on the balance sheet by automated entries pushed from STAR Asset Management (AM) into the CAFR ledger. This will occur as agencies add acquired capital assets to STAR AM throughout the fiscal year. The financing methods used by agencies to acquire capital assets does not affect the capital asset-related entries. That is, capital assets should be set up in STAR AM during the year so automated ACFR entries are generated for the assets acquired via an installment purchase just like they would if an agency paid cash for the asset.

Reporting Installment Purchase Liability

The liability created by a *short-term* installment purchase is to be reported on the balance sheet of the individual agency as a current liability.

The proper reporting of *long-term* installment purchases requires the calculation of the minimum installment payments and development of an amortization schedule. Materiality should be considered when determining the resources to be used in developing schedules. In some cases, straight line interest calculation may be materially correct rather than calculating a present value of the minimum payments. If a present value is calculated for the amortization schedules, care should be taken in classifying the installment purchase as an ordinary annuity (payment at the end of each period) or as an annuity due (payment at the beginning of each period).

The following annuity tables are attached:

- State's Average Interest Rates by Year (Appendix I)
- Present Value of an Annuity Due-State Rate (monthly payments) (Appendix II)
- Present Value of an Ordinary Annuity-State Rate (monthly payments) (Appendix III)
- Present Value of an Ordinary Annuity-State Rate (annual payments) (Appendix IV)
- Present Value of an Annuity Due-State Rate (annual payments) (Appendix V)

Governmental Funds

To report capital assets, agencies should record an addition in the STAR AM module during the year of acquisition. When an asset is added to AM, the following entry will be generated and pushed to the STAR CAFR ledger:

Debit	**Capital Asset**	**xxx**	
Credit	**Capital Outlay**		**xxx**

SCO-FRS will make an entry on the fund level ACFR Trial Balance to eliminate the capital asset additions (based on AM entries) for the fiscal year. This entry will be made for all capital asset additions set up in AM for that fiscal year:

Debit	**Capital Outlay**	**xxx**	
Credit	**Capital Asset**		**xxx**

However, because an installment purchase should be reflected as an expenditure with an offset to other financing source - installment purchase acquisitions (revenue) in governmental funds (and the two entries above will exactly offset each other), agencies should prepare the following ACFR entry for the governmental fund-level statements in the initial year of the installment purchase:

Debit:	X2OUTLY Capital Outlay Expenditures	xxx	
Credit:	X3INSAQ Installment Purchase Acquisitions		xxx

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION:	15 - Installment Purchases	**REVISION DATE:**	June 5, 2019
SUBJECT:	Procedure	**PAGE:**	2 of 5

In addition to making the fund level ACFR entry in the year of acquisition, agencies with a liability for governmental activities at year-end must provide information on the "Installment Purchase" note disclosure form. Agencies must provide (1) a breakdown of the principal and interest payments for subsequent fiscal years, and (2) the amount of the current year's interest expense relating to the installment purchase liability.

In addition, information pertaining to the cost and accumulated depreciation for the capital assets associated with an outstanding installment purchases liability must also be provided on the note disclosure form.

Future Minimum Payments - Installment Purchases

	Building		Equipment		Total		
Future Fiscal Years	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	
-Subsequent Years- First	$				$	$	(D)
Second							(E)
Third							(F)
Fourth							(G)
Fifth							(H)
Sixth thru Tenth Year							(I)
Eleventh thru Fifteenth							(J)
(Insert Additional Lines if Needed)							
Total Minimum Future Payments	Bldg Principal	Bldg Interest	Equip Principal	Equip Interest	Total Principal	Total Interest	(K)
Present Value of Net Minimum Payments	$ PV Bldg Principal		$ PV Equip Principal		$ PV Total Principal		(L)

Please also provide the following information:

- The book value of all reported capital assets currently financed through an installment purchase.

	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Total
Gross Capital Assets	$			$
- Accumulated Depr.	(		)	
= Net Capital Assets	$	$	$	$

Current Year Interest (the amount of interest paid for the fiscal year ended June 30th) $

For SCO-FRS Use in the Government-wide Entry

Portion of first year's (i.e. subsequent year's) payment attributable to principal $
Portion of first year's (i.e. subsequent year's) payment attributable to interest $

Based on the principal and interest payments information provided, **SCO-FRS will centrally prepare and record various adjusting entries for the government-wide statements pertaining to installment purchase liabilities.**

Proprietary Funds (and Fiduciary as applicable)

To illustrate proprietary fund installment purchase journal entries, the following example is provided. Assume the installment is signed on 7/1/X1, with $50,000 of annual payments made each year, and the amortization schedule is as follows:

Date	Lease Payment	Interest Expenditure @ 10%	Principal Expenditure	Amount of Long-Term Obligation
7/01/X1				208,493
7/01/X1	50,000		50,000	158,493
7/01/X2	50,000	15,849	34,151	124,342
7/01/X3	50,000	12,434	37,566	86,776
7/01/X4	50,000	8,678	41,322	45,454
7/01/X5	50,000	4,546	45,454	0

The entries in the ACTUALS and CAFR ledgers are as follows:

Year 1 Entry Pushed from Asset Management (AM) into CAFR Ledger*

Debit:	Capital Asset (various ACFR accounts)	208,493	
Credit:	X2OUTLY Capital Outlay Expenditures		208,493

Year 1 Agency ACFR Entry

Debit:	X2OUTLY Capital Outlay Expenditures	208,493	
Credit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent		208,493

< Together these two entries report the acquisition of a capital asset and related liability for the ACFR. They also appropriately eliminate the capital outlay expenditures in a full accrual GAAP fund.>

Year 1 Financial Activity Reported in ACTUALS Ledger for Payment

Debit:	Expenditure (identify)	50,000	
Credit:	Cash		50,000

<Agency makes payments in STAR ACTUALS during the fiscal year.>

Year 1 Agency ACFR Entry

Debit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent	50,000	
Credit:	X****** Expenditure (identify)		50,000
Debit:	X2INTRS Interest Expense	15,849	
Credit:	W4PAY15 Interest Payable		15,849
Debit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent	34,151	
Credit:	W5INST1 LT Liab: Instlmnt Contract Current		34,151

<These ACTUALS and ACFR entries together reflect the reduction of the liability and set up an accrual for interest accrued during the year and payable on July 1st and reclassify the principal payment due in the next year from a long term liability to a short term liability. The entry to accrue interest payable must be reversed in the next year.>

* Note: This is not the only entry pushed from AM to the CAFR ledger. For example, depreciation expense and accumulated depreciation are also recorded by AM-generated ACFR entries. We are presenting only the entry applicable to the installment purchases liability.

The entries above show an entry for the capital asset is established in the STAR AM module and pushed to the CAFR ledger used to create the ACFR trial balance. The offset account for that automated entry, however, is capital outlay expenditures. Because there are no capital outlay expenditures reported in the ACTUALS ledger for assets financed through installment purchases, negative capital outlay expenditures will exist on the ACFR trial balance. As a result, GAAP accountants must eliminate the negative expenditures via an ACFR adjusting entry in the year the capital asset is acquired. The required ACFR entries to be made by the agency change some in subsequent years as indicated below:

Year 2 Financial Activity Report in ACTUALS Ledger for Payments

Debit:	Expenditure (identify)	50,000	
Credit:	Cash		50,000

<Agency makes payments in STAR ACTUALS during the fiscal year>

Year 2 SCO-FRS ACFR Entries*

Debit:	Fund Net Position	158,493	
Credit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent		158,493

<Re-establish installment liability at beginning of the fiscal year>

Debit	Fund Net Position	15,849	
Credit:	X2INTRS Interest Expense		15,849

<Reverse prior year accrual for interest payable at beginning of the fiscal year>

* SCO-FRS makes reversing and re-estabishing entries for some proprietary GAAP funds which will be seen on the ACFR trial balance. Generally those entries are made for agencies using the CUTE files to upload entries. If SCO-FRS has communicated that all their entries have been uploaded to the CAFR ledger and the entries above do not appear on the ACFR trial balance report, the agency GAAP accountant should make them.

Year 2 Agency ACFR Entries

Debit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent	34,151	
Debit:	X2INTRS Interest Expense	15,849	
Credit:	Expenditure (identify)		50,000

<Entry to reflect the reduction of the installment liability and interest payment during the year that was accrued in the prior fiscal year>

Debit:	X2INTRS Interest Expense	12,434	
Credit:	W4PAY15 Interest Payable		12,434

<Entry to record interest expense accrued for the fiscal year but not paid as of June 30th.>

Debit:	W5INST2 LT Liab: Instlmnt Contract NonCurrent	37,566	
Credit:	W5INST1 LT Liab: Instlmnt Contract Current		37,566

<Reclassify the principal payment due in the next year from a long term liability to a short term liability..>

Together the Year 2 ACTUALS and agency ACFR entries reflect the reduction of the liability, eliminate Year 1 interest expense which was paid in the ACTUALS ledger in Year 2, accrue interest expense through June 30th, and split the liability into current and noncurrent portions. The net liability reported on the balance sheet as of June 30th should be consistent with the total remaining principal payments reported on the note disclosure provided by the agency.

In year two there are no entries needed for capital *outlay* expenditures. In addition, SCO-FRS will re-establish the liability and reverse prior year interest expense accruals and agencies will account for current year activity. The required ACFR entries are consistent in year two and beyond except that the amounts will change.

Agencies with installment contracts reported in a proprietary fund should complete the "Installment Purchases Proprietary Fund" note disclosure form. Agencies must provide (1) a breakdown of the principal and interest payments for subsequent fiscal years, and (2) provide the liability at the inception of any new agreement (i.e., present value of net minimum payments prior to any current year payments). This information will be used for both the installment purchase liability disclosure as well as the changes in long-term liabilities disclosure. The long term liability disclosure requires that the change in beginning and ending liabilities, including additions and deductions from installment purchases, be disclosed.

In addition, information pertaining to the cost and accumulated depreciation for the capital assets associated with an outstanding installment purchases liability must also be provided on the note disclosure form for inclusion in the installment purchases disclosure.

	Future Minimum Lease Payments - Installment Purchases						
	Building		Equipment		Total		
Future Fiscal Years	Principal	Interest	Principal	Interest	Principal	Interest	
-Subsequent Years- First	$				$	$	(E)
Second							(F)
Third							(G)
Fourth							(H)
Fifth							(I)
Sixth thru Tenth Year							(J)
Eleventh thru Fifteenth							(K)
(Insert Additional Lines if Needed)							
Total Minimum Future Payments	Bldg Principal	Bldg Interest	Equip Principal	Equip Interest	Total Principal	Total Interest	(L)
Present Value of Net Minimum Payments	$ NPV Buildings		$ NPV Equipment		$ NPV Total		(M)

Please also provide the following information:

- The book value of all reported capital assets currently financed through an installment purchase.

	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Total
Gross Capital Assets				$
- Accumulated Depr.	(		)	
= Net Capital Assets	$	$	$	$

New Installment Purchases in the Current Fiscal Year (Needed for the Changes In Long Term Liabilities Note Disclosure)

For all new installment purchases entered into during this fiscal year, please provide the Present Value of Net Minimum Payments (prior to any payments) $

Appendix I
STATE'S AVERAGE INTEREST RATES BY YEAR

Fiscal/ Issue Year	Issue Series	Average Issue Year Incremental Interest Rate
2015	Various	3.4200%
2016	Various	3.6540%
2017	Various	3.4570%
2018	Various	3.6868%
2019	Various	4.1058%
2020	Various	3.1389%
2021	Various	2.5422%
2022	Various	3.3307%
2023	Various	3.7822%
2024	Various	3.9090%

Appendix II

PRESENT VALUE OF AN ANNUITY DUE

(State Rate)

Monthly Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
1	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
2	1.99716	1.99696	1.99713	1.99694	1.99659	1.99739	1.99789	1.99723	1.99686	1.99675
3	2.99148	2.99090	2.99139	2.99082	2.98978	2.99218	2.99366	2.99170	2.99058	2.99027
4	3.98298	3.98182	3.98280	3.98166	3.97959	3.98437	3.98733	3.98342	3.98119	3.98056
5	4.97166	4.96973	4.97136	4.96946	4.96602	4.97398	4.97890	4.97240	4.96868	4.96764
6	5.95753	5.95465	5.95708	5.95424	5.94908	5.96100	5.96838	5.95863	5.95307	5.95151
7	6.94060	6.93657	6.93996	6.93601	6.92880	6.94545	6.95576	6.94214	6.93436	6.93218
8	7.92088	7.91551	7.92003	7.91476	7.90517	7.92733	7.94106	7.92293	7.91258	7.90967
9	8.89837	8.89148	8.89728	8.89052	8.87822	8.90665	8.92427	8.90100	8.88772	8.88399
10	9.87308	9.86449	9.87172	9.86329	9.84794	9.88341	9.90540	9.87636	9.85979	9.85515
11	10.84502	10.83454	10.84336	10.83308	10.81436	10.85763	10.88446	10.84902	10.82881	10.82315
12	11.81420	11.80165	11.81221	11.79990	11.77749	11.82930	11.86145	11.81899	11.79479	11.78801
13	12.78063	12.76583	12.77828	12.76375	12.73733	12.79844	12.83638	12.78628	12.75773	12.74973
14	13.74430	13.72707	13.74158	13.72466	13.69390	13.76505	13.80924	13.75089	13.71765	13.70833
15	14.70524	14.68540	14.70210	14.68262	14.64720	14.72914	14.78005	14.71283	14.67455	14.66382
16	15.66345	15.64082	15.65987	15.63765	15.59726	15.69071	15.74880	15.67210	15.62844	15.61621
17	16.61894	16.59334	16.61489	16.58975	16.54408	16.64977	16.71551	16.62873	16.57934	16.56551
18	17.57171	17.54296	17.56716	17.53894	17.48766	17.60633	17.68017	17.58270	17.52725	17.51172
19	18.52177	18.48971	18.51670	18.48522	18.42803	18.56040	18.64280	18.53403	18.47218	18.45486
20	19.46914	19.43358	19.46351	19.42860	19.36520	19.51198	19.60339	19.48273	19.41414	19.39494
21	20.41381	20.37458	20.40760	20.36909	20.29916	20.46107	20.56194	20.42880	20.35314	20.33197
22	21.35579	21.31273	21.34897	21.30670	21.22995	21.40769	21.51847	21.37226	21.28919	21.26595
23	22.29510	22.24803	22.28765	22.24144	22.15756	22.35184	22.47298	22.31310	22.22230	22.19690
24	23.23174	23.18049	23.22363	23.17332	23.08200	23.29353	23.42548	23.25134	23.15248	23.12483
25	24.16572	24.11012	24.15692	24.10234	24.00330	24.23276	24.37595	24.18699	24.07974	24.04974
26	25.09704	25.03693	25.08752	25.02852	24.92145	25.16953	25.32442	25.12004	25.00408	24.97166
27	26.02572	25.96092	26.01546	25.95186	25.83647	26.10387	26.27089	26.05051	25.92552	25.89057
28	26.95176	26.88211	26.94073	26.87237	26.74837	27.03577	27.21535	26.97840	26.84406	26.80651
29	27.87516	27.80050	27.86334	27.79006	27.65717	27.96523	28.15782	27.90373	27.75972	27.71947
30	28.79594	28.71611	28.78330	28.70494	28.56286	28.89227	29.09829	28.82650	28.67250	28.62947
31	29.71411	29.62893	29.70062	29.61702	29.46547	29.81689	30.03677	29.74671	29.58242	29.53651
32	30.62966	30.53899	30.61530	30.52631	30.36499	30.73910	30.97328	30.66437	30.48947	30.44061
33	31.54262	31.44628	31.52736	31.43281	31.26145	31.65891	31.90780	31.57949	31.39367	31.34177
34	32.45298	32.35081	32.43679	32.33653	32.15486	32.57631	32.84034	32.49209	32.29504	32.24001
35	33.36075	33.25260	33.34362	33.23749	33.04521	33.49132	33.77092	33.40215	33.19357	33.13532
36	34.26594	34.15166	34.24783	34.13568	33.93254	34.40395	34.69953	34.30970	34.08928	34.02774
37	35.16856	35.04798	35.14945	35.03113	34.81683	35.31419	35.62617	35.21473	34.98217	34.91725
38	36.06861	35.94158	36.04849	35.92383	35.69811	36.22206	36.55086	36.11726	35.87226	35.80388
39	36.96611	36.83247	36.94493	36.81380	36.57639	37.12756	37.47359	37.01729	36.75955	36.68763
40	37.86106	37.72066	37.83881	37.70104	37.45167	38.03069	38.39437	37.91483	37.64406	37.56850
41	38.75346	38.60615	38.73011	38.58556	38.32396	38.93147	39.31320	38.80989	38.52578	38.44652
42	39.64333	39.48895	39.61886	39.46738	39.19329	39.82990	40.23009	39.70246	39.40473	39.32169
43	40.53066	40.36907	40.50505	40.34649	40.05964	40.72599	41.14504	40.59257	40.28093	40.19401
44	41.41548	41.24652	41.38870	41.22292	40.92305	41.61974	42.05806	41.48022	41.15437	41.06351
45	42.29778	42.12131	42.26981	42.09665	41.78351	42.51116	42.96915	42.36540	42.02506	41.93018

Appendix II

PRESENT VALUE OF AN ANNUITY DUE

(State Rate)

Monthly Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
46	43.17757	42.99344	43.14839	42.96771	42.64103	43.40025	43.87831	43.24814	42.89302	42.79403
47	44.05487	43.86292	44.02444	43.83611	43.49563	44.28702	44.78555	44.12843	43.75826	43.65508
48	44.92967	44.72976	44.89798	44.70184	44.34732	45.17148	45.69088	45.00629	44.62077	44.51334
49	45.80198	45.59397	45.76900	45.56492	45.19610	46.05363	46.59428	45.88172	45.48058	45.36881
50	46.67182	46.45556	46.63753	46.42536	46.04199	46.93348	47.49578	46.75472	46.33768	46.22150
51	47.53918	47.31453	47.50356	47.28316	46.88500	47.81103	48.39538	47.62531	47.19209	47.07142
52	48.40408	48.17090	48.36710	48.13834	47.72513	48.68630	49.29307	48.49349	48.04382	47.91858
53	49.26652	49.02466	49.22817	48.99090	48.56239	49.55928	50.18886	49.35926	48.89287	48.76300
54	50.12651	49.87584	50.08676	49.84084	49.39680	50.42998	51.08276	50.22264	49.73925	49.60467
55	50.98406	50.72443	50.94288	50.68818	50.22837	51.29842	51.97477	51.08363	50.58297	50.44360
56	51.83916	51.57044	51.79654	51.53293	51.05710	52.16458	52.86489	51.94223	51.42404	51.27982
57	52.69184	52.41388	52.64775	52.37509	51.88300	53.02849	53.75314	52.79846	52.26247	52.11332
58	53.54210	53.25477	53.49652	53.21467	52.70609	53.89014	54.63950	53.65232	53.09827	52.94411
59	54.38994	54.09310	54.34285	54.05167	53.52637	54.74955	55.52399	54.50382	53.93143	53.77220
60	55.23537	54.92889	55.18675	54.88612	54.34385	55.60671	56.40661	55.35296	54.76199	54.59761

Appendix III

PRESENT VALUE OF AN ORDINARY ANNUITY

(State Rate)

Monthly Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
1	0.99716	0.99696	0.99713	0.99694	0.99659	0.99739	0.99789	0.99723	0.99686	0.99675
2	1.99148	1.99090	1.99139	1.99082	1.98978	1.99218	1.99366	1.99170	1.99058	1.99027
3	2.98298	2.98182	2.98280	2.98166	2.97959	2.98437	2.98733	2.98342	2.98119	2.98056
4	3.97166	3.96973	3.97136	3.96946	3.96602	3.97398	3.97890	3.97240	3.96868	3.96764
5	4.95753	4.95465	4.95708	4.95424	4.94908	4.96100	4.96838	4.95863	4.95307	4.95151
6	5.94060	5.93657	5.93996	5.93601	5.92880	5.94545	5.95576	5.94214	5.93436	5.93218
7	6.92088	6.91551	6.92003	6.91476	6.90517	6.92733	6.94106	6.92293	6.91258	6.90967
8	7.89837	7.89148	7.89728	7.89052	7.87822	7.90665	7.92427	7.90100	7.88772	7.88399
9	8.87308	8.86449	8.87172	8.86329	8.84794	8.88341	8.90540	8.87636	8.85979	8.85515
10	9.84502	9.83454	9.84336	9.83308	9.81436	9.85763	9.88446	9.84902	9.82881	9.82315
11	10.81420	10.80165	10.81221	10.79990	10.77749	10.82930	10.86145	10.81899	10.79479	10.78801
12	11.78063	11.76583	11.77828	11.76375	11.73733	11.79844	11.83638	11.78628	11.75773	11.74973
13	12.74430	12.72707	12.74158	12.72466	12.69390	12.76505	12.80924	12.75089	12.71765	12.70833
14	13.70524	13.68540	13.70210	13.68262	13.64720	13.72914	13.78005	13.71283	13.67455	13.66382
15	14.66345	14.64082	14.65987	14.63765	14.59726	14.69071	14.74880	14.67210	14.62844	14.61621
16	15.61894	15.59334	15.61489	15.58975	15.54408	15.64977	15.71551	15.62873	15.57934	15.56551
17	16.57171	16.54296	16.56716	16.53894	16.48766	16.60633	16.68017	16.58270	16.52725	16.51172
18	17.52177	17.48971	17.51670	17.48522	17.42803	17.56040	17.64280	17.53403	17.47218	17.45486
19	18.46914	18.43358	18.46351	18.42860	18.36520	18.51198	18.60339	18.48273	18.41414	18.39494
20	19.41381	19.37458	19.40760	19.36909	19.29916	19.46107	19.56194	19.42880	19.35314	19.33197
21	20.35579	20.31273	20.34897	20.30670	20.22995	20.40769	20.51847	20.37226	20.28919	20.26595
22	21.29510	21.24803	21.28765	21.24144	21.15756	21.35184	21.47298	21.31310	21.22230	21.19690
23	22.23174	22.18049	22.22363	22.17332	22.08200	22.29353	22.42548	22.25134	22.15248	22.12483
24	23.16572	23.11012	23.15692	23.10234	23.00330	23.23276	23.37595	23.18699	23.07974	23.04974
25	24.09704	24.03693	24.08752	24.02852	23.92145	24.16953	24.32442	24.12004	24.00408	23.97166
26	25.02572	24.96092	25.01546	24.95186	24.83647	25.10387	25.27089	25.05051	24.92552	24.89057
27	25.95176	25.88211	25.94073	25.87237	25.74837	26.03577	26.21535	25.97840	25.84406	25.80651
28	26.87516	26.80050	26.86334	26.79006	26.65717	26.96523	27.15782	26.90373	26.75972	26.71947
29	27.79594	27.71611	27.78330	27.70494	27.56286	27.89227	28.09829	27.82650	27.67250	27.62947
30	28.71411	28.62893	28.70062	28.61702	28.46547	28.81689	29.03677	28.74671	28.58242	28.53651
31	29.62966	29.53899	29.61530	29.52631	29.36499	29.73910	29.97328	29.66437	29.48947	29.44061
32	30.54262	30.44628	30.52736	30.43281	30.26145	30.65891	30.90780	30.57949	30.39367	30.34177
33	31.45298	31.35081	31.43679	31.33653	31.15486	31.57631	31.84034	31.49209	31.29504	31.24001
34	32.36075	32.25260	32.34362	32.23749	32.04521	32.49132	32.77092	32.40215	32.19357	32.13532
35	33.26594	33.15166	33.24783	33.13568	32.93254	33.40395	33.69953	33.30970	33.08928	33.02774
36	34.16856	34.04798	34.14945	34.03113	33.81683	34.31419	34.62617	34.21473	33.98217	33.91725
37	35.06861	34.94158	35.04849	34.92383	34.69811	35.22206	35.55086	35.11726	34.87226	34.80388
38	35.96611	35.83247	35.94493	35.81380	35.57639	36.12756	36.47359	36.01729	35.75955	35.68763
39	36.86106	36.72066	36.83881	36.70104	36.45167	37.03069	37.39437	36.91483	36.64406	36.56850
40	37.75346	37.60615	37.73011	37.58556	37.32396	37.93147	38.31320	37.80989	37.52578	37.44652
41	38.64333	38.48895	38.61886	38.46738	38.19329	38.82990	39.23009	38.70246	38.40473	38.32169
42	39.53066	39.36907	39.50505	39.34649	39.05964	39.72599	40.14504	39.59257	39.28093	39.19401
43	40.41548	40.24652	40.38870	40.22292	39.92305	40.61974	41.05806	40.48022	40.15437	40.06351
44	41.29778	41.12131	41.26981	41.09665	40.78351	41.51116	41.96915	41.36540	41.02506	40.93018
45	42.17757	41.99344	42.14839	41.96771	41.64103	42.40025	42.87831	42.24814	41.89302	41.79403

Appendix III

PRESENT VALUE OF AN ORDINARY ANNUITY

(State Rate)

Monthly Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
46	43.05487	42.86292	43.02444	42.83611	42.49563	43.28702	43.78555	43.12843	42.75826	42.65508
47	43.92967	43.72976	43.89798	43.70184	43.34732	44.17148	44.69088	44.00629	43.62077	43.51334
48	44.80198	44.59397	44.76900	44.56492	44.19610	45.05363	45.59428	44.88172	44.48058	44.36881
49	45.67182	45.45556	45.63753	45.42536	45.04199	45.93348	46.49578	45.75472	45.33768	45.22150
50	46.53918	46.31453	46.50356	46.28316	45.88500	46.81103	47.39538	46.62531	46.19209	46.07142
51	47.40408	47.17090	47.36710	47.13834	46.72513	47.68630	48.29307	47.49349	47.04382	46.91858
52	48.26652	48.02466	48.22817	47.99090	47.56239	48.55928	49.18886	48.35926	47.89287	47.76300
53	49.12651	48.87584	49.08676	48.84084	48.39680	49.42998	50.08276	49.22264	48.73925	48.60467
54	49.98406	49.72443	49.94288	49.68818	49.22837	50.29842	50.97477	50.08363	49.58297	49.44360
55	50.83916	50.57044	50.79654	50.53293	50.05710	51.16458	51.86489	50.94223	50.42404	50.27982
56	51.69184	51.41388	51.64775	51.37509	50.88300	52.02849	52.75314	51.79846	51.26247	51.11332
57	52.54210	52.25477	52.49652	52.21467	51.70609	52.89014	53.63950	52.65232	52.09827	51.94411
58	53.38994	53.09310	53.34285	53.05167	52.52637	53.74955	54.52399	53.50382	52.93143	52.77220
59	54.23537	53.92889	54.18675	53.88612	53.34385	54.60671	55.40661	54.35296	53.76199	53.59761
60	55.07839	54.76213	55.02822	54.71800	54.15855	55.46163	56.28737	55.19974	54.58993	54.42033

Appendix IV

PRESENT VALUE OF AN ORDINARY ANNUITY

(State Rate)

Annual Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
1	0.96693	0.96475	0.96659	0.96444	0.96056	0.96957	0.97521	0.96777	0.96356	0.96238
2	1.90189	1.89549	1.90087	1.89459	1.88324	1.90963	1.92624	1.90434	1.89200	1.88856
3	2.80592	2.79342	2.80394	2.79167	2.76953	2.82107	2.85369	2.81072	2.78660	2.77989
4	3.68007	3.65969	3.67683	3.65685	3.62086	3.70478	3.75815	3.68789	3.64860	3.63769
5	4.52530	4.49543	4.52056	4.49127	4.43862	4.56160	4.64019	4.53678	4.47919	4.46323
6	5.34258	5.30170	5.33609	5.29601	5.22413	5.39234	5.50036	5.35831	5.27951	5.25770
7	6.13284	6.07956	6.12437	6.07214	5.97866	6.19780	6.33920	6.15336	6.05066	6.02229
8	6.89696	6.82999	6.88631	6.82068	6.70343	6.97874	7.15725	6.92279	6.79371	6.75812
9	7.63582	7.55397	7.62279	7.54260	7.39961	7.73592	7.95502	7.66741	7.50968	7.46626
10	8.35024	8.25242	8.33466	8.23885	8.06834	8.47005	8.73301	8.38803	8.19956	
11	9.04104	8.92626	9.02274	8.91034	8.71070	9.18184	9.49171	9.08542	8.86429	8.80363
12	9.70899	9.57634	9.68783	9.55796	9.32772	9.87197	10.23160	9.76033	9.50480	9.43482
13	10.35485	10.20350	10.33070	10.18255	9.92041	10.54110	10.95315	10.41349	10.12197	10.04227
14	10.97936	10.80856	10.95209	10.78493	10.48972	11.18986	11.65681	11.04559	10.71664	10.62687
15	11.58321	11.39228	11.55271	11.36589	11.03658	11.81888	12.34303	11.65732	11.28965	11.18947
16	12.16710	11.95543	12.13326	11.92620	11.56188	12.42875	13.01223	12.24934	11.84177	11.73091
17	12.73168	12.49873	12.69442	12.46658	12.06645	13.02006	13.66484	12.82226	12.37377	12.25198
18	13.27758	13.02287	13.23682	12.98775	12.55113	13.59338	14.30128	13.37673	12.88638	12.75345
19	13.80544	13.52854	13.76110	13.49038	13.01669	14.14925	14.92193	13.91331	13.38031	13.23605
20	14.31584	14.01638	14.26786	13.97515	13.46389	14.68820	15.52720	14.43261	13.85624	13.70050
21	14.80936	14.48703	14.75769	14.44268	13.89345	15.21075	16.11746	14.93516	14.31482	14.14747
22	15.28656	14.94108	15.23115	14.89358	14.30607	15.71740	16.69309	15.42152	14.75669	14.57763
23	15.74797	15.37913	15.68879	15.32845	14.70242	16.20863	17.25445	15.89220	15.18246	14.99161
24	16.19414	15.80173	16.13113	15.74786	15.08314	16.68490	17.80189	16.34770	15.59272	15.39001
25	16.62554	16.20944	16.55870	16.15235	15.44884	17.14669	18.33576	16.78853	15.98802	15.77343
26	17.04268	16.60277	16.97198	16.54247	15.80012	17.59442	18.85639	17.21514	16.36891	16.14242
27	17.44603	16.98224	17.37145	16.91871	16.13754	18.02852	19.36411	17.62801	16.73593	16.49754
28	17.83604	17.34833	17.75757	17.28157	16.46166	18.44941	19.85925	18.02756	17.08956	16.83929
29	18.21315	17.70152	18.13079	17.63153	16.77299	18.85749	20.34211	18.41424	17.43031	17.16818
30	18.57779	18.04226	18.49153	17.96905	17.07205	19.25315	20.81301	18.78845	17.75865	17.48471
31	18.93037	18.37098	18.84023	18.29456	17.35931	19.63678	21.27222	19.15060	18.07501	17.78932
32	19.27129	18.68812	19.17727	18.60851	17.63524	20.00872	21.72006	19.50108	18.37985	18.08248
33	19.60094	18.99407	19.50305	18.91128	17.90029	20.36935	22.15679	19.84026	18.67358	18.36461
34	19.91968	19.28924	19.81794	19.20330	18.15489	20.71900	22.58269	20.16851	18.95660	18.63612
35	20.22789	19.57401	20.12231	19.48493	18.39944	21.05801	22.99803	20.48618	19.22931	18.89742
36	20.52590	19.84874	20.41651	19.75654	18.63436	21.38670	23.40308	20.79360	19.49208	19.14889
37	20.81406	20.11378	20.70088	20.01850	18.86000	21.70539	23.79809	21.09112	19.74528	19.39090
38	21.09269	20.36948	20.97575	20.27114	19.07675	22.01438	24.18330	21.37905	19.98924	19.62380
39	21.36211	20.61616	21.24144	20.51480	19.28495	22.31397	24.55896	21.65770	20.22432	19.84795
40	21.62262	20.85415	21.49824	20.74980	19.48493	22.60444	24.92531	21.92736	20.45083	20.06366

Appendix V

PRESENT VALUE OF AN ANNUITY DUE

(State Rate)

Annual Payment

(n) Periods	3.4200%	3.6540%	3.4570%	3.6868%	4.1058%	3.1389%	2.5422%	3.3307%	3.7822%	3.9090%
1	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
2	1.96693	1.96475	1.96659	1.96444	1.96056	1.96957	1.97521	1.96777	1.96356	1.96238
3	2.90189	2.89549	2.90087	2.89459	2.88324	2.90963	2.92624	2.90434	2.89200	2.88856
4	3.80592	3.79342	3.80394	3.79167	3.76953	3.82107	3.85369	3.81072	3.78660	3.77989
5	4.68007	4.65969	4.67683	4.65685	4.62086	4.70478	4.75815	4.68789	4.64860	4.63769
6	5.52530	5.49543	5.52056	5.49127	5.43862	5.56160	5.64019	5.53678	5.47919	5.46323
7	6.34258	6.30170	6.33609	6.29601	6.22413	6.39234	6.50036	6.35831	6.27951	6.25770
8	7.13284	7.07956	7.12437	7.07214	6.97866	7.19780	7.33920	7.15336	7.05066	7.02229
9	7.89696	7.82999	7.88631	7.82068	7.70343	7.97874	8.15725	7.92279	7.79371	7.75812
10	8.63582	8.55397	8.62279	8.54260	8.39961	8.73592	8.95502	8.66741	8.50968	8.46626
11	9.35024	9.25242	9.33466	9.23885	9.06834	9.47005	9.73301	9.38803	9.19956	9.14776
12	10.04104	9.92626	10.02274	9.91034	9.71070	10.18184	10.49171	10.08542	9.86429	9.80363
13	10.70899	10.57634	10.68783	10.55796	10.32772	10.87197	11.23160	10.76033	10.50480	10.43482
14	11.35485	11.20350	11.33070	11.18255	10.92041	11.54110	11.95315	11.41349	11.12197	11.04227
15	11.97936	11.80856	11.95209	11.78493	11.48972	12.18986	12.65681	12.04559	11.71664	11.62687
16	12.58321	12.39228	12.55271	12.36589	12.03658	12.81888	13.34303	12.65732	12.28965	12.18947
17	13.16710	12.95543	13.13326	12.92620	12.56188	13.42875	14.01223	13.24934	12.84177	12.73091
18	13.73168	13.49873	13.69442	13.46658	13.06645	14.02006	14.66484	13.82226	13.37377	13.25198
19	14.27758	14.02287	14.23682	13.98775	13.55113	14.59338	15.30128	14.37673	13.88638	13.75345
20	14.80544	14.52854	14.76110	14.49038	14.01669	15.14925	15.92193	14.91331	14.38031	14.23605
21	15.31584	15.01638	15.26786	14.97515	14.46389	15.68820	16.52720	15.43261	14.85624	14.70050
22	15.80936	15.48703	15.75769	15.44268	14.89345	16.21075	17.11746	15.93516	15.31482	15.14747
23	16.28656	15.94108	16.23115	15.89358	15.30607	16.71740	17.69309	16.42152	15.75669	15.57763
24	16.74797	16.37913	16.68879	16.32845	15.70242	17.20863	18.25445	16.89220	16.18246	15.99161
25	17.19414	16.80173	17.13113	16.74786	16.08314	17.68490	18.80189	17.34770	16.59272	16.39001
26	17.62554	17.20944	17.55870	17.15235	16.44884	18.14669	19.33576	17.78853	16.98802	16.77343
27	18.04268	17.60277	17.97198	17.54247	16.80012	18.59442	19.85639	18.21514	17.36891	17.14242
28	18.44603	17.98224	18.37145	17.91871	17.13754	19.02852	20.36411	18.62801	17.73593	17.49754
29	18.83604	18.34833	18.75757	18.28157	17.46166	19.44941	20.85925	19.02756	18.08956	17.83929
30	19.21315	18.70152	19.13079	18.63153	17.77299	19.85749	21.34211	19.41424	18.43031	18.16818
31	19.57779	19.04226	19.49153	18.96905	18.07205	20.25315	21.81301	19.78845	18.75865	18.48471
32	19.93037	19.37098	19.84023	19.29456	18.35931	20.63678	22.27222	20.15060	19.07501	18.78932
33	20.27129	19.68812	20.17727	19.60851	18.63524	21.00872	22.72006	20.50108	19.37985	19.08248
34	20.60094	19.99407	20.50305	19.91128	18.90029	21.36935	23.15679	20.84026	19.67358	19.36461
35	20.91968	20.28924	20.81794	20.20330	19.15489	21.71900	23.58269	21.16851	19.95660	19.63612
36	21.22789	20.57401	21.12231	20.48493	19.39944	22.05801	23.99803	21.48618	20.22931	19.89742
37	21.52590	20.84874	21.41651	20.75654	19.63436	22.38670	24.40308	21.79360	20.49208	20.14889
38	21.81406	21.11378	21.70088	21.01850	19.86000	22.70539	24.79809	22.09112	20.74528	20.39090
39	22.09269	21.36948	21.97575	21.27114	20.07675	23.01438	25.18330	22.37905	20.98924	20.62380
40	22.36211	21.61616	22.24144	21.51480	20.28495	23.31397	25.55896	22.65770	21.22432	20.84795

The term *equity* is used throughout this sub-section as a generic term to refer to the difference between assets and liabilities. Because of the difference in reporting the basic financial statements, the components of equity will vary at the government-wide and the fund statements, as discussed below.

Government-wide Statement

The *equity* reported in the government-wide statement is labeled as ***net position***. There are three components:

- Net investment in capital assets, - consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire those assets.
- Restricted net position - reported when constraints placed on net asset use are either:
    a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
    b. Imposed by law through constitutional provisions or *legally enforceable enabling legislation*.
- Unrestricted net position - consists of all net assets that do not meet the definition of the other components.

As defined in paragraph 3 of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation, legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups, or the judiciary – to use resources created by enabling legislation only for the purposes specified by the legislation. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

If resources are used for a purpose other than those stipulated in the enabling legislation or if there is other case for reconsideration, governments should reevaluate the legal enforceability of the restrictions to determine if the resources should continue to be reported as restricted. If reevaluation results in a determination that a particular restriction is no longer legally enforceable, then from the beginning of that period forward the resource should be reported as unrestricted. (GASB 46, Para. 5).

Attachment A to this subsection provides a mechanism for assessing the restriction of net position.

Fund Statements

Governmental Funds

Summary – Governmental Funds

The Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It does **not** impact the reporting of proprietary and fiduciary fund balances. The definitions of the general, special revenue, capital projects, debt service, and permanent fund types are also clarified by the statement.

Presentation of Fund Balance – Governmental Funds

Under the provisions of GASB 54, the governmental fund type fund balance classifications are:

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned (for General Fund only or for other fund types with negative fund balance)

The old governmental fund type fund balance classifications were Reserved, Unreserved Designated, and Unreserved Undesignated. <u>Those classifications are no longer used for GAAP reporting purposes</u>. Because those classifications are associated with budgetary concepts, however, they will be used in the Annual Fiscal Report (AFR).

As noted, GASB 54 classifies fund balance based on the level of constraints placed on the use of fund resources. While many revenue sources are available to the State, at times resources may be used only for a specific purpose. For example, federal revenues received into a fund would generally be a restricted *revenue source* because the federal government provides them on the condition they be used for a specific purpose.

GASB 54 defines specific criteria for the resources that can be reported in each possible fund balance classification. The relative strength of the constraints determines where the classification falls in the hierarchy. It is not expected or required that all funds report all possible fund balance classifications.

All governmental funds have a default fund balance that shall be used as the starting point for GAAP reporting.

Reporting of Fund Balance - Governmental Funds

- **General Fund** – for the General fund, appropriation type will be the key factor to consider when determining fund balance categories. Appropriations will fall into fund balance classifications (or "buckets") although a few exceptions may exist for certain appropriations, such as for the Unclaimed Property program for which there are clearly enforceable restrictions. Beginning fund balance by appropriation type plus revenue by appropriation type less expenditures by appropriation type will determine restricted, committed, assigned, and unassigned fund balance amounts reported in the GAAP financial statements.

  "Unassigned" fund balance is the default fund balance category for the General fund. Adjusting entries should be made to appropriately reclassify fund balance to other categories, as necessary.

  The following fund balance categories, based on appropriation types, are applicable to the General fund:

Appropriation Type	***Fund Balance Classification ("Bucket")***
CUST	Restricted
PR-Federal (PR-F)	Restricted
PR Gifts and Donations	Unassigned*
PR	Unassigned*
GPR	Unassigned
CLR	To Be Determined by Agency**

* Due to lapses from PR appropriations, including from appropriations containing "gifts and/or donation" in the appropriation description, PR appropriations will be categorized as unassigned because they are considered GPR-like in nature.

**Agencies must review the transactions in clearing appropriations and, based on the type of appropriation that transaction was coded to, treat them according to the classifications above. Inconsequential account balances need not be analyzed.

- **Special revenue funds, debt service funds and capital projects funds** - because of how Wisconsin's governmental funds are typically structured, SCO-FRS, in consultation with agencies, determined there was one primary fund balance category for all but two of these GAAP fund types. That is, *all* fund balance will be reported as either restricted or committed in those governmental funds.

  For the **Conservation (212) and Petroleum Inspection (272)** special revenue funds, however, it was determined that both restricted and committed fund balance may be reported because there are numerous revenue sources controlled by different constraints.

- Permanent funds will primarily report legally non-spendable fund balance and possibly some restricted fund balance.

For additional information, see **Attachment B** that provides a flowchart of fund balance determinations for the General Fund and nonspendable fund balance. **Attachment C** contains Default Fund Balance classifications to be reported in special revenue, debt service, capital projects and permanent funds per SCO-FRS analysis along with agency input.

Fund Balance Definitions – Governmental Funds

1. *Nonspendable Fund Balance*

The nonspendable fund balance classification includes amounts that cannot be spent because they are either:
- Not in spendable form, or
- Legally or contractually required to be maintained intact.

The "not in spendable form" criterion includes items not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned, then they should be included in the appropriate fund balance classification (restricted, committed or assigned), rather than in the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount legally or contractually required to be maintained intact.

For purposes of reporting net assets, GASB 34, paragraph 35, requires amounts "required to be retained in perpetuity" to be classified as "nonexpendable" within the restricted net asset category on the *government-wide* financial statements. For fund balance reporting purposes (on the governmental fund level statements), however, those amounts should be classified as nonspendable rather than restricted.

2. *Restricted Fund Balance*

Except for amounts required to be reported as nonspendable, amounts restricted to specific purposes (pursuant to the definition of restricted in paragraph 34 of GASB 34, as amended by GASB 46, *Net Assets Restricted by Enabling Legislation*) should be reported as restricted fund balance.

Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation, as the term is used in GASB 54, authorizes the State to assess, levy, charge or otherwise mandate 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. Legal enforceability means that the State can be compelled by an external party — such as citizens, public interest groups or the judiciary — to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation provision is determined by professional judgment. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. GASB interprets that a constraint in legislation is more likely to be enforceable if the creation of a revenue source *and* the restriction on its use both occur in the same piece of legislation. Therefore, to meet the criteria of enabling legislation, the same piece of legislation must have created the revenue source and the constraints on use of that new revenue source.

An exception to this rule is a constitutional amendment. If a constitutional amendment is passed that constrains a fund's revenue source, the fund balance of that fund will be reported as restricted even if the constitutional amendment is not the legislation that created the revenue source. This occurred with the constitutional amendment passed for the Transportation fund that became law in FY 2015. Such amendments are expected to be a rare occurrence.

3. *Committed Fund Balance*

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. For ACFR reporting purposes, the Wisconsin Legislature is the highest level of decision making authority while enactment of Wisconsin law is the formal action that must be taken. Committed amounts cannot be used for any other purpose unless the legislature removes or changes the specified use by taking the same type of action (new enacted legislation) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. For Wisconsin, the State legislature must approve an act and the governor, from the executive branch, signs the act into law.

Per GASB 54, committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. However, for commitments to exist, legislative action has to be taken. Generally, the Wisconsin legislature does not sign contracts or encumber funds. Therefore, committed amounts ordinarily will not be reported for contracts or encumbrances.

In contrast to fund balance restricted by enabling legislation, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process. The State legislature imposed constraints on the *use* of committed amounts separate from the authorization to raise the underlying revenue. That is, two separate legislative acts were involved. Therefore, compliance with constraints imposed by the State legislature that commit amounts to specific purposes is not considered to be legally enforceable (and enabling legislation does *not* exist.)

The formal action that commits fund balance to a specific purpose must occur prior to the end of the reporting period (before June 30th), but the amount, if any, which will be subject to the constraint may be determined in the subsequent period.

4. *Assigned Fund Balance*

Amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by:

- a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes, or
- the Wisconsin Legislature (they could assign fund balance but typically would not).

Both the committed and assigned fund balance classifications include amounts constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the state's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts classified as committed.

Assigned fund balance includes:

- All remaining amounts (except for negative balances) reported in governmental funds, other than the General fund, not classified as nonspendable and neither restricted nor committed; and
- Amounts in the General fund intended to be used for a specific purpose with less restriction than implied by the restricted or committed classification.

Under GASB 54, by reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund, the State has "assigned" those amounts to the purposes of the respective funds. However fund balance will generally be reported as either restricted or committed (unless it is nonspendable). Assigned fund balance will *not* be reported in those fund types.

Assignment within the General fund conveys that the intended use of those amounts is for a specific purpose narrower than the general purposes of the government itself. The action taken to assign fund balance can be done after fiscal year end. Assignments generally would occur via agency encumbrances that will ultimately be satisfied with *existing balances* that are *not* already restricted or committed. Assignments cannot cause the fund to report a negative (deficit) fund balance or increase an existing deficit balance.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance as long as it does not cause a negative (deficit) fund balance.

5. *Unassigned Fund Balance*

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

Below is a summary of the fund balance classifications applicable to governmental funds:

Fund Balance Classification	*Application for Wisconsin ACFR*
Nonspendable	• Corpus of Permanent Fund • Inventories and Prepaid Expenses • Long term loans and or other receivables must be reviewed. These may be classified as nonspendable, restricted, committed or assigned based on the restrictions on the usage of the loan repayments.

Restricted	• Resources are restricted for use by:
	  • enabling legislation
	  • Wisconsin Constitution
	  • federal or local governments
	  • debt covenants
	  • external parties
	• A restricted fund balance can never be negative.

Committed	• Resources are constrained for a specific use by State legislative action (established in Wisconsin statutory language) • Commitments of fund balance must be in place before the end of the fiscal year. • A committed fund balance can never be negative.
Assigned	• Resources are typically constrained for use by agency governing board, agency head, agency managers or staff. • Encumbrances in the General Fund that will be satisfied using existing resources that are not already reported as restricted or committed. • An assigned fund balance can never be negative. • Assignments can never cause the overall fund balance to be negative or increase an existing deficit.
Unassigned	• A positive balance is only reportable in the General Fund. • May be a negative (deficit) fund balance for the General Fund and other governmental fund types.

Encumbrances – Governmental Funds

Restricted, committed and assigned classifications of fund balance are distinguished by the extent to which purpose limitations have been established regarding the use of existing amounts. None of those classifications are based on a budgetary availability notion in the way encumbrances are. (That is, on a budgetary basis *future* revenues may be used to satisfy encumbrances.) Therefore, reporting encumbrances as a separate fund balance classification is incompatible with the focus on purpose limitations established in the restricted/committed/assigned fund balance hierarchy. Given the difference in focus, information about encumbrances will only be disclosed in the notes to the financial statements in conjunction with other commitments rather than displayed on the face of the financial statements.

Fund balance can be restricted, committed or assigned only if it exists. Under GASB 54, encumbrances of otherwise *unassigned* fund balance should be reported in the fund balance classification that equates to the process that the state uses in encumbering amounts. For Wisconsin, state agency employees have the authority to create encumbrances for their agencies. That level of authority is lower in the hierarchy resulting in assigned fund balance. (In contrast, *Legislative* actions determine whether fund balance is committed or restricted dependent on the action taken.)

The STAR ACTUALS ledger, used as a starting point for the ACFR, does not report encumbrances or reserve for encumbrances. Rather, encumbrances are reported in the Commitment Control ledger in STAR.

- **Encumbrances of Special Revenue and Capital Projects Funds**: If encumbrances exist in these fund types, constraints on use of fund balance will already be included in committed or restricted fund balance. (This is true because all fund balance will already be reported as committed, restricted or non-spendable.) Therefore, agencies should not make an entry to constrain fund balance for encumbrances. With the implementation of GASB 54, encumbrances have no impact on fund balance reporting for those funds. Note: Encumbrances are not reported in debt service and permanent funds.

- **Encumbrances of the General Fund**: Encumbrances in the General fund constrain the use of fund balance to a more narrow purpose than the General fund itself. Therefore, if encumbrances exist for the General fund and those encumbrances will be satisfied using existing fund balance that is *not* already restricted, committed, or assigned an entry should be made to report fund balance as assigned.

Negative Fund Balances – Governmental Funds

At times, negative fund balance may be reported in the state's governmental GAAP funds. A negative balance communicates that more resources were spent for a purpose than had been restricted, committed, or assigned to that purpose. Under GASB 54, negative fund balance cannot be reported for restricted, committed, or assigned categories. Further, the State cannot report an assignment to a specific purpose if the assignment would result in a deficit in unassigned fund balance or increase an existing deficit. The underlying theory is that constraints cannot be placed on nonexistent resources.

If resources have been overspent an adjustment must be made to reclassify the negative balance to unassigned. While categories of fund balance may be reclassified due to negative balances, total fund balance should not change.

Spending Policy – Governmental Funds

Under paragraph 18 of GASB 54, a government should determine the composition of its ending fund balance by applying its accounting policies whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, unassigned) amounts are available. The State Controller's Office is not establishing a spending policy under the provisions of GASB 54 for fund-level GAAP reporting purposes. Absent a policy for its use of unrestricted fund balance amounts, GASB 54 requires committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Because Wisconsin uses specific identification to determine which funds are actually spent, the flow policy is, in effect, not applicable for ACFR purposes.

As required by GASB 34, implemented in FY 2002, the State of Wisconsin established a spending order policy for the government-wide statements. When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed. Thus, at the fund level, when both restricted and unrestricted amounts are available, restricted would be spent first, then committed, assigned, and unassigned.

Responsibility for Making Entries related to Fund Balance Categories

General Fund – SCO-FRS will make entries to appropriately report fund balance based on revenues and expenditures reported in the STAR ACTUALS ledger for the current fiscal year. An adjustment will also be made by SCO-FRS to report nonspendable fund balance for prepaid amounts reported on STAR. In addition, SCO-FRS will make entries to reclassify fund balance from unassigned to restricted or other categories in relation to ACFR accrual entries they make.

Because inventory is a GAAP reporting concept (i.e. at a budgetary level, when inventory items are purchased, they need to be reported as expenditures/outflows of resources), inventory is not reported in the ACTUALS ledger in STAR. As such, SCO-FRS will not need to make an entry to report nonspendable fund balance for inventory amounts reported on STAR.

Agency GAAP accountants should make an entry to reclassify fund balance related to ACFR accrual entries they make. In addition, agency GAAP accountants should make an entry to report fund balance as nonspendable for long term receivables that are not restricted and for additional prepaid or inventory assets established through an ACFR entry that are not offset by a related liability.

Conservation and Petroleum Inspection Funds – GAAP accountants should review current year activity to determine the appropriate amount of fund balance to report in restricted and committed categories. An entry should also be made to report nonspendable fund balance for additional prepaid or inventory assets established.

Special Revenue, Capital Projects and Debt Service Funds – GAAP accountants should report all fund balance in the predetermined default fund balance category. Reclassification entries will generally not be required because only one category of fund balance will be reported. An entry should be made to report nonspendable fund balance for additional prepaid or inventory assets established.

<u>Proprietary Funds</u>

The *equity* reported in the proprietary funds' statement of net position is reported as net position**.** Similar to the government-wide statements, fund net position of proprietary funds is displayed in the following components:

- Net Investment in Capital Assets
- Restricted for __________ (e.g., Restricted for Debt Services)
- Unrestricted
-

Note Disclosure

Enabling Legislation - the amount of the primary government's net position at the end of the year that is restricted by enabling legislation will be disclosed in the notes to the financial statements in accordance with GASB Statement No 46.

Encumbrances – Paragraph 24 of GASB 54 states, in part, ". . . significant encumbrances should be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other commitments." Consistent with the provisions of Paragraph 24, the SCO-FRS will obtain the applicable encumbrance information and make the required disclosures in a note disclosure. Agencies are not required to report encumbrances to the SCO-FRS. Rather that information will be obtained from the STAR Commitment Control ledger and used to create the encumbrances disclosure.

Attachment A

Restricted Net Assets/Position* Determination (GASB 34, para. 34 and 35), as amended by GASB 46

Externally Imposed Restrictions

GASB 34, Para. 34 a, "Externally imposed by creditors (such as through debt, covenants, grantors, contributors, or laws or regulations of other

Start

Review of resources creating net assets

Do contracts or indentures (e.g., bond covenants) restrict these resources? — **YES** → Report related restricted net assets

Example -- Bond proceeds from Transportation Revenue Bonds are to be used specifically for transportation purposes. Therefore, net assets of the Transportation Capital Projects Fund will be restricted.

NO

Do grants or aids (e.g., federal grants) carry restrictions on these resources? — **YES** → Report related restricted net assets

Note – Federal grants received by the State are "expenditure-driven" reimbursement grants. Therefore, resources received prior to expenditures being incurred are reported as unearned revenues. Restricted net assets will be $0 because the assets will be offset by a liability of the same amount.

NO

Are there restrictions on these resources associated with donations or gifts from individuals or organizations? — **YES** → Report related restricted net assets

Example – Donations and gifts received from individuals or organizations that are restricted for specified purposes (e.g., donations received by the Historical Society Fund) will be reported as restricted net assets.

NO

Are there any court orders (e.g., based on litigation) that restrict net assets arising from these resources? — **YES** → Report related restricted net assets

No court orders restricting net assets have been identified.

NO

Internally Imposed Restrictions

GASB 34, Para. 34 b: "Imposed by law through constitutional provisions or enabling legislation. *"

Do provisions of the State's Constitution create any funds and/or restrict these resources? — **YES** → Report related restricted net assets

The State Constitution restricts revenues generated from federal land grants, which results in the following permanent funds reporting restricted net assets:

- Common School Fund (and related income from this fund)
- Normal School Fund
- Agricultural College Fund
- University Fund

Note: These federal land grant resources may also have been brought in as "restricted net assets" under the grants and aids decision item, shown above.

NO

Reminder: To restrict, the net assets must result from **<u>externa</u>**l resource providers.

Based on a review of enabling legislation** (as defined by GASB), do the State statutes restrict these resources? — **YES** → Do not report restricted net assets for related resources.

Based on a review of State Statutes, enabling legislation does restrict certain resources.

Do any court cases prohibit the legislature from restricting specific resources? — **YES** → Do not report restricted net assets for related resources.

The State Supreme Court Case Flynn versus the Department of Administration (1998) ruled that because "one legislature may not bind future legislatures", resources (e.g., fees) collected to fund a certain activity may be reallocated by legislation action. However, GASB 46, Basis for Conclusions, Para. 19 states: "Even in circumstances in which a constitutional or charter provisions or judicial decision state that one legislature cannot bind a subsequent legislature, the Board believes that one should not necessarily conclude that enabling legislation can not be the source of restrictions."

NO

Based on past or current action, has legislature diverted resources previously considered restricted? — **YES** → Do not report restricted net assets for related resources.

Based on historical and recent actions, the legislature has diverted resources that may have previously been considered restricted. SCO-FRS has analyzed and identified those GAAP funds whose resources have been diverted.

NO

Report related restricted net assets

*GASB 63 renamed the equity terminology of GASB 34 and 46 from "Net Assets" to "Net Position". To maintain consistency with references to GASB 34 and 46, we will continue to refer to equity as net assets in this flowchart rather than net position as required by GASB 63. The ACFR will use the correct "Net Position" terminology.

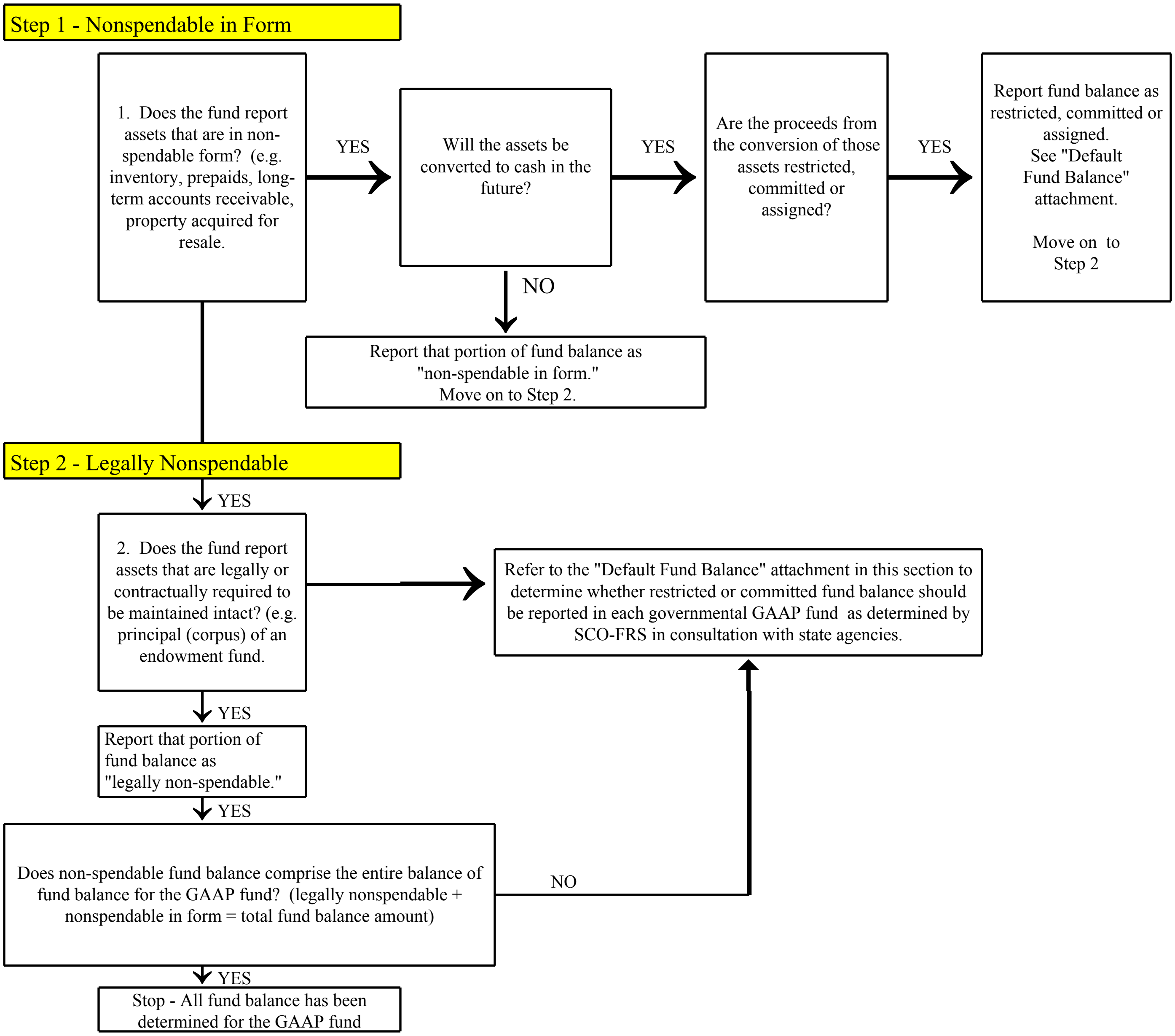
**Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. See policy section for discussion of legal enforceability

Attachment B -1

Nonspendable Fund Balance - Governmental Funds

Determining the two types of non-spendable fund balance should be done prior to determining restricted and committed components of fund balance. Perform the steps noted in this flowchart then move on to determining other fund balance categories. For permanent funds, the entire fund balance may be non-spendable. In that case, no further analysis of fund balance may be required after non-spendable is determined.

Most governmental funds will report only one other fund balance category, either restricted or committed, beyond nonspendable fund balance. Thus, no additional analysis is required once the nonspendable portion has been determined. The "Default Fund Balance" attachment contains information on reporting fund balance for each governmental GAAP fund. However, the General Fund as well as Transportation, Conservation, and Petroleum Inspection special revenue funds may report nonspendable as well as restricted or committed.



Key Points:

Nonspendable in Form: Assets categorized as non-spendable in form might include inventory, prepaids, the long-term portion of accounts receivable or notes receivable, and property acquired for resale. However, long-term receivables or property acquired for resale will ultimately be converted to cash. The categorization of fund balance, then, depends on what restrictions exist for the cash eventually received. If no restrictions exist on the cash to be received, fund balance is non-spendable in form. If there are limitations on how the cash may be spent, then fund balance should be reported as restricted, committed or assigned, as applicable.

Nonspendable Fund Balance for Long Term Receivables or Property Acquired for Resale: Special revenue funds should not report non-spendable fund balance that relates to long-term receivables or property held for resale. Rather, it would be reported as restricted, committed, or assigned because, by default, proceeds of those assets have to be restricted, committed, or assigned because they are reported in a special revenue fund.

Legally Nonspendable: Assets that must contractually or legally be maintained intact, such as the principal of an endowment fund, are legally nonspendable. Other legally nonspendable assets, beyond the typical cash or investment balances, might include items such as loans receivable. The proceeds on the repayment of loans may be re-loaned but the asset, in whatever form it exists in, must be maintained intact.

Fund Balance Determinations for the General Fund

Background: A "bucket approach," based on type of appropriation, has been established for the General Fund and is critical in determining fund balance categories. That is, certain appropriation types will fall into certain fund balance categories or buckets. This chart illustrates how those categories are determined.

From an agency perspective, fund balance for the General Fund will be reported only in Nonspendable, Restricted and Unassigned categories. This greatly simplifies the work agencies need to do because once the nonspendable portion has been determined, only accrued activity occurring in restricted appropriations need be analyzed by agencies.

The trial balance worksheets will classify all fund balance as unassigned except for inventory and prepaid assets which will be classified as non-spendable in form. SCO-FRS will make an entry to report restricted fund balance for all General Fund activity reported in the ACTUALS ledger in restricted appropriations for the current fiscal year and to report beginning equity balances for restricted appropriations. SCO-FRS will also make entries to reclassify fund balance for accrual entries made centrally. Agencies should make entries, as necessary, to reclassify fund balance from unassigned to restricted in relation to off-system accrual entries they make. Additional information is available in the Procedures portion of Section V-16 Equity.

Start here and work your way through each decision rectangle:

Decision	Answer	Action	Who does the entry to reclassify fund balance?
Does the agency receive federal or other governmental grants, private grants, gifts or donations?	YES	Report Fund Balance in those appropriations as "Restricted." **(1)**	
NO ↓ Are balances reported in CUST type appropriations?	YES	Report Fund Balance in those appropriations as "Restricted." **(1)**	
NO ↓ Have constraints on appropriation resources been externally imposed by creditors, laws and regulations, contract, or by the Wisconsin Constitution?	YES	Report Fund Balance in those appropriations as "Restricted." **(1)**	SCO-FRS for current year ACTUALS Ledger activity, beginning equity balances & accruals made centrally Agency GAAP accountants for current year accrual entries
NO ↓ Does the agency report PR appropriations in the General Fund? **(2)**	YES	Report fund balance of PR appropriations as "Unassigned". **Note**: Does not include PR-F which are restricted" **(3)**	SCO-FRS will include PR appns in the Unassigned Category
NO ↓ Are balances reported in CLR type appropriations? (4)	YES	If significant, determine the nature of the balances and report in the applicable fund balance category (i.e. reclassify to restricted for PR-F or CUST appropriations).	Agency GAAP accountants
NO ↓ Is a negative amount (debit balance) reported in restricted or committed fund balance for an individual function? **(5)**	YES	Reclassify the negative fund balance to "Unassigned" for the function reporting the negative balance.	SCO-FRS
NO ↓ Is there a credit balance reported in the "Assigned" fund balance category?	YES	Reclassify "Assigned" fund balance category to "Unassigned" due to General Fund deficit. **(6)**	SCO-FRS
NO ↓ END			

Examples of Restrictions

Federal grants (PR-F appns)

Private/other government grants (certain PR appns)

DOC"'s restitution account

REFERENCE INFORMATION- GENERAL FUND

Appropriation Type	Fund Balance Category
PRF	Restricted
CUST	Restricted
PRS	Unassigned
PRO	Unassigned
PR	Unassigned
PR- gifts & donations	Unassigned
GPR	Unassigned
CLR	Agency Determined

Appropriation Type	Ch. 20 Alpha Appn
GPR	(a) to (z)
PR	(g) to (jz) & (l) to (pz)
PRS	(k) to (kz)
SEG	(q) to (zz)

Key Points:

1	Restricted fund balance: Could an external party or citizen take legal action to force resources to be used in a certain way? If the answer is yes, you have a restriction.
2	When referring to PR appr. in this document, we are excluding PR-F appropriations or other PR appropriations that are generally considered to be restricted.
3	Per Ch. 20 of Wis. statutes, program revenues (PR) consist of revenues which are paid in to the General Fund and are credited to an appropriation to finance a specified program or agency. Therefore, fund balance in PR appropriations within the General Fund, except for federal appropriations, could be considered committed under GASB 54. However, because of the lapses that have been made from PR appropriations, fund balance is downgraded to "Unassigned" because they are considered GPR-like in nature. A few exceptions to this rule may apply if there are strong legal constraints that limit how PR funds may be used. For example, the Unclaimed Property program consists of PR appropriations constrained by constitutional restrictions and case law. Therefore, Unclaimed Property fund balance is "restricted". SCO-FRS analyzed whether lapses had been made from PR appropriations described as "gifts and/or donations". It was found lapses had also been made from the larger appropriations containing those words in the description. As a result, PR appropriations described as gifts and/or donations will be reported as unassigned because that bucket best represents the majority of fund balance for those appropriations.
4	Agencies will need to determine what comprises CLR appropriation balances, if significant in amount, and reclassify fund balance to the applicable category.
5	Negative balances (debit balances) may not be shown for restricted, committed, or assigned fund balance. If that occurs, an entry should be made to report the negative fund balance category amount as $0 while making a corresponding adjustment to "Unassigned".
6	Under paragraph 15 of GASB 54, governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance or if it would increase an existing unassigned deficit balance. If the General Fund has a deficit (reported as unassigned), "Assigned" fund balance should be reduced to zero and a correlating adjustment made to "Unassigned".
OTHER	Encumbrances cannot further constrain restricted, committed or assigned fund balance. Fund balance in federal appropriations would already be fully restricted, therefore, no entry is required for encumbrances to be satisfied with any PR-F resources. If encumbrances are to be satisfied with existing fund balance for GPR appropriations in the General Fund, fund balance is "assigned." When the General Fund has a positive unassigned fund balance, an entry to reclassify encumbrances for GPR appropriations to assigned fund balance should be made.
	Constraints do not generally exist for GPR appropriations, therefore, fund balance is reported as unassigned. Unassigned is the "default" fund balance category for the General Fund.
	Materiality and cost/benefit may be considered when reclassifying fund balance. Because most fund balance will fall into either restricted or unassigned buckets, once a certain level of comfort has been obtained with the accuracy of the amount reported as restricted, additional reclassifications may not be necessary.

Fund Balance Buckets

Commonly Used Appropriation Based Buckets			Used on an Exception Basis *(contact FRS for guidance)*	Account Based Bucket
Restricted Bucket PR-F appns Other grant appns Unclaimed Property appns	**Assigned Bucket**	**Unassigned Bucket** GPR appns PR appns that are not restricted PR appns for gifts/ donations	**Committed Bucket** Budget Stabilization appns	**Nonspendable Bucket** Prepaids and inventory Long term receivables Corpus of endowment funds Related-corpus accounts

Governmental Funds – Default Fund Balance Classification   Attachment C

GAAP Fund Number	Agency	Fund Name	Type of Constraint	Default Fund Balance Classification
Special Revenue Funds:				
211	DOT	Transportation	Restricted by Wisconsin Constitution and by external parties	Restricted
212	DNR	Conservation	Restricted by Wisconsin Constitution, external parties, and enabling legislation Wisconsin Statutes	Restricted (default) Committed
213	DNR	Heritage State Parks & Forests	Enabling Legislation	Restricted
214	DWD	Unemployment Interest Payment	Wisconsin Statutes	Committed
217	DNR	Waste Management	Enabling Legislation	Restricted
219	DOR	Investment and Local Impact	Enabling Legislation	Restricted
220	GAB	Election Administration	Restricted by external parties	Restricted
222	DOA SCO/FRS	Industrial Bldg. Const. Loan	Enabling Legislation	Restricted
223	DCF	Children's Trust	Restricted by external parties	Restricted
224	DWD	Self-insured Employers Liability	Enabling Legislation	Restricted.
226	DWD	Work Injury Suppl Benefit	Wisconsin Statutes	Committed
227	DWD	Workers Compensation	Enabling Legislation	Committed
229	DWD	Uninsured Employers	Enabling Legislation	Restricted
235	DOA	Utility Public Benefits	Enabling Legislation	Committed
238	Supr Court	Mediation	Enabling Legislation	Committed
239	PSC	Police & Fire Protection	Enabling Legislation	Restricted
241	DATCP	Working Lands	Externally Restricted and Enabling Legislation	Committed – Due to ability of the State to redeploy restricted amounts to the general fund.
242	DHS	Ambulance Serv Provider Trust	Wisconsin Statutes	Restricted
248	WED	Economic Development	Wisconsin Statutes	Committed
250	DOA	State Capitol Restoration	Enabling Legislation	Restricted
251	DMA	Military Family Relief	Enabling Legislation	Restricted
252	DSPS	Wholesale Drug Dist. Bonding	Enabling Legislation	Restricted
255	PSC	Universal Service	Enabling Legislation	Committed - Due to ability of the State to redeploy restricted amounts to the general fund.
257	DATCP	Agric Chemical Clean up	Enabling Legislation	Committed
259	DATCP	Agrichemical Management	Enabling Legislation	Committed
261	DATCP	Agricultural Producer Security	Wisconsin Statutes	Committed
264	HIST SOC	Historic Legacy Trust	Enabling Legislation	Restricted
266	HIST SOC	History Pres. Part. Trust	Enabling Legislation External Restrictions may exist.	Committed – Due to ability of the State to redeploy restricted amounts to the general fund (default). Restricted
268	PSC	Wireless 911	Enabling Legislation	Restricted
269	DOAS	Land Information	Enabling Legislation	Committed
272	DNR	Petroleum Inspection	Wisconsin Statutes Restricted by Offering Statement or Memorandum	Committed – Portion of fund balance associated with petroleum inspection fee revenues (default) Restricted – Portion of fund balance associated with bonds/notes.

Governmental Funds – Default Fund Balance Classification   Attachment C

Special Revenue Funds (continued):

GAAP Fund Number	Agency	Fund Name	Type of Constraint	Default Fund Balance Classification
274	DNR	Environmental	Enabling Legislation	Committed
277	DNR	Dry Cleaner Env. Resp.	Enabling Legislation	Restricted
278	ECB	WI Public Broadcast Found.	Restricted by external parties	Restricted and Nonspendable
279	DNR	Recycling & Renew Energy	Enabling Legislation	Committed
		Debt Service Funds:		
310	DNR	Petroleum Inspection Revenue Bonds	Externally restricted (Official Statement or Offering Memorandum").	Restricted
311	DOT	Transportation Rev Bonds	Restricted by Offering Stmt	Restricted
312	DOA Cap Fin	Annual Appropriation Bonds	Restricted by Offering Stmt	Restricted
313	DOA SCO/FRS	2009 Annual Appropriation Bonds	Restricted by Offering Stmt	Restricted
315	DOA Cap Acctg	Bond Security & Redemption Fund	Wisconsin Constitution and external parties	Restricted
		Capital Projects:		
360	DOA Cap Acctg	Building Trust	Wisconsin Statutes	Committed
363	DOA Cap Acctg	Capital Improvement Fund	Wisconsin Constitution	Restricted
365	DOT	Transportation Revenue Bonds	Restricted by Offering Stmt	Restricted
		Permanent Funds:		
374 Also 375	BCPL	Common School Common School Income	Wisconsin Constitution	Non-spendable – corpus portion; Restricted – portion not related to corpus
381	BCPL	Agricultural College	Externally imposed by the federal Morrill Act of 1862	Non-spendable
383	BCPL	Normal School	Wisconsin Constitution	Non-spendable – corpus portion; Restricted – portion not related to corpus
385	BCPL	University	Wisconsin Constitution	Non-spendable – corpus portion; Restricted – portion not related to corpus
387	HIST SOC	Historical Society	Wisconsin statutes	Non-spendable – corpus portion; Restricted – portion not related to corpus
389	DOC	Benevolent	Wisconsin statutes	Non-spendable – corpus portion; Restricted – portion not related to corpus

Government-wide Statements

Net position in the government-wide Statement of Net Position will be displayed in one of the three components:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

For ***governmental*** activities, the State Controller's Office-Financial Reporting Section (SCO-FRS) will prepare actual adjusting entries to reclassify "net position" based on information obtained from various sources, as discussed below. For ***business-type*** activities, the three components reported by agencies on enterprise fund statements will "roll-up" to similar classifications on the government-wide statement.

Governmental Activities

- ***Net Investment in Capital Assets***

For most governmental activities, the SCO-FRS will prepare an entry to restrict net position for capital assets, net of related debt. Much of the information for this entry will be obtained from note disclosure forms submitted by agencies. In addition, the Capital Accounting Section will provide a major component of the calculation. Below is an illustration of the calculation and entry made by SCO-FRS. Agencies reporting revenue bonds (e.g., DOT) will prepare a "net investment in capital assets" entry independent of this calculation and include it in their government-wide working papers.

Debit:	Net Position – Unrestricted	xxx *	
Credit:	Net Position – Net Investment in Capital Assets		xxx
	<Report restricted net position relating to capital assets.>		

* Calculation of "Net Position – Net Investment in Capital Assets":

Net Investment in Capital Assets Calculation:

All capital assets of the reporting unit (both tangible and intangible)	XXX	From capital assets note disclosure
Less: Accumulated depreciation/amortization on those assets	XXX	From capital assets note disclosure
Net carrying value of capital assets (may be entered directly instead of entering above)	XXX	
Less:		
• Outstanding principal of capital debt and other capital borrowings (a) of the reporting unit (only that pertaining to the reporting unit's own capital assets), limited to the portion of the debt of which proceeds were expended for capital purposes (b) and excluding unspent proceeds ("capital-related debt")	XXX	From Capital Accounting Section
• Outstanding principal balance of any other capital-related liabilities as of fiscal year end, such as accounts payable, leases, SBITAs, installment purchases and retainage payable for capital purposes	XXX	From Capital Accounting Section
• Unamortized balance of original issue premiums on outstanding capital-related debt,including outstanding capital refunding debt	XXX	From Capital Accounting Section
• Unamortized balance of capital-related deferred inflows of resources, such as from "gains" on a refunding of capital-related debt and capital refunding debt, or those arising from the acquisition of a capital asset through a conduit debt associated arrangement or through a service concession arrangement or other public-private or public-public partnership	XXX	From Capital Accounting Section
Plus:		
• Unamortized balance of original issue discounts on outstanding capital debt	XXX	From Capital Accounting Section
• Unamortized balance of capital-related deferred outflows of resources, such as from "losses" on refunding of outstanding capital debt	XXX	From Capital Accounting Section
Equals: Net investment in capital assets of the reporting unit	XXX	

Explanations (not definitions)

Notes

a	Capital debt and other capital	These include General Obligation Bonds and Notes, Revenue Bonds and Certificates of Participation.
b	Capital purposes	Construction, development, acquisition or improvement of capital assets of the reporting unit

- ***Restricted Net Position***

The SCO-FRS will prepare an entry to restrict net assets following GASB 34 criteria. Information for the entry will be based on legislation, use of fund resources, and purpose of activity. The SCO-FRS will contact certain agencies, when necessary, for information regarding specific funds and/or appropriations. Unless contacted, agencies do not have to provide GAAP conversion information for restricted net assets reported for governmental activities.

The entry made by SCO-FRS to reclassify restricted net assets is as follows:

Debit:	Net Position – Unrestricted	xxx
Credit:	Net Position – Restricted for _______ (i.e., Transportation Programs)	xxx
	<Report restricted net position.>	

- ***Unrestricted Net Position***

"Unrestricted Net Position" consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt" and, therefore, represents the residual component of net position.

- ***Internal Service Funds Reported as Governmental Activities.***

The components of net position for *internal service* fund activities reported as governmental activities on the statement of net position will parallel the components of fund net position reported by the individual internal services funds. SCO-FRS will prepare the adjusting entry to reclassify net position, accordingly.

Business-type Activities

The three components of net position for business-type activities reported on the statement of net position will parallel the components of net position reported by individual enterprise funds. Since the financial statements for the business-type activities roll-up directly from the enterprise fund financial statements, neither agencies nor SCO-FRS need make additional adjustments.

Fund Statements

Governmental Funds

GASB Statement 54 designates the following fund balance classifications be used for governmental funds:

- Fund balance – Nonspendable
- Fund balance – Restricted
- Fund balance – Committed
- Fund balance – Assigned
- Fund balance – Unassigned

Because the STAR ACTUALS ledger activity is used as a starting point for the ACFR but is budgetary-based, a series of reclassification entries must be made for GAAP reporting. When SCO-FRS develops the trial balance worksheets for each GAAP fund, entries will be included to reclassify budgetary-based accounts such as fund balance – undesignated to GAAP-based fund balance accounts such as nonspendable, restricted, committed, and unassigned. The first step will be to establish the nonspendable portion of fund balance. After that is completed, an entry will be made to report remaining fund balance in the default category established for the fund.

Special Revenue, Debt Service and Capital Projects Funds

After the nonspendable portion of fund balance is determined, remaining fund balance of most special revenue, debt service and capital projects funds will be reported as either restricted or committed dependent upon the default fund balance category assigned to that GAAP fund. The default category has been determined by SCO-FRS, in conjunction with the agencies, and is based on the level of constraint placed on GAAP fund resources. Fund balance for permanent funds will be primarily reported as nonspendable. The use of a default fund balance category eliminates most of the need to analyze detailed financial activity to determine adjusting entries for fund balance. Attachment C of the policy section of V-16 "Equity" provides a list of default fund balance categories by GAAP fund for governmental funds.

Because they have significant different revenue sources with varying levels of constraints, fund balance for the Conservation and Petroleum Inspection special revenue funds will be split between restricted and committed. Analysis of activity by appropriation type or other accounting code will be required by GAAP accountants for those funds in order to determine restricted and committed portions of fund balance.

General Fund

The complexity of the General Fund requires a different approach than other governmental funds. Fund balance categories for the General Fund will be determined based on appropriation type. That is, activity reported in certain appropriations will be reported in a specific fund balance category. For example, activity of program revenue-federal (PR-F) appropriations will be reported in the restricted fund balance category. Most of fund balance for the General fund will be reported in nonspendable, restricted and unassigned categories. Unassigned is the default fund balance category for the General fund. Any activity that should not be reported in the unassigned will require a reclassification entry be made.

Fund balance is determined for GAAP reporting purposes by combining STAR fund balance and current year financial activity in the STAR ACTUALS ledger with ACFR accrual entries. SCO-FRS staff will be responsible for determining the General Fund entry needed to report restricted fund balance based on activity reported in STAR in restricted appropriations for the fiscal year plus fund balance (equity accounts) reported in restricted appropriations. The entry made will account for all General Fund revenues and expenditures coded to restricted appropriations for the fiscal year. Thus, agencies will not have to make an entry to reclassify fund balance from unassigned to restricted in relation to activity reported in STAR in restricted appropriations for the year. In addition, SCO-FRS will reclassify fund balance, if necessary, for accrual entries they make centrally.

Agency GAAP accountants will be responsible for determining the entry necessary to reclassify fund balance from unassigned to restricted in relation to accrual entries they make for the General Fund. That is, agency accountants will need to know what appropriation the accrued revenue or expenditure transactions were (or will be) coded to when processed.

Materiality

A cost/benefit approach should be taken when determining fund balance reclassification entries. For example, if the composition of restricted fund balance is easily determined, an entry can be made. If unreasonable efforts are required, estimates or other strategies should be employed to ensure a positive benefit is achieved while considering the General Fund equity balance. Similar to other accounts, entries need not be made for immaterial amounts. GAAP accountants with questions should contact staff in the Financial Reporting Section in the State Controller’s Office for assistance.

Entries to Fund Balance for Governmental Funds

- Fund Balance - Nonspendable

The trial balances received by agencies for their GAAP funds will report fund balances as nonspendable for amounts already recorded in STAR to prepaid accounts. Agency accountants will have to prepare an adjusting entry to report fund balance as nonspendable for additional prepaid items and inventories reported for ACFR purposes. Agencies should also reclassify unassigned fund balance to nonspendable to report long-term loans receivable and advances unless these receivables should be reported based consistent on use of the resources. That is, if the proceeds of the loan or advance are restricted or committed, they should be reported in those fund balance categories.

a. Nonspendable Fund Balance Inventories

In the STAR ACTUALS ledgers, which is budgetary based, materials and supplies acquired by state agencies are accounted for using the purchases method. That is, they are recorded as expenditures when purchased. However, for financial reporting purposes, significant amounts of inventory should be accounted for and reported in the balance sheet as an inventory asset. Agencies should prepare the following entry to report inventories and to report the portion fund balance that is nonspendable:

Debit:	Inventories	xxx	
Credit:	Fund Balance – Nonspendable for Inventories		xxx

<To report fund balance as nonspendable for inventories on hand at 6/30/.>

This entry, along with procedures to report inventories, is also explained in Section V - 3 “Inventories.”

b. Nonspendable Fund Balance Prepaid Items

Similar to inventories, a portion of the fund balance should be reported as nonspendable for additional prepayments as follows (and as explained in Section V-4 "Prepaid Items"):

Debit:	Fund Balance – Unassigned	xxx	
Credit:	Fund Balance – Nonspendable for Prepaid Items		xxx
<To report fund balance as nonspendable for prepayments at 6/30/__.>			

c. Other Nonspendable (e.g., for advances to other funds or long-term receivables)

Agencies may have to report fund balance nonspendable for other items (e.g., advances to other funds or long-term receivables) to indicate the portion of the fund balance that is nonspendable. If proceeds from the receivables or advances are restricted or committed, fund balance should instead be reported in those fund balance categories. This is further explained in Section V-5 "Receivables". Agencies should prepare the following entry to reflect nonspendable amounts:

Debit:	Fund Balances – Unassigned	xxx	
Credit:	Fund Balance – Nonspendable _____________		xxx
<To report fund balance for advances, long-term loans, etc. at 6/30/__.>			

- **Fund Balance – Restricted**

Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws and regulations of another government; or
- Imposed by law through constitutional provisions or enabling legislation.

Many special revenue, debt service and capital projects funds may report restricted fund balance. However, since it is the default (and only) fund balance category beyond nonspendable, entries to reclassify fund balance are not necessary for those funds.

Program revenue-federal (PR-F) appropriations, which report federal grant activity, will comprise the majority of restricted activity in the General Fund. A few program revenue (PR) appropriations, such as for Unclaimed Property, are also considered restricted for the General Fund.

The Conservation and Petroleum Inspection funds will report restricted fund balance – see information below for those funds.

a. *SCO-FRS General Fund entry to report STAR ACTUALS ledger restricted activity for the fiscal year and STAR beginning fund balance reported in restricted appropriations*

SCO FRS will make the following entry to report STAR activity in restricted appropriations of the General Fund as reported on STAR for the current fiscal year:

Debit:	Fund Balances – Unassigned	xxx	
Credit:	Fund Balance – Restricted*		xxx
<SCO-FRS entry to reclassify fund balance for activity reported on STAR in restricted appropriations of the General Fund for the fiscal year..>			

* Fund Balance – Restricted will be credited to reflect restricted revenues reported or debited to reflect restricted expenditures reported.

b. *Agency General Fund entry to report the restricted portion of accrual entries*

Agency GAAP accountants should prepare an entry to reclassify the portion of fund balance that is restricted due to accrual entries made that were (or will be) coded to restricted appropriations when processed. Additional information is also available in Section V-5 “Receivables” and V-8 “Payables”.

The entry to be made by agencies is as follows:

Debit:	Fund Balance – Unassigned	xxx	
Credit:	Fund Balance – Restricted*		xxx
<To reclassify fund balance as restricted for the portion of accrual entries coded to restricted appropriations. >			

* Fund Balance – Restricted should be credited for accrued restricted revenues to reflect an increase in restricted fund balance. Fund Balance – Restricted should be debited for accrued restricted expenditures to reflect a decrease in restricted fund balance.

- **Fund Balance – Committed**

Fund balance should be reported as committed for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. For ACFR reporting purposes, the Wisconsin Legislature is the highest level of decision making authority while enactment of Wisconsin law is the formal action that must be taken.

A number of special revenue and capital projects funds may report committed fund balance. However, since it is the default (and only) fund balance category beyond nonspendable for those funds, entries to reclassify fund balance are not necessary. Committed fund balance will be reported in the General Fund only in limited circumstances. Because of the limited circumstances in which Fund Balance – Committed will be reported for most funds, entries are not presented here.

If agencies feel an entry needs to be made to reclassify fund balance to committed, they should contact staff in the SCO-FRS.

The Conservation and Petroleum Inspection funds will report committed fund balance – see information below for those funds.

- **Fund Balance – Assigned**

Amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance.

It is not expected that any governmental funds will be reporting assigned fund balance. This is because all governmental funds, other than the General Fund, are reporting fund balance only in the restricted, committed and nonspendable categories by design. In the case of the General Fund, assigned fund balance is reported for encumbrances only when and to the extent the unassigned fund balance in the General Fund is positive. SCO-FRS will make the related entries necessary for any reclassification required.

- **Fund Balance – Unassigned**

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been restricted or committed to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted or committed to those purposes, it would be necessary to report a negative unassigned fund balance.

Unassigned fund balance is the default category for the General Fund. The trial balance worksheets provided to General Fund agencies, will illustrate the entry that will be made by SCO-FRS centrally to establish the unassigned portion of fund balance for the General Fund.

- **Entries to Fund Balance for Conservation and Petroleum Inspection Funds**

As noted earlier, most governmental funds will only report one category of fund balance beyond nonspendable. However, the Conservation and Petroleum Inspection funds will need to report fund balance in restricted and committed categories. When SCO-FRS establishes the trial balance for these three GAAP funds, all fund balance reported on STAR (that is not nonspendable) will be reported in the default fund balance category for the fund. The default fund balance for the Conservation fund is restricted. The default for the Petroleum Inspection funds is committed.

Accountants for those funds will need to make entries to reclassify a portion of fund balance to the "non-default" category (either committed or restricted, as applicable) so that fund balance is appropriately reported. An entry will also need to be made to reclassify activity reported on STAR for the current year. In addition, an entry will need to be made in relation to accrual entries made [See Section V-5 "Receivables" and Section V-8 "Payables].

Because the reclassification fund balance entries will vary for these funds, the entry presented below is non-specific:

Debit: Fund Balance –_______________ (identify)		xxx	
Credit:	Fund Balance – _______________ (identify)		xxx
<Entry to reclassify fund balance from the default fund balance established on the trial balance worksheet to appropriately reflect current year financial activity or accrual entries.>			

The Notes to the Financial Statements in the ACFR need to separately identify the portion of Restricted Fund balance that is restricted by enabling legislation, as opposed to restricted by the Constitution and external parties. Because the Conservation Fund has restrictions of all these types, the DNR GAAP accountant will provide SCO-FRS the amount of total restricted fund balances that is restricted by enabling legislation.

Accountants should contact staff in the SCO-FRS for assistance as necessary.

- **Deficit Fund Balance**

Unassigned fund balance is the residual classification for the General Fund and would typically be the only fund reporting a balance in that category. However, in a few cases other governmental funds report a deficit balance. In those cases, unassigned fund balance should be reported. In no case, should restricted, committed or assigned fund balance be reported with a negative balance.

General Fund: When making entries to the General Fund for Fund Balance – Restricted account, General Fund GAAP accountants may find that their agency has an overall deficit balance in the restricted account. However, an entry should *not* be made by agencies to eliminate the deficit. If it is determined that after all General Fund information is compiled by SCO-FRS a deficit exists in restricted fund balance SCO-FRS will make a reclassification entry to eliminate the negative balance for the applicable functions.

Governmental Funds Other than the General Fund: If a deficit balance exists in the restricted or committed portion of fund balance of a governmental fund, and that fund reports *both* restricted and committed fund balance, the following entry should be made:

Debit: Fund Balance – Unassigned		xxx	
Credit:	Fund Balance – Restricted*		xxx
Credit:	Fund Balance – Committed*		xxx
<To reclassify fund balance as unassigned as a result of a deficit fund balance.>			

* The entry should bring negative restricted and committed fund balance to zero, if they are negative, and report the deficit in the unassigned fund balance category.

It is possible that a deficit could be reported for a GAAP fund as a whole but the restricted or committed portion of fund balance is positive. A deficit in the GAAP fund as a whole does not mean that all fund balance categories should be reduced to zero. GAAP accountants should contact staff in SCO-FRS in the event they have questions.

- **Encumbrances**

Encumbrances and reserve for encumbrances will be reported in the Commitment Control ledger in STAR. However, encumbrances will not be reported in the ACTUALS ledger that is used as the starting point for the ACFR. This is a change from WiSMART which did report encumbrances. As a result, beginning FY 2016, no adjusting entries are needed for the trial balances prepared for the State's ACFR.

GASB 54 requires encumbrances to be reported in the GAAP financial statements. *Agencies are not required to report encumbrance information to the SCO-FRS or make any encumbrance-related entries. SCO-FRS will make any required entries.*

- *Encumbrances of Special Revenue and Capital Projects Funds*: If encumbrances exist in these fund types, constraints on use of fund balance will already be included in committed or restricted fund balance. (This is true because *all* fund balance will already be reported as committed, restricted or nonspendable.) Therefore, agencies should *not* make an entry to constrain fund balance for encumbrances. *Note*: Encumbrances are not reported in debt service and permanent funds.
- *Encumbrances of the General Fund*: Encumbrances in the General Fund constrain the use of fund balance to a more narrow purpose than the General Fund itself. Therefore, if encumbrances exist for the General Fund and those encumbrances will be satisfied using existing fund balance that is *not* already restricted, committed, or assigned an entry is needed to report fund balance as assigned when the unassigned fund balance is positive. Under GASB 54, an assignment cannot be reported if it would result in a deficit balance in unassigned fund balance or increase an existing deficit in unassigned.

Significant encumbrances will be disclosed in the notes to the financial statements by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other commitments. The SCO-FRS will obtain the applicable encumbrance information from STAR Commitment Control ledger reports and make the required disclosures in the commitments note disclosure.

Proprietary Funds

Fund net position of proprietary funds should be displayed in the same three components that are used on the government-wide statement of net position, namely:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

- *Net Investment in Capital Assets*

This component of fund net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings reported in the fund that are attributable to the acquisition, construction, or improvement of those assets. The resulting adjusting entry is as follows:

Debit:	Net Position – Unrestricted	XXX*	
Credit	Net Position – Net Investment in Capital Assets		XXX

<Report restricted net position relating to capital assets.>

Net Investment in Capital Assets Calculation:

All capital assets of the reporting unit (both tangible and intangible)	XXX	From capital assets note disclosure
Less: Accumulated depreciation/amortization on those assets	XXX	From capital assets note disclosure
Net carrying value of capital assets (may be entered directly instead of entering above)	XXX	
Less:		
• Outstanding principal of capital debt and other capital borrowings (a) of the reporting unit (only that pertaining to the reporting unit's own capital assets), limited to the portion of the debt of which proceeds were expended for capital purposes (b) and excluding unspent proceeds ("capital-related debt")	XXX	From Capital Accounting Section
• Outstanding principal balance of any other capital-related liabilities as of fiscal year end, such as accounts payable, leases, installment purchases and retainage payable for capital purposes	XXX	From Capital Accounting Section
• Unamortized balance of original issue premiums on outstanding capital-related debt,including outstanding capital refunding debt	XXX	From Capital Accounting Section
• Unamortized balance of capital-related deferred inflows of resources, such as from "gains" on a refunding of capital-related debt and capital refunding debt, or those arising from the acquisition of a capital asset through a conduit debt associated arrangement or through a service concession arrangement or other public-private or public-public partnership	XXX	From Capital Accounting Section
Plus:		
• Unamortized balance of original issue discounts on outstanding capital debt	XXX	From Capital Accounting Section
• Unamortized balance of capital-related deferred outflows of resources, such as from "losses" on refunding of outstanding capital debt	XXX	From Capital Accounting Section
Equals: Net investment in capital assets of the reporting unit	XXX	

Explanations (not definitions)

Notes

a	Capital debt and other capital	These include General Obligation Bonds and Notes, Revenue Bonds and Certificates of Participation.
b	Capital purposes	Construction, development, acquisition or improvement of capital assets of the reporting unit

- *Restricted Fund Net Position.*

Fund net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors or by law. For example, fund net position would be "Restricted for Debt" as a result of a specific bond indenture. The entry to report restricted fund net position follows:

Debit:	Unrestricted Fund Net Position	xxx	
Credit:	Fund Net Position -- Restricted for ____________		xxx
	<To reclassify unrestricted fund net position to restricted fund net position.>		

- *Unrestricted Fund Net Position*

"Unrestricted Fund Net Position" consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

STAR Equity Accounts for Use in the CAFR Ledger

Equity accounts to be used only for ACFR reporting purposes have been established in STAR. Like all accounts in STAR, ACFR-only accounts are comprised of 7 characters. ACFR equity accounts all begin with "W7". To accommodate the reporting requirements of all fund types as well the government-wide statements, there are numerous equity accounts. A list of all the STAR account codes may be found in Section 02-05 of the Wisconsin Accounting Manual. Listed below are the equity-related accounts established in STAR.

Account	Description	Account Type	Account Purpose	Applicable Fund Type
W7FORM0	Nonspendable In Form Govt Fd	Q	CAFR and Reporting	Governmental
W7LEGAL	Nonspendable Legal Govt Fd	Q	CAFR and Reporting	Governmental
W7RESTR	Restricted Govt Funds	Q	CAFR and Reporting	Governmental
W7COMMT	Committed Govt Funds	Q	CAFR and Reporting	Governmental
W7ASIGN	Assigned Govt Funds	Q	CAFR and Reporting	Governmental
W7UNASN	Unassigned Govt Funds	Q	CAFR and Reporting	Governmental
W7CPPRJ	Restricted GovtWide Captl Proj	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7CONSV	Restricted GovtWide Conservtn	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7DEBTS	Restricted GovtWide Debt Serv	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7GENEX	Restricted GovtWide Gen Exec	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7HRR00	Restricted GovtWide HR&R	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7TRANS	Restricted GovtWide Transp	Q	CAFR and Reporting	Govt-Wide (GTA only)
W7ENVIM	Restricted for Environ Improv	Q	CAFR and Reporting	Proprietary and Govt-Wide (BTA only)
W7FUTBN	Restricted for Future Benefits	Q	CAFR and Reporting	Proprietary and Govt-Wide (BTA only)
W7UNEMP	Restricted for Unemploy Comp	Q	CAFR and Reporting	Proprietary and Govt-Wide (BTA only)
W7CAPIT	Net Investment in Captl Assets	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7EXPTR	Restricted for Expndble Trusts	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7NEXTR	Restricted for Non-Exp Trusts	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7RESOT	Restricted for Other Purposes	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7PENSR	Restricted for Pensions	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7UNRES	Unrestricted	Q	CAFR and Reporting	Proprietary and Govt-Wide*
W7FIDUC	Held in Trust	Q	CAFR and Reporting	Fiduciary
W7EQTY1	Actuals Equity (TEMP)	Q	CAFR and Reporting	Temporary^
W7EQTY2	Reserved for Encum (TEMP ACCT)	Q	CAFR and Reporting	Temporary^

* Are used for both governmental activities (GTA) and business type activities (BTA) on the govt-wide statements
^ Temporary accounts are used for journals, as needed by FRS, but do not present balances on any fund financial statements

The State of Wisconsin collects license and permit revenues from a variety of sources including, but not limited to:

- Fees assessed hospitals, doctors and nurses for the Injured Patients and Families Compensation Fund – Commissioner of Insurance
- Fees for building permits, plan reviews, occupational licenses, permits, certificates and registrations – Department of Safety and Professional Services
- Regulatory charges/assessments collected from the insurance, banking, and utility industries
- Drivers licenses, vehicle registrations, etc. – Department of Transportation
- Fishing, hunting, sport, boating licenses; park stickers, etc. – Department of Natural Resources

In general, STAR recognizes revenues from licenses and permits when they are collected. As such, licenses and permits revenue recorded on STAR during the current fiscal year is typically an appropriate amount to reflect in the ACFR. Additionally, STAR capabilities exist that allow agencies to track receivables and corresponding revenue. It is not anticipated that agencies would have a significant amount of licenses and permits established as receivables in STAR. It would be appropriate to report these receivables and revenue in the ACFR. Finally, licenses and permit revenue may be collected in July following the end of the current fiscal year. These revenues may be accrued and recognized in the current year's ACFR.

Most fees collected by governmental funds are best recognized when cash is received. These revenues are generally not estimable in advance of collection.

Most business licenses should also be reported at the time of their collection. The benefit period to the license holder normally does not commence until actual renewal. For that reason, licenses billed but unpaid would not constitute revenue (and would not be set up in an accounts receivable) in advance of their collection. Licenses covering more than one fiscal period need not be deferred.

On the government-wide Statement of Activities license and permit revenues are treated as program revenues under the charges for services category. This occurs because in most cases the person paying for the license or permit directly benefits from the goods, services, or privileges provided.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2015
SUB-SECTION:	17 - Licenses and Permits	**REVISION DATE:**	May 19, 2016
SUBJECT:	Procedure	**PAGE:**	1 of 1

After identifying the types of licenses and permits issued and fees assessed, agencies should apply the measurable criteria to determine whether collections should be recorded on a cash or accrual basis of accounting. Receivables established in STAR would meet the measurable criteria. While most licenses, permits, and assessments should be reported on a cash basis of accounting, there may be instances when it would be reasonable to accrue receivables at fiscal year end.

Since STAR recognizes license and permit revenues when collected, or when established as a receivable, agencies may rely on the STAR system to provide appropriate amounts for GAAP-basis financial statements. Revenues received after June 30th that the agency believes are best reported in the old fiscal year may be thrown back to that year in STAR or accounted for via an ACFR adjusting entry.

Agencies should determine any ACFR adjusting entries necessary to accrue revenue for the fiscal year ended June 30th that was not reported in STAR. Required entries may be determined by reviewing revenues reported in fiscal periods 1 and 2 of the new fiscal year, agency records or a separate billing or receivable system.

BACKGROUND

The State of Wisconsin receives grants and contributions from external sources (for example, the federal government) for various programs. Such grants and contributions are considered **nonexchange transactions** under GASB standards. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, provides the guidance for nonexchange transactions. **Attachment A** addresses the application of GASB 33 and 36 guidance to various nonexchange transactions, including "government-mandated" and "voluntary" nonexchange transactions, which relate to grants and contributions.

RECOGNITION OF GRANT REVENUES

For most Wisconsin grants received, grant expenditures are usually the prime factor for determining eligibility for receiving grant revenues. That is, providers offer resources on a reimbursement ("expenditure driven") basis. Therefore, grant revenues should normally be recognized at the time expenditures are made. General guidance follows:

Balance Sheet/Statement of Net Position Considerations:

- Grant and aid revenues which have not been received at the balance sheet/statement of net position date, but for which all eligibility requirements have been met, should be reported as the receivable *"Due from Other Governments"*.

- Grant and aid revenues received before time requirements are met but after all other eligibility requirements are met should be reported as "*Deferred Inflows of Resources (Grant Advance Received by State Before Time Requirements are Met)*."

- Grant and aid revenues received before eligibility requirements other than the time requirements have been met should be reported in the liability account *"Unearned Revenues."*

  If both a time requirement and another eligibility requirement have not been met, the revenue should be recorded as "*Unearned Revenue*."

- Grant and aid revenue received by the state that will be refunded to the federal government should be reported in the liability account *"Due to Other Governments."*

- Capital items acquired from grants should be reflected as *"Capital Assets"* in the **government-wide** Statement of Net Position for both the governmental and business-type activities, and in the **fund** Statement of Net Position for the proprietary funds.

Program Approach to Revenue Recognition: Often federal grant revenues are recognized on a cost-reimbursement basis. In certain circumstances it may be appropriate to take a broader "program" view. In these cases, the State may have a contractual requirement on how cash will flow from the federal government to the State for a program. Cash may be received upfront for the program and there may be specific requirements for how much the State may initially draw down with a true-up occurring at the end of the period that is based on program costs. In a way, then, the program is reimbursement-based, however, the agreement designates more specifically how the cash will flow. In those cases, it is reasonable to conclude that the eligibility and timing requirements have been met for the "upfront" payments at the time they are received and the State may recognize a revenue at that time for that program.

Operating Statement Considerations:

- In the governmental **fund** operating statement, both capital and operating grants are reported as *"Intergovernmental"* revenues. The related expenditures are reported in either functional or "*Capital Outlay*" expenditures, depending on whether capital assets were purchased.

- In the proprietary **fund** operating statement, grants and aids received for operations or for a combination of operations and capital expenditures/construction should generally be reported on the operating statement as "*Nonoperating Revenues – Operating Grants"*. (Exception: federal grants and contracts (a significant portion of which relate to research and development programs) reported by the UW are reflected as operating revenues, following the illustrative statements presented in GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.)

  Grants and aids received by proprietary funds which are externally restricted for capital construction or acquisition should be reported on that statement as "*Capital Contributions*" revenues.

- On the **government-wide** statement of activities, operating grants are distinguished from capital grants for *both* governmental and business-type activities.

OPERATING VERSUS CAPITAL GRANTS (AND CONTRIBUTIONS) ON THE STATEMENT OF ACTIVITIES

Revenues on the **government-wide** statement of activities are classified by either "Program Revenue" or "General Revenue", as denoted below:

Program Revenue:
- Charges for Services (which has an expanded definition for the government-wide statements. This category includes charges for goods and services, participant contributions, licenses and permits, and certain fines and forfeitures.)
- Program-specific ***Capital*** Grants and Contributions (grants and contributions that are primarily restricted for capital purposes – that is, to be used for the purchase, construction or renovation of capital assets associated with a specific program.)
- Program-specific ***Operating*** Grants and Contributions (grants and contributions that may be used *either* for operating or capital purposes at the discretion of the reporting government.)

General Revenue -- all other revenue, including**:**
- Taxes (by major type) -- *All* taxes
- All other non-tax revenues (including interest, grants and contributions) not meeting criteria established for program revenues

For governmental activities, the State Controller's Office-Financial Reporting Section (SCO-FRS) will classify grants and contributions revenues on the statement of activities as either ***operating*** or ***capital*** based on the following account codes used to record transactions on the State central accounting system.

Revenue Code		
4500000 – 4594999	Intergovernmental revenues	Operating Grants and Contributions
4595000 – 4599999	Intergovernmental revenues	Capital Grants and Contributions
5890000 – 5898999	Gifts and Donations	Operating Grants and Contributions
5899000 – 589999	Gifts and Donations	Capital Grants and Contributions

For business-type activities, the enterprise fund statements roll-up to the statement of activities. Therefore, revenues reported as "Operating Grants" and "Capital Contributions" on the fund statements will roll-up to "Operating Grants and Contributions" and "Capital Grants and Contributions" on the government-wide statement, respectively.

DONATED COLLECTION ITEMS

When donated "collection" items (such as works of art and historical treasures) are added to noncapitalized collections, governments should recognize program expenses equal to the amount of revenues recognized in the **government-wide** financial statements.

SUBGRANTS

Subgrants between state agencies represent a type of reimbursement. Depending on how an agency records a subgrant on-system, agencies may have to prepare an entry to eliminate any resulting grossed-up revenues and expenditures.

Further, GASB 34 requires that program revenue (including federal aid) be reported in the function that incurs the related expenses. Therefore, subgrant revenue should not be reported with the function that initially receives the revenue from the external source, but rather with the function that ultimately spends it. Depending on how subgrant transactions are recorded on-system, GAAP adjusting entries would be made at either the fund or the government-wide level

IRREVOCABLE SPLIT-INTEREST AGREEMENTS

GASB Statement 81 *Irrevocable Split-Interest Agreements,* provides guidance for accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of such an agreement. Split-interest agreements are a type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. Split interest agreements are created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

For ACFR reporting purposes, a $1.0 million threshold has been established. That is, the provisions of GASB 81 should be applied only if the State expects to receive $1.0 million or more from a single trusted (legally-enforceable) donation. Donated amounts of less than that amount should be recognized as they would be from any other gifts or donations (when received).

An agency should notify SCO-FRS when it first becomes aware of a trust agreement that may require application of GASB 81 reporting requirements so additional reporting guidance may be provided based on the specific nature of the agreement.

Application of GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*

Is the transaction an "exchange" transaction?

Each party receives and gives up something of equal values.

Yes → GASB Statement No. 33 does not apply.

No ↓

Is the transaction an "exchange-like transaction"?

Similar to an "exchange transaction," however, value exchanged may not be equal.

Yes → GASB Statement No. 33 does not apply.

No ↓

The transaction is a "nonexchange transaction". Apply the transaction to the following four GASB Statement No. 33 classes.

*

Definition

Recognition

(Standard applies to both accrual and modified accrual, except for revenue recognition)

Derived Tax Revenue?

Yes **

Revenue results from assessments imposed by governments on exchange transactions.

Examples:

- Personal and corporate income tax
- Motor fuel tax
- Sales tax

Characteristics:

- The assessing government imposes the provision of resources on the provider, and
- The government's assessment is based on an exchange transaction, such as the exchange of:
  - Employee's services for a wage or salary
  - Fuel for the market price of fuel
  - Exchange of goods or services between a seller and a buyer

Other potential restrictions/requirements:

- Purpose restrictions - stipulations concerning the purpose for which resources are required to be used. Example: enabling legislation may require motor fuel tax to be used for road and street repairs.

Accrual	*Modified Accrual (Impacts Revenue Recognition)*
Assets - when the underlying exchange transaction occurs or when resources are received, whichever is first.	
Revenues - should be recognized in the same period that the asset is recognized, provided that the underlying exchange transaction has occurred. Resources received before the underlying exchange has occurred should be reported as unearned revenues (liabilities).	*Revenues* - recipients should recognize revenues in the period when the underlying exchange transaction has occurred and the resources are available.

No ↓

Applies to either

A government may collect revenues on behalf of a recipient government that imposed the revenue source (e.g., local sales taxes collected with state sales taxes). The recipient government should have or can reasonably estimate the accrual-basis information necessary to comply with the requirements of this Statement.

If a government shares its own derived tax revenues or imposed nonexchange revenues with other governments, both the provider and recipient governments should comply with the requirements of this Statement for voluntary or government-mandated nonexchange transactions, as appropriate. Because some recipient governments receive these shared revenues through a continuing appropriation, [x] they may rely on periodic notification by the provider government of the accrual-basis information necessary for compliance. If notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued.

Imposed Nonexchange Revenue?

Yes **

Revenue results from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions.

Examples:

- Property (ad valorem) taxes
- Fines and penalties
- Property forfeitures (for example, seizures and escheats)

Characteristic:

- The required transmittal of resources to the assessing government is imposed by that government on an act committed or omitted by the provider that is not an exchange transaction

Other restrictions/requirements:

- Sometimes purpose restrictions are placed by legislation
- Time requirements - Government may specify the period when the resources are required to be used or when use may begin. (e.g., property taxes may be required to be used in a period different from the period that payment is due)

Accrual	*Modified Accrual*
Assets - in the period when an enforceable legal claim to the assets arises[a] or when the resources are received, whichever occurs first.	
Revenues (from property taxes) - in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for the payment occurs in a different period.	*Revenues from property taxes*- Recipients should recognize revenues in accordance with NCGA Interpretation 3, as amended)
Revenues (from other than property taxes) - in the same period that the assets are recognized unless the enabling legislation includes time requirements. (If the legislation includes time requirements, revenues should be recognized in the period when the resources are required to be used or when use is first permitted.)	*Revenues (from other than property taxes)* - Recipients should recognize revenues in the period when an enforceable legal claim has arisen and the resources are available.

[a] For property taxes, the date when an enforceable legal claim to taxable property arises generally is specified in the enabling legislation and is often referred to as the "lien date" or the "assessment date".

No ↓

To A

Definition (Continued)

Transaction occurs when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation. Provider establishes purpose restrictions and also may establish time requirements.

Example:

- Federal program that state/local government is mandated to perform

Characteristics:

- Provider government mandates that a recipient government perform a particular program or facilitate its performance by another government or by a nongovernmental entity (secondary recipient), <u>and</u>
- Fulfillment of certain requirements is essential for a transaction to occur. (These essential requirements are referred to as eligibility requirements.)

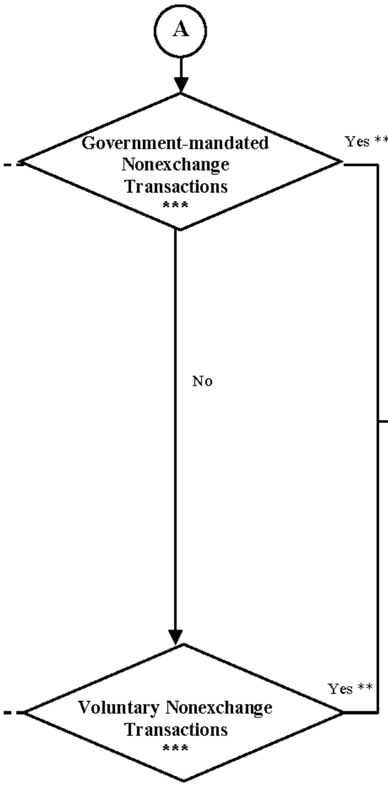
Transaction results from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. (Both parties may be governments or one party may be nongovernmental). Frequently, provider establishes program restrictions and eligibility requirements.

Examples:

- Certain grants
- Certain entitlements
- Donations by nongovernmental entities (private donations)

Characteristics:

- They are <u>not imposed</u> on the provider or the recipient, <u>and</u>
- Fulfillment of eligibility requirements is essential for a transaction to occur.



Recognition (Continued)

MODIFIED ACCRUAL BASIS

REVENUES

Recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available. If revenue is unavailable, or if only the timing requirement is not met, governmental funds should report deferred inflows of resources. (GASB 65)

ACCRUAL BASIS

ASSETS

Recipient should recognize revenue when all applicable eligibility requirements, including time requirements, are met.

If a provider does not specify a time requirement, the entire award should be recognized as a liability and expense by the provider, and as a receivable and revenue by the recipient, in the period when all applicable eligibility requirements are met (applicable period). When the provider is a government, the applicable period for both the provider and the recipients is the provider's fiscal year and begins on the first day of the year (when, for example, the relevant appropriation becomes effective.) The entire award should be recognized at that time. However, if a provider government has a biennial budgetary process, each year of the biennium should be considered a separate applicable period. In those circumstances, the provider and recipients should allocate one-half of the resources appropriated to each period, unless the provider specifies a different allocation.

LIABILITIES

Provider should recognize a liability when all applicable eligibility requirements are met.

REVENUES/EXPENSES

Recipient should recognize revenue and provider should recognize expense when all applicable eligibility requirements, including time requirements, are met.

Resources transmitted before eligibility requirements are met should be reported as prepaid assets (by provider) and unearned revenue (by recipient), except for:

- Resources transmitted before time requirements are met but after all other eligibility requirements are met should be reported as deferred outflows of resources (provider) and deferred inflows of resources (recipient). (GASB 65)
- If a provider transmits cash or other assets in the period immediately before the period that the provider specifies. Although the recipient may benefit, the benefit is incidental and not the primary purpose.
- Recipients of promises of cash/other assets (e.g. pledges) that nongovernmental entities, including individuals, voluntarily make should recognize a receivable/revenue when all eligibility requirements are met, provided that the promise is verifiable and the resources are measureable and probable of collection.

Transaction Requirements and Restrictions

Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transactions can occur. (Until those requirements are met, the provider does not have a liability, the recipient does not have a receivable. Eligibility requirements comprise <u>one or more</u> of the following:

- *Required characteristics of recipients.* The recipient has the characteristics specified by the provider. (Example: recipient is required to be a state.)
- *Time requirements.* Time requirements specified by enabling legislation or the provider have been met. (Period when resources are required to be used, or when use is first permitted has begun, <u>or</u> the resources are being maintained intact, as specified by the provider.)
- *Reimbursements.* Provider offers resources on a reimbursement ("expenditure-driven") basis and recipient has incurred allowable costs under the applicable program.
- *Contingencies (applies only to voluntary nonexchange transactions).* Provider 's offer is contingent upon a specified action of the recipient and that action has occurred. (Example: Recipient is required to dedicate its own resources for a specified purpose and has complied with those requirements.)

Time requirements - Specify the period or periods when resources are required to be used or when use may begin. (For example, provider stipulates that resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) Time requirements affect the timing of recognition of nonexchange transactions. Also, the effect on the timing of recognition is different, depending on whether it is an imposed nonexchange revenue transaction <u>or</u> a government-mandated or voluntary nonexchange transaction.

Purpose restrictions - Specify the purpose or purposes for which the resources are required to be used. (For example, a provider may specify that its resources are to be expended for road repairs.) <u>These do not affect the timing of recognition for any class of nonexchange transactions</u>. Rather, recipients of resources with purpose restrictions should report resulting net position as restricted until resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact.

* Application of statement requires analysis of the substance of a transaction, rather than its label.

** If after a nonexchange transaction has been recognized and it becomes apparent that:
a. the eligibility requirements are no longer met <u>or</u>
b. the recipient will not comply with the purpose restrictions within the specified time limit <u>and</u> it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, then the recipient should recognize a decrease in assets (or an increase in liabilities) and an expense, and the provider should recognize a decrease in liabilities (or an increase in assets) and a revenue, for amount provider is expected to cancel or reclaim. The entry to be made is dependent on whether the receipt and repayment occurs in the same year or across fiscal years.

*** May include ***reimbursements,*** where the provider stipulates that a recipient cannot qualify for resources without first incurring allowable costs under the provider's program. Nothing is recognized until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program. Note: This is <u>not</u> a purpose restriction; rather , it is an ***eligibility requirement***, and affects the timing of recognition.

X As used in GASB 36, continuing appropriation refers to an appropriation that, once established, is automatically renewed without further legislative actions, period after period, until altered or revoked.

The State of Wisconsin receives grants and contributions from external sources (for example, the federal government) for various programs. The discussion that follows covers the reporting of:

- Federal Grants
  - Transactions processed through PeopleSoft Grants in STAR
  - Transactions not processed through PeopleSoft Grants in STAR
- *Operating* versus *capital* grants (and contributions) on the statement of activities
- Donated "Collection" Items
- Subgrants

FEDERAL GRANTS

Federal grants and aids revenues should usually be recognized when expenditures are made (this is the prime factor in determining eligibility). In some cases, expenses/expenditures reported for GAAP purposes may have not yet met eligibility requirements, such as timing requirements, as established by the grant provider. In those cases, revenue should not be recognized until the requirements have been met. The "fund type" receiving the grant or aid determines how to account for this revenue.

Transactions Processed Through the STAR Centralized DOA Cash Management Process

The STAR Grants module integrates with Project Costing and Contracts modules to send revenue entries for award transactions to the STAR ACTUALS Ledger.

Expenditures Recorded in the STAR ACTUALS ledger to the Appropriate Year

Expenditures are captured within Project Costing. A grant award establishes a contract that is linked to a project. When expenditures meet certain rules, billable transactions are created within Project Costing:

Debit:	Expenditures	XXX	
Credit:	Vouchers Payable		XXX

As an expenditure is incurred and processed into a billable transaction, revenue is recognized and creates an entry:

Debit:	Federal Grants Receivable (1351500: Unbilled Accounts Receivable)	XXX	
Credit:	Federal Aid-Grants & Contracts *		XXX

* Agencies provide information in the STAR Contract Terms page which affects the type of revenue that a contract will generate in the ACTUALS ledger. The terms provided default to the following revenue accounts: 4500000: Fed Aid - Grants & Contracts, 4560000: Grants from Local Units, and 5891000: Private Organization accounts. If agencies have significant private grants with outstanding receivables e.g. >=$100,000 at fiscal year-end, an ACFR entry may be needed to reclassify A/R from Federal Grants Receivable to Other Receivables.

When the bills are finalized, either an invoice is created or a cash draw request is made for federal funds. This process relieves the Unbilled Accounts Receivable and creates and Accounts Receivable. As illustrated above, agencies do <u>not</u> have to prepare ACFR entries to recognize revenues at the time the expenditures are recorded since STAR automatically generates this entry in the ACTUALS ledger.

Prior to the implementation of the STAR system, the SCO Asset Management Section had procedures which matched the fiscal year expenditures with a receivable and revenue in the same fiscal year.

Similarly, STAR revenues in the ACTUALS ledger should be recorded in the same fiscal year as the associated grant expenditures. The accounting date on the expenditure transaction (e.g. from AP or GLE) will become the accounting date on the capital projects journals. The accounting date on the journal will then become the accounting date when the capital projects journal is posted to the general ledger.

In analyzing federal grant transactions, agencies should consider the following:

- As transactions are processed during the year, the ACTUALS ledger will recognize an Unbilled AR and revenue, even if a grant is in an "overdraft status." Therefore, in reviewing federal grant transactions processed, agencies will have to consider eliminating the receivable/revenue for expenditures in programs where the agency has spent the designated grant limit and will not be reimbursed.

- As with any transaction processed in the STAR system, file maintenance/coding/processing errors or oversights may impact how transactions are recorded. Most file maintenance/coding/processing errors or oversights should be "cleaned up" by the time the STAR ACTUALS ledger is "closed" for the fiscal year. Agencies should consider the potential existence of material unresolved errors or oversights during the review of federal grant transactions.

Expenditures Recorded in the STAR ACTUALS Ledger But Not In the Appropriate Fiscal Year

Agencies who incur a federally-reimbursed expenditure during a fiscal year, but record it in the ACTUALS ledger as an expenditure in the subsequent fiscal year, should prepare an ACFR entry to accrue the expenditure and a payable (Accounts Payable and Other Accrued Liabilities) in the appropriate year. Agencies should also prepare a corresponding entry to recognize the revenue and a receivable (Due from Other Governments).

Note: State agencies must analyze the processing and recording of their federal grant and aid activity to ensure that agency peculiarities in recording transactions are considered in determining receivables/liabilities for the GAAP conversion process.

Transactions Not Processed through the DOA Centralized Cash Draw Process

If revenues associated with federally-reimbursed expenditures are not centrally drawn by DOA cash management staff through STAR, agencies may have to prepare ACFR entries to recognize revenues/expenditures in the appropriate year.

For example, if an agency has recorded expenditures in the ACTUALS ledger for the fiscal year that meet grant eligibility requirements but have not yet been reimbursed with federal funds, they should accrue grant revenues at fiscal year-end as follows:

Debit:	Due from Other Governments	XXX	
Credit:	Intergovernmental Revenue		XXX

However, if more funds (revenue) have been received than payments (expenditures) made, the excess may need to be repaid or applied to future costs and the following entry prepared for ACFR purposes:

Debit:	Intergovernmental Revenue	XXX	
Credit:	Unearned Revenue		XXX *
Credit:	Due To Other Governments		XXX **
Credit:	Deferred Inflow of Resources (Grant Advance Before Time Requirements Are Met)		XXX ***

* Amounts to be applied to revenue in future periods because an eligibility requirement other than a time requirement (e.g. reimbursement requirement, contingency requirement, or characteristics of receipt requirement) has not yet been met. The agency will record the revenue when the requirements are met (e.g. if a reimbursement requirement needs to be met, then the revenue will be recorded when the reimbursable expenditure is made).

** Amounts to be repaid in future periods.

*** Amounts to be applied to revenue in future periods because a time requirement has not yet been met. When the time requirement is met, the agency will record the revenue.

REPORTING OPERATING VERSUS CAPITAL GRANTS AND CONTRIBUTIONS ON THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Governmental Funds

The SCO-FRS will classify revenues on the statement of activities based on the account codes used to record transactions on the State central accounting system, as illustrated in the "Policy" sub-section of this manual Sub-section 18. Agencies using the correct revenue accounts for coding transactions should generally not have to prepare adjusting entries that reclassify revenues for the statement of activities.

For example, revenue account codes 4500000 – 4590000 should be used to record *operating grants*, while code 4599000 should be used to record *capital grants* (grants restricted primarily for the purchase or construction of capital assets). If an agency did not use the appropriate revenue source codes to distinguish between operating and capital grants, a reclassification entry is needed to move the revenues to the proper classification.

Using this example, the agency would prepare the following reclassification entry for the **government-wide** statements:

Debit:	Operating Grants and Contributions -______________ Function	XXX	
Credit:	Capital Grants and Contributions - _____________Function		XXX
	<To reclassify revenues for statement of activities.>		

Proprietary Funds

Similar to governmental funds, proprietary funds must distinguish between grant revenues *restricted for the acquisition of capital assets* versus grant revenues that are not restricted in this way (i.e., *"unrestricted"*). While this distinction is only required at the government-wide level for governmental funds, it is required at the fund level for proprietary funds.

As discussed under policies, in proprietary funds the *unrestricted* grant and aid revenues should generally be reported as "Operating Grants" (Nonoperating Revenue) on the operating statement. Grants and aids *restricted* for the acquisition of capital assets should be reported as "Capital Contributions" on that statement.

For ACFR beginning trial balance purposes, revenues coded to account 4599000 will be classified to the revenue account "Capital Contributions", while the other 45***** accounts will be classified as "Operating Grants". Agencies should prepare the following **fund** adjusting entry to reclassify grants as Capital Contributions, if needed:

Debit:	Operating Grants	XXX	
Credit:	Capital Contributions		XXX
	<To reclassify revenues for grants restricted for the acquisition of capital assets.>		

REPORTING DONATED COLLECTION ITEMS AS REVENUES/EXPENSES

Donated collection items (such as donated works of art and historical treasures) that are added to noncapitalized collections should be recognized on the **government-wide** statement of activities as program revenues and program expenses. The amount of the program expense would equal the amount of revenue recognized.

The entry to report such donated collection items on the government-wide statements follows:

Debit:	___________Expenses (*Identify function of agency*)	XXX	
Credit:	Operating Grants and Contributions		XXX
	<To reflect on the statement of activities the current year's donations of collection items for noncapitalized collections.>		

SUBGRANTS

The amounts recorded to various grant and aid accounts (the Intergovernmental Revenues "45**" series of accounts) are reported as "Intergovernmental Revenues" on the governmental **fund** statements and in either the "Operating Grants and Contributions" or "Capital Grants and Contributions" columns of the **government-wide** statement of activities. Sometimes these intergovernmental revenues involve internal *subgrants* -- for example, federal funds received by one agency are transferred to another agency for expenditure.

Applying GASB guidance, on the **government-wide** statement of activities, <u>subgrant revenues should be reported with the same function that reports the related expenses</u>. Further, <u>subgrants should be reported similar to reimbursements</u> on both the **fund** and **government-wide** statements. For example, if a subgrant is recorded as an expenditure by the disbursing agency and as revenue by the recipient agency, revenues and expenditures/expenses will be grossed-up. This is because the disbursing agency has also recorded a revenue upon initial receipt of the funds and the recipient agency will be recording an expenditure/expense.

Therefore, to ensure that:

(1) Subgrants between (or within) agencies do not result in the double reporting of revenues and expenditures/expenses in the fund and government-wide financial statements,

and

(2) Program revenues (e.g., federal grant revenues) from subgrants are reported in the fund and with the function that incurred the expenditures/expenses,

agencies involved in such subgrants should review these transactions and prepare adjusting entries, if appropriate, for GAAP purposes.

How the subgrant transactions are recorded on-system will impact whether or not agencies will have to prepare GAAP adjusting entries. For example, the disbursement/receipt of a subgrant could be recorded on-system as one of the following types:

- Reimbursements
- Revenues and expenditures
- Transfers

Each of these scenarios, along with the GAAP impact, are addressed in Attachment A, *Adjusting Entries for Subgrants*. (Attachment A also includes a flowchart to help agencies determine the nature of activity that requires adjusting entries.) Agencies should use the guidance provided in Attachment A to determine <u>when to</u>/<u>who will</u>/<u>how to</u> make the adjusting entries. However, the examples in Attachment A may not illustrate all scenarios. Agencies should review the processing of subgrant transactions in STAR and prepare adjusting entries, as necessary. The State Controller's Office-Financial Reporting Section will be available to help agencies determine whether or not adjustments are required.

In preparing the adjusting entries, agencies should review the largest subgrants.

- For subgrants resulting in on-system **grossed-up revenues and expenditures**, agencies should include these subgrants in their overall "eliminations" analysis. Adjusting entries should be prepared to ensure that resulting grossed up revenues and expenditures do not exceed the materiality thresholds discussed in Section 31 of the GAAP Manual. (Accordingly, agencies need not prepare adjusting entries for minor subgrants.)
- For subgrants resulting in **transfer transactions**, agencies should focus on adjusting the material transactions. The transfers reconciliation process performed at year end (which focuses on differences exceeding $100,000) will help ensure material consistency in reporting transfers between and within funds.

Agencies may use the “Eliminating Grossed up Amounts” **fund** entry and the “Government-wide Entries -- Eliminate Grossed-up Amounts ” **government-wide** entry to prepare subgrant adjusting entries for the ACFR.

Adjusting Entries for Subgrants

Recorded On-system as	Scenario	Adjusting Entry Required?	Who Prepares GAAP Entry?
REIMBURSEMENT	1. Agency A disburses a subgrant to Agency B. The subgrant is recorded on-system as a reduction of Agency A's revenues. Agency B, who incurred the related expenses, records the receipt of the subgrant as revenues. For example, the following on-system transactions occurred: **Agency A (Disbursing Agency)** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt from federal government> Dr. Intergovernmental Revenue (Code 45**) (a) Cr. Cash <Disbursement of subgrant to Agency B> **Agency B (Recipient Agency)** Dr. Cash Cr. Intergovernmental Revenue (Code 6***) <Receipt of subgrant from Agency A.> The subgrant disbursement of Agency A will not result in grossed-up revenues/expenses because Agency B will be the only agency recording the revenues. Further the federal revenue will be reported in the function that records the expenditures/expenses (i.e., Agency B's function).	**FUND LEVEL** -- **No.** A GAAP adjusting entry is not required. At this level, the revenues and expenditures were appropriately recorded only once. **GOVERNMENT-WIDE LEVEL** -- **No**. A GAAP adjusting entry is not required. At this level, the revenues and expenditures were appropriately recorded only once, and the revenues are appropriately reported with the function that incurs the related expenses.	**FUND LEVEL** -- Not Applicable - No GAAP entry needed **GOVERNMENT-WIDE LEVEL** Not Applicable - No GAAP entry needed
REVENUE/ EXPENDITURE (i.e., grossed up revenues and expenditures)	2. WITHIN **SAME FUND** OR **BETWEEN GAAP FUNDS.** Agency A disburses a subgrant to Agency B within the same GAAP fund. The subgrant is recorded on-system as an expenditure. Agency B, who incurred the related expenses, records the receipt of the subgrant as revenues. For example, the following on-system transactions occurred: **Agency A (Disbursing Agency)** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt from federal government> Dr. Expenditure Cr. Cash <Disbursement of subgrant to Agency B> **Agency B (Recipient Agency)** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt of subgrant from Agency A.> The subgrant disbursement of Agency A will result in grossed-up revenues/expenses because both Agency A and B will be recording revenues and both will be recording expenditures. Further the federal revenue will be reported in the function that records the expenditures/expenses (i.e., Agency B's function).	**FUND LEVEL** -- **Yes.** A GAAP adjusting entry is required. At this level, the revenues and expenditures were recorded twice -- that is, they were grossed up. **GOVERNMENT-WIDE LEVEL** -- **No.** A GAAP adjusting entry is not required. At this level, the revenues and expenditures were reported twice. However, an adjustment made at the fund level would also be rolled-up to the government-wide level, so no additional adjustment would be needed at the government-wide level.	**FUND LEVEL** -- The agency reporting the grossed up revenues/ expenditures will prepare the following ACFR adjusting entry at the **fund level**: **Agency A (Disbursing Agency)** Dr. Intergovernmental Revenue Cr. Expenditures <Eliminate "grossed up" revenues and expenditures resulting from recording the disbursement of a subgrant to another agency as an expenditure..> ***See subgrant flowchart*** **Agency B (Recipient Agency)** No GAAP entry needed. **GOVERNMENT-WIDE LEVEL.** No additional adjustment needed at the government-wide level.

Adjusting Entries for Subgrants

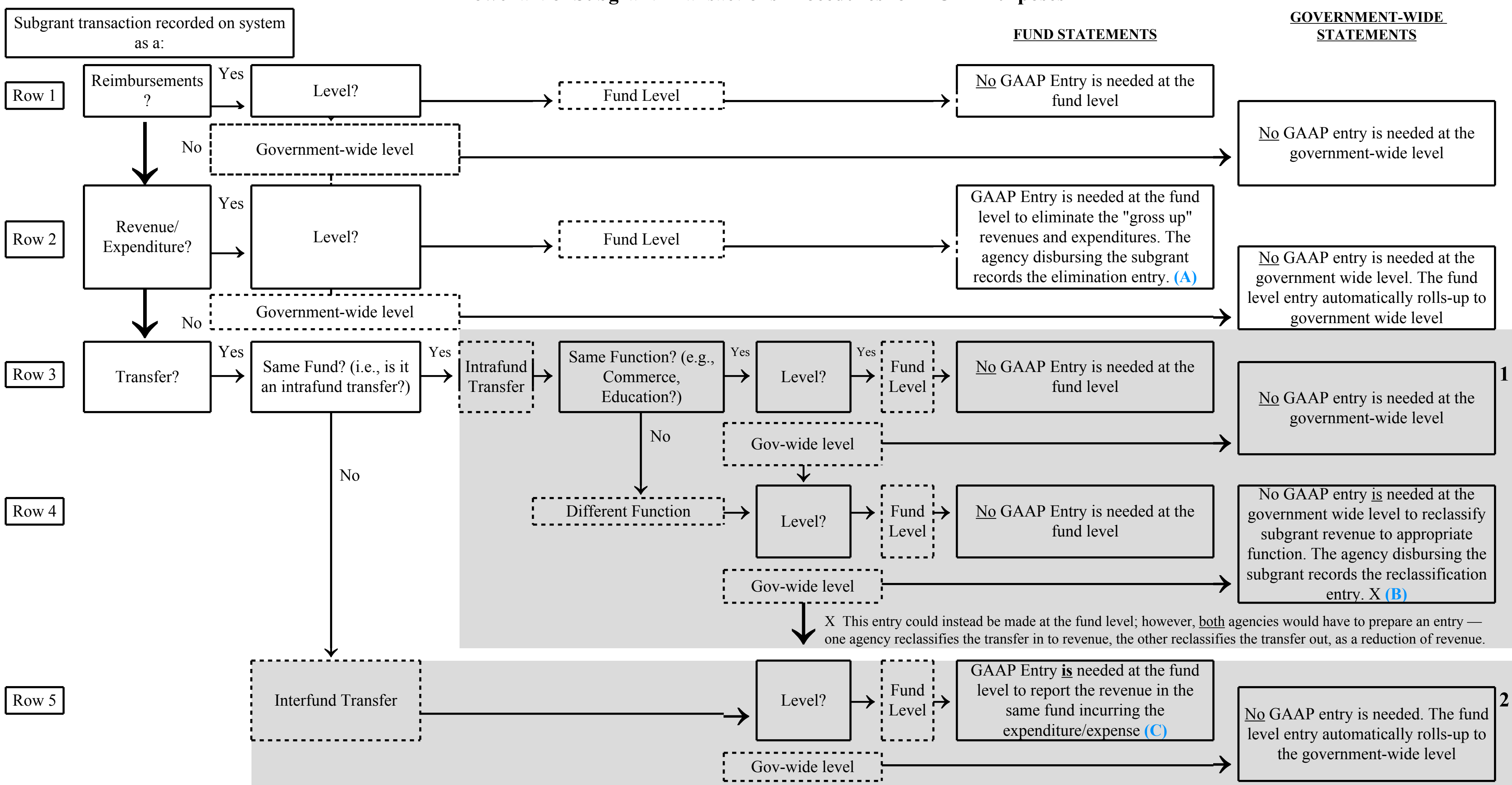
Recorded On-system as	Scenario	Adjusting Entry Required?	Who Prepares GAAP Entry?
TRANSFER	3. **SAME FUND/SAME FUNCTION.** Agency A disburses a subgrant to Agency B. Both Agency A and Agency B reported within the same function for GAAP purposes.) Agency A records the subgrant disbursement as a transfer out. Agency B, who incurred the related expenses, records the receipt of the subgrant as a transfer in. For example, the following on-system transactions occurred: **Agency A (Disbursing Agency) - FUND X** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt from federal government> Dr. Intrafund Transfer Out Cr. Cash <Disbursement of subgrant to Agency B> **Agency B (Recipient Agency) - FUND X** Dr. Cash Cr. Intrafund Transfer In <Receipt of subgrant from Agency A.> The subgrant disbursement of Agency A will not result in grossed-up revenues/expenses. Further, the federal revenues will be reported in the function that records the expenditures/expenses on the government-wide statements (since both Agency A and B are the same function).	**FUND LEVEL** -- **No.** A GAAP adjusting entry is not required. At this level, the revenues and expenditures were appropriately recorded only once. **GOVERNMENT-WIDE LEVEL** -- **No.** A GAAP adjusting entry is not required. At this level, the revenues and expenditures were appropriately recorded only once, and the revenues are appropriately reported with the function that incurs the related expenses.	**FUND LEVEL** -- Not Applicable - No GAAP entry needed **GOVERNMENT-WIDE LEVEL** Not Applicable - No GAAP entry needed
(Continued)	4. **SAME FUND/DIFFERENT FUNCTION.** Agency A disburses a subgrant to Agency B. However, Agency A and Agency B report in different functions for GAAP purposes. Agency A records the subgrant disbursement as a transfer out. Agency B, who incurred the related expenses, records the receipt of the subgrant as a transfer in. For example, the following on-system transactions occurred: **Agency A (Disbursing Agency) - FUND X** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt from federal government> Dr. Intrafund Transfer Out Cr. Cash <Disbursement of subgrant to Agency B> **Agency B (Recipient Agency) - FUND X** Dr. Cash Cr. Intrafund Transfer In <Receipt of subgrant from Agency A.> The subgrant disbursement of Agency A will not result in grossed-up revenues/expenses. However, on the government-wide statements, the federal revenues will not be reported in the function that records the expenses (since Agency A and B are in different functions).	**FUND LEVEL** -- **No.** A GAAP adjusting entry is not required. At this level, the revenues and expenditures were appropriately recorded only once. Further, they were reported in the appropriate fund. (Also note that, at this level, within a fund there is no association made between revenues and functions.) **GOVERNMENT-WIDE LEVEL** -- **Yes.** A GAAP adjusting entry is required. At this level, the revenues and expenditures were appropriately recorded once, however, the revenues were not reported with the function that incurred the related expenses. Therefore, a reclassification entry is required.	**FUND LEVEL** -- Not Applicable - No GAAP entry needed **GOVERNMENT-WIDE LEVEL** -- The agency reporting the transfer out of the subgrant will prepare the following ACFR adjusting entry at the **government-wide level**: **Agency A (Disbursing Agency)** Dr. Operating Grants & Contributions _ *(Agency A)* function * Dr. Capital Grants & Contributions -- _ *(Agency A* function ** Cr. Operating Grants &Contributions *(Agency B)* function *** Cr. Capital Grants & Contributions -- *(Agency B)* function *** <Report intergovernmental revenues in the function incurring expenditures.> * If grant was charged on-system to Account codes 4500-4590 ** If grant was charged on-system to account codes 4599 *** Depends on whether grant was for operating or capital purposes ***See subgrant flowchart***

Adjusting Entries for Subgrants

Recorded On-system as	Scenario	Adjusting Entry Required?	Who Prepares GAAP Entry?
C **TRANSFER** (Continued)	5. **DIFFERENT FUND**. Agency A disburses a subgrant to Agency B. However, two different GAAP funds are involved. Agency A records the subgrant disbursement as a transfer out. Agency B, who incurred the related expenses, records the receipt of the subgrant as a transfer in. For example, the following on-system transactions occurred: **<u>Agency A (Disbursing Agency) - FUND X</u>** Dr. Cash Cr. Intergovernmental Revenue (Code 45**) <Receipt from federal government> Dr. Interfund Transfer Out Cr. Cash <Disbursement of subgrant to Agency B> **<u>Agency B (Recipient Agency) - FUND Y</u>** Dr. Cash Cr. Interfund Transfer In <Receipt of subgrant from Agency A.> The subgrant disbursement of Agency A will <u>not</u> result in grossed-up revenues/expenses. However, on the government-wide statements, the federal revenues will not be reported in the fund that records the expenses. (since Agency A and B are in different funds).	**FUND LEVEL** -- **<u>Yes</u>.** A GAAP adjusting entry <u>is</u> required. At this level, the revenues and expenditures were appropriately recorded only once. However, they were not recorded in the appropriate fund. **GOVERNMENT-WIDE LEVEL** -- -- **<u>No,</u>** a GAAP adjusting entry <u>is not</u> required. At this level, the revenues and expenditures were appropriately recorded only once, but the revenues were not reported in the appropriate fund. However, an adjustment made at the fund level would also be rolled-up to the government-wide level, so no additional adjustment is needed at the government-wide level.	**FUND LEVEL** -- Both funds (both agencies) reporting the transfer will prepare GAAP adjusting entries at the **fund level** as follows: **<u>Fund X - Agency A (Disbursing Agency)</u>** Dr. Intergovernmental Revenues Cr. Interfund Transfer out <Report the intergovernmental revenue in the fund incurring the expenditure.> **<u>Fund Y - Agency B (Recipient Agency)</u>** Dr. Interfund Transfer in Cr. Intergovernmental Revenues Report the intergovernmental revenue in the fund incurring the expenditure.> Note: For roll-up purposes, the "Intergovernmental Revenues" will be rolled-up to "Operating Grants and Contributions" a the government -wide level. Therefore, Agency B would have to prepare a government-wide reclassification entry to reclassify revenues to "Capital Grants and Contributions", if needed. ***See subgrant flowchart*** **GOVERNMENT-WIDE LEVEL** Not Applicable - No GAAP entry needed to report revenues in the appropriate fund. However, an "operating" versus "capital" grants and contributions reclassification entry may be needed, as described above.

Attachment A
To Grants and Contributions sub-section (procedure)

Flowchart of Subgrant Transactions Procedures for ACFR Purposes



State Controller's Office - Financial Reporting Section's (SCO-FRS) *suggested* procedures for transfer transaction analysis:

1 Intrafund transfers in and out*

a. If a subgrant transfer stays within the function (e.g. Department of Health and Family Services to the Department of Workforce Development - both within the "Human Relations and Resources" function), the Intergovernmental Revenue (e.g. federal grant) will be reported in the appropriate function and the transfer will "offset" each other, resulting in zero transfer reported. Therefore no classification entries are needed.

b. If a subgrant transfer is between two functions (e.g. Department of Agriculture, Trade and Consumer Protection in the "Commerce" function to the Department of Administration in the "General Executive" function, the agency disbursing the transfer will prepare an entry at the government-wide level, reclassifying revenue from one function to another.

* As in the past, agencies will have to communicate with each other to ensure consistent reporting of General Fund Intrafund transfers. A reconciliation of General Fund intrafund transfers will continue to be performed as part of the ACFR process to identify material differences in the reporting of such transfers.

2 Interfund transfers in and out*

a. Each agency would review and identify those transactions relating to subgrants and prepare a reclassification entry at the fund level. The agency recording an interfund transfer in would reclassify it as "Intergovernmental Revenue", while the agency recording the interfund transfer out would reclassify it as a reduction of "Intergovernmental Revenue". As a result, the federal revenue would be reflected in the appropriate fund.

* As in the past, agencies will have to communicate with each other to ensure consistent reporting of Interfund transfers. A reconciliation of interfund transfers will continue to be performed as part of the ACFR process to identify material differences in the reporting of such transfers.

(A), **(B)** and **(C)** refer to entries discussed in the preceding pages of this attachment and is presented in the forms section of the GAAP manual.

Financial reporting policies specifying the recognition of tax revenues and related liabilities is promulgated by the Department of Administration (DOA), State Controller's Office - Financial Reporting Section. However, the Department of Revenue (DOR) is responsible for determining the presentation of those tax revenues and certain liability accruals. Functions of the DOR include administration of the State's tax laws and collection of the State levied taxes.

To assure that tax revenues and related refunds are reported in accordance with generally accepted accounting principles (GAAP) in the governmental fund financial statements and the additional tax revenues and related refunds in accordance with GASB Statement No. 34 in the government-wide financial statements, the DOR shall provide the accrual values for taxes receivable, assessments receivable, refunds payable and unearned revenues for:

- Individual Income
- Sales and Use
- Liquor, Wine, Beer and Other
- Cigarette and Tobacco Products
- Corporate Income
- Public Utility Taxes
- Real Estate Transfer
- Motor Vehicle, Alternate, and Aviation Fuel
- Gift and Inheritance Tax
- Delinquent Taxes
- Temporary Recycling Surcharge
- Other DOR identified taxes, i.e., credit programs and others

A discussion relating to the GASB 34 additional government-wide financial statement tax entries begins on Page 5.

Governmental Fund Financial statements

Individual Income

Individual income tax collections consist of the following.

- Withholdings - moneys withheld from employees by employers and remitted to the State.

- Estimated payments - moneys remitted by self-employed individuals and individuals not having sufficient withholdings to meet tax liabilities.

- Assessments - moneys remitted by individuals after they have been billed for additional taxes.

- Collections - moneys remitted with returns.

- Refunds - overpayments repaid to the taxpayer by the State.

Revenue accruals and refund liabilities measured by the DOR are normally based upon actual collection activity and historical performance. The accruals for GAAP reporting consist of current and prior year collections and refunds paid.

> <u>Current year - revenue accruals</u> at June 30th will be comprised of withholdings, estimated payments, assessments, and collections received during the period July 1st through August 31st but which relate to the prior fiscal year. Withholdings and collections accrued can be based upon actual collection data available to the DOR. Estimated payments accrued can be an estimate based upon historical data and known facts. Assessments can be based upon actual data or based upon an analysis of the preceding 12 month period and computing estimated assessments receivable.
>
> <u>Current year - refund liability</u> at June 30th exist to the extent that payments exceed final tax liabilities. This accrual estimate is based on payment activity and historical experience. It is the policy of the DOA to allow DOR to use its own methodology to arrive at this refund accrual value.
>
> <u>Prior year - revenue accruals</u> at June 30th will consist of collections received during the period July 1st through August 31st. This amount can be an estimate based upon the relationship of tax collections received subsequent to June 30th as a percentage of the fiscal year receipts received with collections.
>
> <u>Prior year - refund liability</u> at June 30th can be an estimate determined in a manner similar to prior year returns not filed, or filed but not processed as of June 30th.

SALES AND USE

Sales and use tax revenues are earned by the State at the point of sale and, because they are available soon enough after fiscal year-end to finance current year liabilities these revenues will be accrued. This will be accomplished by accruing sales and use taxes received July 1st through August 31st that relate to the fiscal year just ended.

A refund liability arising from sales and use tax remittances for refunds paid after June 30th but which relate to the fiscal year just ended will be recognized.

Liquor, Wine, Beer and Other

Revenue will be accrued for collections received July 1st through August 31st that were due but unpaid at June 30th. In addition, any overpayments refunded to the taxpayer after June 30th but which relate to collections of the fiscal year just ended will be recognized as a refund liability.

Cigarette and tobacco products

Collections received July 1st through August 31st but which relate to the fiscal year ended June 30th will be accrued.

A refund liability at June 30th that relates to collections of the fiscal year just ended will be recognized. However, this liability will be recognized only to the extent that these payments are for actual returns and not for amounts exchanged for new stamps.

Corporate Income

The revenue accrual for corporate income taxes will consist of payments made with corporate returns, estimated payments and assessments, and additional revenues received July 1st through August 31st that relate to the fiscal year ended June 30th. Revenues will be accrued on an actual basis. However, in the absence of actual data, an estimate based upon collection activity and historical performance can be used.

Refund liabilities at June 30th that relate to collections of the prior fiscal year will be recognized. The liabilities could be based on actual payments made. However, lacking this data, an estimate can be used based on (1) the relationship of refunds as a percentage of tax year collections, and/or (2) actual refunds (e.g., August and September) plus an average of prior years (e.g., a three year average).

An unearned revenue for the amount of overpayments collected through June 30th that are credit carry-forwards received in old fiscal year that will be earned in the new fiscal year.

Public Utility

Public utility taxes – Gross receipts:

> Gross receipts category is based on a company's calendar year gross operating revenues. A nonexchange revenue source based on transactions or events which take place over or relate to a period of time. The taxpayer determines the amount of the tax base and applies the appropriate rate to calculate the amount of the assessment due.
>
> Estimated payments are made on May 10th and November 10th for the subsequent calendar year. On May 1st of the current calendar year, the actual current calendar year's liability is determined based on the prior calendar year's gross revenue. Any difference between the prior calendar year's estimated payments and the actual tax is to be made on May 1st of the current year. (The May 1st payment is the "true up" payment.)
>
> The amount of revenue to be recognized on June 30 will consist of 50% of the 5/10/22, 11/10/22, 5/10/23 payments, along with 50% of the 5/1/23 and 5/1/24 true up payments.
>
> An unearned revenue for 50% of the 5/10/23, 11/10/23 and 5/1/24 estimated payments, plus 100% of the 5/10/24 additional tax due will be recorded.

Real Estate Transfer

Collections received July 1st through August 31 which relate to the fiscal year just ended will be accrued. This value can be determined using actual data available to the DOR.

Refunds paid after June 30th relating to the fiscal year just ended will be recognized as a refund payable.

GIFT AND INHERITANCE TAX

Collections received July 1st through August 31st that relate to the fiscal year ended June 30th will be accrued.

Delinquent Taxes

To accurately reflect the position of governmental fund tax receivables, an amount for delinquent taxes receivable will be established and recognized at June 30th. The estimate methodology developed by the DOR determines this amount.

MOTOR Vehicle, Alternate, and Aviation Fuel (<u>Fund 21100 entries to be provided to DOT GAAP accountant</u>)

Revenues received July 1st through August 31st related to the fiscal year ended June 30th will be accrued based on actual data available to DOR. Refunds paid after June 30 related to the fiscal year just ended will be recognized as a refund payable. Revenues earned but not available within 60 days of June 30th will be reported as deferred inflows of resources.

ECONOMIC DEVELOPMENT SURCHARGE (<u>Fund 24800 entries to be provided to SCO-FRS GAAP accountant</u>)

Revenues received July 1st through August 31th that relate to the fiscal year ended June 30th will be accrued. Refunds paid after June 30 related to the fiscal year just ended will be recognized as a refund payable. Revenues earned but not available within 60 days of June 30th will be reported as deferred inflows of resources.

Other Tax Accruals

All other material tax revenues processed or identified during the ACFR reporting period but not discussed above, if any, should also be accrued. The DOR shall also provide liability accrual entries for refundable credits. These may include, but are not limited to: Earned Income, Farmland Preservation, Veterans and Surviving Spouses, Enterprise Zone, Development Zone, Homestead Credit, Right of Repayment, Food Processing/Food Warehouse, Jobs Tax, and Business Development credits.

Because the state central accounting system and the ACFR report financial activity on a different basis of accounting, revenues and expenditures recorded in one fiscal year in the STAR ACTUALS ledger may be reported in a different fiscal year for the ACFR. Agencies establish the additional accruals and deferrals through ACFR adjusting entries. These entries must be "reversed" when preparing the subsequent year's ACFR.

Not all tax entries prepared require a subsequent year's reversing entry. The reversing entries required for taxes are provided in the forms and samples section and should be considered in DOR's analysis. DOR should refer to the tax entries for current year accruals, reclassifications, and reversals consulting with SCO-FRS as questions arise.

Government-Wide Financial Statements (GASB Statement 34 Additional Tax Accruals)

To assure that the additional tax revenues and related refunds are reported in the government-wide financial statements in accordance with GASB Statement 34, the DOR shall provide the additional GASB Statement 34 accrual values for taxes receivable, assessments receivable, refunds payable and unearned revenues for:

- Individual Income
- Sales and Use
- Liquor, Wine, Beer and Other
- Cigarette and Tobacco Products
- Corporate Income
- Public Utility Taxes
- Real Estate Transfer
- Gift and Inheritance Tax
- Delinquent Taxes
- Motor Vehicle, Alternate, and Aviation Fuel
- Economic Development Surcharge
- Other DOR Identified Taxes

Individual Income Tax: Individual income tax receivables will consist of withholdings, estimated payments and assessments - current year, plus prior year collections received September 1st through December 31st.

Individual income tax collections consist of the following.

- o Withholdings - moneys withheld from employees by employers and remitted to the State.
- o Estimated payments - moneys remitted by self-employed individuals and individuals not having sufficient withholdings to meet tax liabilities.
- o Assessments - moneys remitted by individuals after they have been billed for additional taxes.
- o Collections - moneys remitted with returns.

Revenue accruals and refund liabilities measured by the DOR should be based upon actual collection activity and historical performance or an estimate based upon historical activity. The accruals for GASB Statement 34 reporting consist of current and prior year collections.

<u>Current year - revenue accruals</u> at June 30th will be comprised of withholdings, estimated payments, assessments, and collections received during the period September 1st through December 31st but which relate to the prior fiscal year. Withholdings and collections accrued can be an estimate based upon actual collection data available to the DOR. Estimated payments accrued can be an estimate based upon historical data and known facts. Assessments can be based upon actual data or based upon an analysis of the preceding September 1st to December 31st period and computing estimated assessments receivable.

<u>Prior year - revenue accruals</u> at June 30th will consist of collections received during the period September 1st through December 31st. This amount can be an estimate.

Sales and Use Tax: Sales and use tax revenues are earned by the State at the point of sale, and because they are available soon enough after fiscal year-end to finance current year liabilities these revenues are accrued. Sales and use tax accruals consist of sales tax receivable, and assessments receivable. This amount can be based upon historical data and known facts.

Liquor, Wine and Beer Tax: Liquor taxes received September 1st through December 31st will be recorded as a receivable. The additional accruals will be based upon actual data or determined through DOR's report reconstruction methodology.

Cigarette and Tobacco Products: Tax receivables will be reported to FRS for collections received September 1st through December 31st. The additional accruals will be based upon actual data or determined through DOR's report reconstruction methodology

Corporate Income Tax: Additional receivables for the September 1st through December 31st period will consist of collections received with corporate returns submitted after the due date but which are not included in the receivable reported for the period July 1st through August 31st. In the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

Assessments receivable for the period September 1st through December 31st can be reported using actual collection data, however, if actual data is not available, an analysis of assessments collected during the preceding September 1st through December 31st period could be performed and an estimate computed.

Additional unearned revenues for the amount of overpayments that are credited (offset) in total or in part to a corporate taxpayer's subsequent tax year's liability will be recognized. This amount should be in addition to those unearned revenues included in the entry relating to the period July 1st to August 31st.

Real Estate Transfer: Additional real estate transfer fee accruals will consist of collections for the period September 1st through December 31st which relate to the fiscal year just ended. In the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

Gift and Inheritance Tax: Accruals for these taxes will consist of collections received September 1st through December 31st. The additional accrual could be based upon actual information available to the DOR or an estimate based upon historical performance.

Delinquent Taxes: To accurately reflect the position of tax receivables an amount for delinquent taxes receivable will be established and recognized at the balance sheet date. This amount can be based upon actual delinquent tax collection information for the period September 1st through December 31st. However, in the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

Motor Vehicle, Alternate, and Aviation Fuel (Fund 21100 - entries to be provided to DOT GAAP Accountant): Additional amount of collections for the period September 1st through December 31st. The additional accrual may be based upon actual information available to the DOR as well as estimates based upon historical performance.

Economic Development Surcharge: (Fund 24800 – entries to be provided to SCO-FRS): Additional amount of collections for the period September 1st through December 31st for the Economic Development Fund at June 30. The additional accrual may be based upon actual information available to the DOR as well as estimates based upon historical performance.

Additional Potential Entries:
All other tax revenues processed or identified during the prescribed revenue accrual period (September 1st through December 31st) that the DOR is aware of but has not been discussed above should be accrued.

Deferred INFLOWS OF RESOURCES of Derived Taxes, Entry Prepared by State Controller's Office – Financial Reporting Section

As discussed in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (*Summary* under "Recognition Standards"), derived tax receivables should be identical in the fund financial statements and the government-wide financial statements. That is, derived tax receivables should be recorded at an amount in the fund statements to match the government-wide statement amounts. (See Attachment A, Section V-18, *Grants and Contributions*, for matrix of application of GASB Statement No. 33.)

GASB Statement No. 33 also requires that in the fund financial statements the receivable should be offset for the amount <u>that is not available</u>. Paragraph 30 (a) states in part, " . . . recipients should recognize revenues in the period when the underlying exchange transaction has occurred **and the resources are available** (bold added for emphasis)." Available is defined as "the government has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period." GASB Statement No. 65 states that "when an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources." The State's tax availability criterion is 60 days after fiscal year-end. Applying the 60-day rule of availability results in the recognition of deferred inflows of resources for the amount of additional derived taxes (derived taxes for the period September 1st to December 31st).

To comply with GASB Statements No. 33 and 65, the State Controller's Office – Financial Reporting Section (SCO – FRS) will complete the appropriate entry for the fund financial statements debiting receivable- taxes and crediting deferred inflows of resources (unavailable tax revenue), and in the government-wide statement debiting deferred inflows of resources (unavailable tax revenue) and crediting the appropriate tax revenue account.

Financial reporting policies specifying the recognition of tax revenues and related liabilities is promulgated by the Department of Administration (DOA), State Controller's Office - Financial Reporting Section. However, the Department of Revenue (DOR) is responsible for determining the presentation of those tax revenues and certain liability accruals. Functions of the DOR include administration of the State's tax laws and collection of the State levied taxes.

To assure that tax revenues and related refunds are reported in accordance with generally accepted accounting principles (GAAP) in the governmental fund financial statements and the additional tax revenues and related refunds in accordance with GASB Statement No. 34 in the government-wide financial statements, the DOR shall provide the accrual values for taxes receivable, assessments receivable, refunds payable and unearned revenues for:

- Individual Income
- Sales and Use
- Liquor, Wine, Beer and Other
- Cigarette and Tobacco Products
- Corporate Income
- Public Utility Taxes
- Real Estate Transfer
- Gift and Inheritance Tax
- Delinquent Taxes
- Motor Vehicle, Alternate, and Aviation Fuel
- Economic Development Surcharge
- Other DOR Identified Taxes, i.e., credit programs and others

A discussion relating to the GASB 34 additional government-wide financial statement tax entries begins on Page 13.

The procedures listed below display illustrative journal entries that may be completed by the DOR to report taxes and related year-end accruals to the Department of Administration, State Controller's Office - Financial Reporting Section (FRS). ***However, the DOR may use its internal GAAP tax worksheets to provide all tax related entry information.*** All tax entry information ***must*** be completed except in those entries that do not have amounts to report. In those instances, a brief explanation of non-applicability must be provided.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Individual Income Tax: Individual income tax receivables will consist of withholdings, estimated payments and assessments - current year, plus prior year collections received July 1st through August 31st.

Current year withholdings and collections will be based on actual collection data available to DOR, while estimated payments can be estimated based upon historical data and known facts.

Assessments receivable - current year - can be based upon actual data or on an analysis of the preceding 12 month period and then computing estimated assessments receivable.

Prior year receivables will be based upon the relationship of tax collections received subsequent to June 30th as a percentage of the fiscal year receipts received with collections.

Refunds payable - current and prior year - will be estimated based on payment activity and historical performance. The methodology developed by the DOR to arrive at this estimate will be used.

The following are illustrative journal entries relating to receivables, refunds payables and unearned revenues for Individual Income Taxes.

Ind. - Withholdings receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July/August throwback amount for individual income tax withholdings>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax withholdings for the period August 16 to August 31>		

Ind. - Estimated payments receivable:

c.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax estimated payments for the period July 1 to August 31>		

Ind. - Assessments receivable:

I. Withholding assessments receivable:

d.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July/August throwback amount for withholding assessments>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

e.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record withholding assessment receivables for the period August 16 to August 31>		

Individual income assessments receivable:

f.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income assessment receivables for the period July 1 to August 31>		

Ind. - Prior year collections:

g.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax receivables -prior year- for the period July 1 to August 31>		

Ind. - Refunds payable current and prior year:

h.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record current and prior year individual income tax refund liability>		

i.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record liability for individual income tax unpaid refunds>		

j.	Debit:	Accounts Payable	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To reclassify individual income tax refunds processed during July, but charged to the previous fiscal year>		

The above entry may be needed dependent on how DOR processes refunds and records them in the State's central accounting system.

Sales and Use Tax: Sales and use tax revenues are earned by the State at the point of sale, and because they are available soon enough after fiscal year-end to finance current year liabilities these revenues are accrued. Sales and use tax accruals consist of sales tax receivable, assessments receivable and refunds payable. The DOR should reclassify the current statutory July 1st through August 15th "throwback" of sales and use tax collections, if necessary.

The following are illustrative journal entries relating to receivables and refunds payables for Sales and Use Taxes.

Sales. - Sales and use tax receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July/August throwback amount for sales and use tax>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record sales and use tax accruals for the period August 16 to August 31>		

Sales. - Sales and use tax assessments receivable:

c.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July/August throwback amount for sales and use tax assessments>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System.

d.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record sales and use tax assessment accruals for the period August 16 to August 31>		

e.	Debit:	Due From Other Funds	XXX	
	Credit:	Receivable - Taxes		XXX
		<Reclassify receivables for sales taxes due from other funds/agencies>		

The above entry may not be applicable if the DOR records an amount(s) directly to Due From Other Funds on the State's Central Accounting System

Sales. - Sales and use tax refunds:

f.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record sales and use tax refund liability>		

Liquor, Wine and Beer Tax: Wine and beer taxes are currently accrued through the "throwback" procedure for collections received July 1st through July 31st. Liquor taxes are not "thrownback", i.e., recorded on a "cash" basis. The current "throwback" accrual amounts (July 1 to July 31) for wine and beer taxes will be reclassified, while the August 1st through August 31st additional accrual amounts will be recorded. Liquor taxes received July 1st through August 31st will be recorded as a receivable. The additional accruals will be based upon actual data or determined through DOR's report reconstruction methodology.

The following are illustrative journal entries relating to receivables and refunds payables for Liquor, Wine, and Beer Taxes.

I. Wine and Beer Tax

Wine. - Wine and beer tax receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July throwback amount for wine and beer tax>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record wine and beer tax accruals for the period August 1 to August 31>		

Wine. - Wine and beer tax refunds:

d.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record wine and beer tax refund liability>.		

Liq. - Liquor tax receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record liquor tax accruals for the period July 1 to August 31>		

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		To reclassify July throwback amount for liquor taxes>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

Liq. - Liquor tax refunds:

c.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record liquor tax refund liability>		

Cigarette and Tobacco Products: The DOR records these collections on a "cash basis." Tax receivables will be reported to FRS for collections received July 1st through August 31st. Refunds payable will be reported to the extent that these are for actual returns and not for amounts exchanged for new stamps or impressions.

The following are illustrative journal entries relating to receivables and refunds payables for Cigarette and Tobacco Products Taxes.

Cig. - Cigarette and tobacco products receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period July 1 to August 31>		

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify July throwback for tobacco>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

Cig. - Cigarette and tobacco products refunds:

a	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record tax refund liability>		

Corporate Income Tax: Corporate income tax receivables will consist of collections received with returns, estimated payments, and assessments. Corporations with a June 30th year-end have a September 15th corporate return due date. Therefore, the receivables for the July 1st through August 31st of collections received with corporate returns will be determined based upon actual data using the September 15th date. However, in the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

An estimate of the estimated payments receivable will be determined using collection statistics and corporate transaction reports which provide corporate payment information.

Assessments receivable can be reported using actual collection data for the accrual period of July 1st through August 31st. However, if actual data is not available, an analysis of assessments collected during the preceding 12 month period should be performed and an estimate computed.

Refund liabilities will be based upon actual payments made or based upon the relationship of refunds as a percentage of tax year collections.

Revenues for the amount of overpayments that are credited (offset) in total or in part to a corporate taxpayer's subsequent tax year's liability will be recognized.

The following are illustrative journal entries relating to Corporate Income Taxes.

Corp. - Corporate collections receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period July 1 to August 31>		

Corp. - Corporate estimated payments receivable:

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period July 1 to August 31>		

Corp. - Corporate assessments receivable:

c.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period July 1 to August 31>		

Corp. - Corporate refunds payable:

d. & e.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record corporate refunds payable>		

Corp. - Corporate unearned revenue:

f.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record corporate income tax unearned revenue >		

Public Utility Tax:

Util. Gross Receipts Category: Estimated tax payments made in May and November of the current calendar year apply to the following calendar year. That is, these taxes are paid in advance of the calendar year to which they apply and are derived from expected revenues of the utility companies. “True up” adjustments to the prior calendar year payments are made May 1st of the calendar year to which the tax applies.

Revenue will be recognized in the period corresponding to the calendar year to which the tax payments apply. Therefore, the adjusting entry to recognize prior year unearned revenue will consist of 50% of the 5/10/22, 11/10/22, 5/1/23, and the 5/10/23 payment.

In addition, unearned revenues will be recorded for 50% of the 5/10/23, 11/10/23, and 5/1/24 payments, and 100% of the 5/10/24 payments.

For June 30th, the following journal entries should be completed:

a.	Debit:	Fund Balance - Unassigned	XXX	
	Credit:	Revenue - Taxes		XXX
		<To recognize 50% of the 5/10/22, 11/10/22, and 5/10/23 payments; and 50% of the 5/1/23 gross receipts payments as revenue, Entry #20(a)>		

b.	Debit:	Revenue - Taxes	XXX	
	Credit:	Unearned Revenue		XXX
		<To record 50% of the 5/10/23, 11/10/23, and 5/1/24 payments; and 100% of the 5/10/24 gross receipts payments, Entry #20(b)>		

Real Estate Transfer: Real estate transfer fee accruals will consist of the current "throwback" amount plus an additional amount of collections for the period August 1st through August 31st which relate to the fiscal year just ended. The additional accrual will be based upon actual information available to the DOR.

Refunds paid subsequent to June 30th but which relate to the prior fiscal year will be recognized as a liability and a reduction of revenues.

The following are illustrative journal entries relating to Real Estate Transfer Taxes.

Util. - Real estate transfer fee receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July throwback>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record revenues for the period August 1 to 31>		

Util. - Real estate transfer fee refunds payable:

a.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record real estate transfer fee refunds payable>		

Motor Vehicle, Alternate, and Aviation Fuel (To be completed by the DOR for the DOT Transportation Fund (Fund 21100): Accruals for these taxes will consist of the current "throwback" amount plus an additional amount of collections for the period August 1st through August 31st. The additional accrual will be based upon actual information available to the DOR.

Refunds paid subsequent to June 30th but which relate to the prior fiscal year will be recognized as a liability and a reduction of revenues.

The following are illustrative journal entries applicable to GAAP Fund 21100 and should be provided to the DOT GAAP accountant.

Motor vehicle, alternate and aviation fuel receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Receivable - Other		XXX
		<To reclassify the current July throwback>		

The above entry may not be applicable if the DOR records an amount(s) directly to Taxes Receivable on the State's Central Accounting System

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record revenues for the period August 1 to 31>		

Motor vehicle, alternate and aviation fuel refunds payable:

c.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record refunds payable>		

Gift and Inheritance Tax: Accruals for these taxes will consist of collections received July 1st through August 31st. Refunds payable will be reported to the extent that these are paid on actual amounts applicable to the fiscal year just ended.

The following are illustrative journal entries relating to Gift and Inheritance Taxes.

Gift and inheritance taxes receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period July 1 to August 31>		

Gift and inheritance taxes refunds:

b.	Debit:	Revenue - Taxes	XXX	
	Credit:	Tax Refunds Payable		XXX
		<To record tax refund liability>		

Delinquent Taxes: To accurately reflect the position of governmental fund tax receivables an amount for delinquent taxes receivable will be established and recognized at the balance sheet date. This amount can be based upon actual delinquent tax collection information for the period July 1st through August 31st. However, in the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

The following is the illustrative journal entries relating to receivables for Delinquent Taxes.

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for delinquent taxes for the period July 1 to August 31>		

Economic Development Surcharge: The following entries will be made to accrue taxes receivable and tax refunds payable related to the Economic Development Surcharge (GAAP Fund 24800) at June 30:

Debit:	Receivable - Taxes	XXX	
Credit:	Revenue - Taxes		XXX
	<To accrue recycling surcharge taxes and tax assessments for July 1 to August 31>		

Debit:	Revenue - Taxes	XXX	
Credit:	Tax Refunds Payable		XXX
	<To record recycling tax refund liability>		

At times, DOR may need to make an entry to reflect amounts due to/from other GAAP funds rather than as a payables or receivables. The correct entry to make will depend on the DOR circumstances:

Debit:	Due To / From Other Funds	XXX	
Credit:	Payables / Receivables - Other		XXX
	<To record due to/from other funds>		

All other material tax revenues processed or identified during the prescribed revenue accrual period that the DOR is aware of should be accrued even if not illustrated above and entries included in the information submitted to SCO-FRS.

Reversing entries relating to other specific tax related items, i.e., Homestead and Farmland Credit programs; Illinois Tax Reciprocity; State Property Tax Credit program; the Municipal and County Shared Revenue program; and others, are provided on their individual journal entry forms.

Tax entries created by the DOR which establish additional accruals and deferrals should be reversed in the subsequent fiscal year.

To aid in determining which tax entries require a reversing entry (to reverse prior year's entry establishing additional accruals and deferrals) an **"R"** is located next to the appropriate entry on the tax entry forms.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GASB Statement 34 Additional Tax Accruals)

To assure that the additional tax revenues and related refunds are reported in the government-wide financial statements in accordance with GASB Statement 34, the DOR shall provide the additional GASB Statement 34 accrual values for taxes receivable, assessments receivable, refunds payable and deferred inflows of resources for:

- Individual Income
- Sales and Use
- Liquor, Wine, Beer and Other
- Cigarette and Tobacco Products
- Corporate Income
- Public Utility Taxes
- Real Estate Transfer
- Gift and Inheritance Tax
- Delinquent Taxes
- Motor Vehicle, Alternate, and Aviation Fuel
- Economic Development Surcharge
- Other DOR Identified Taxes

Individual Income Tax: Individual income tax receivables will consist of withholdings, estimated payments and assessments - current year, plus prior year collections received September 1st through December 31st.

Individual income tax collections consist of the following.

- Withholdings - moneys withheld from employees by employers and remitted to the State.
- Estimated payments - moneys remitted by self-employed individuals and individuals not having sufficient withholdings to meet tax liabilities.
- Assessments - moneys remitted by individuals after they have been billed for additional taxes.
- Collections - moneys remitted with returns.

Revenue accruals and refund liabilities measured by the DOR should be based upon actual collection activity and historical performance or an estimate based upon historical activity. The accruals for GASB Statement 34 reporting consist of current and prior year collections.

Current year - revenue accruals at June 30th will be comprised of withholdings, estimated payments, assessments, and collections received during the period September 1st through December 31st but which relate to the prior fiscal year. Withholdings and collections accrued can be an estimate based upon actual collection data available to the DOR. Estimated payments accrued can be an estimate based upon historical data and known facts. Assessments can be based upon actual data or based upon an analysis of the preceding September 1st to December 31st period and computing estimated assessments receivable.

Prior year - revenue accruals at June 30th will consist of collections received during the period September 1st through December 31st. This amount can be an estimate.

The following are illustrative journal entries relating to receivables for Individual Income Taxes.

(1) Withholdings receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax withholdings for the period September 1 to December 31 >		

(2) Estimated payments receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax estimated payments for the period September 1 to December 31 >		

(3) Assessments receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record withholding assessment receivables for the period September 1 to December 31>		

Individual income assessments receivable:

b.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income assessment receivables for the period September 1 to December 31 >		

(4) Prior year collections:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record individual income tax receivables -prior year- for the period September 1 to December 31 >		

Sales and Use Tax: Sales and use tax revenues are earned by the State at the point of sale, and because they are available soon enough after fiscal year-end to finance current year liabilities these revenues are accrued. Sales and use tax accruals consist of sales tax receivable, and assessments receivable. This amount can be based upon historical data and known facts

The following are illustrative journal entries relating to receivables for Sales and Use Taxes.

(1) Sales and use tax receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record sales and use tax accruals for the period September 1 to December 31 >		

(2) Sales and use tax assessments receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record sales and use tax assessment accruals for the period September 1 to December 31.>		

Liquor, Wine and Beer Tax: Liquor taxes received September 1st through December 31st will be recorded as a receivable. The additional accruals will be based upon actual data or determined through DOR's report reconstruction methodology.

The following are illustrative journal entries relating to receivables for Liquor, Wine, and Beer Taxes.

(1) Wine and beer tax receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record wine and beer tax accruals for the period September 1 to December 31 >		

(2) Liquor tax receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record liquor tax accruals for the period September 1 to December 31 >		

Cigarette and Tobacco Products: Tax receivables will be reported to FRS for collections received September 1st through December 31st. The additional accruals will be based upon actual data or determined through DOR's report reconstruction methodology

The following are illustrative journal entries relating to receivables for Cigarette and Tobacco Products Taxes.

(1) Cigarette and tobacco products receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 to December 31 >		

Corporate Income Tax: Additional receivables for the September 1st through December 31st period will consist of collections received with corporate returns submitted after the due date but which are not included in the receivable reported for the period July 1st through August 31st. In the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

Assessments receivable for the period September 1st through December 31st can be reported using actual collection data, however, if actual data is not available, an analysis of assessments collected during the preceding September 1st through December 31st period could be performed and an estimate computed.

Additional unearned revenue for the amount of overpayments that are credited (offset) in total or in part to a corporate taxpayer's subsequent tax year's liability will be recognized. This amount should be in addition to those unearned revenues included in the entry relating to the period July 1st to August 31st.

The following are illustrative journal entries relating to Corporate Income Taxes.

(1) Corporate collections receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 to December 31>		

(2) Corporate estimated payments receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 to December 31>		

(3) Corporate assessments receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 to December 31>		

(4) Corporate unearned revenue:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Unearned Revenue - Taxes		XXX
		<To record additional corporate income tax revenue>		

Real Estate Transfer: Additional real estate transfer fee accruals will consist of collections for the period September 1st through December 31st which relate to the fiscal year just ended.

The following are illustrative journal entries relating to Real Estate Transfer Taxes.

(1) Real estate transfer fee receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record revenues for the period September 1 through December 31>		

Motor Vehicle, Alternate, and Aviation Fuel **Transportation GAAP Fund 21100** - entries to be emailed to the DOT GAAP accountant: Additional amount of collections for the period September 1st through December 31st. The additional accrual will be based upon actual information available to the DOR and estimates based upon historical performance.

The following are illustrative journal entries relating to Motor Vehicle, Alternate and Aviation Fuel Taxes and applicable to Fund 21100.

(1) Motor vehicle, alternate and aviation fuel receivables:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record revenues for the period September 1 through December 31>		

Gift and Inheritance Tax: Accruals for these taxes will consist of collections received September 1st through December 31st.

The following are illustrative journal entries relating to Gift and Inheritance Taxes.

(1) Gift and inheritance taxes receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 through December 31>		

Delinquent Taxes: To accurately reflect the position of tax receivables an amount for delinquent taxes receivable will be established and recognized at the balance sheet date. This amount can be based upon actual delinquent tax collection information for the period September 1st through December 31st. However, in the absence of available actual data, an estimate based upon collection activity and historical performance can be used.

The following are illustrative journal entries relating to Delinquent Taxes.

(1) Delinquent taxes receivable:

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To record tax accruals for the period September 1 to December 31>		

Economic Development Surcharge: **Economic Development GAAP Fund 24800** – entries to be emailed to SCO-FRS. The following entry should be made to accrue Economic Development Surcharge revenues.

a.	Debit:	Receivable - Taxes	XXX	
	Credit:	Revenue - Taxes		XXX
		<To accrue economic development surcharge taxes and tax assessments for September 1 through December 31>		

Additional Potential Entries: The following entries should be reviewed to determine whether they should be completed, that is, if an additional entry should be made. These entries would be completed only if amounts are identified that are not already included in the entries submitted for the fund level financial statements.

Debit:	Accounts Payable	XXX	
Credit:	Due to Other Governments		XXX
	<To reclassify county sales tax Due to Other Governments>		

This entry may not be applicable, DOR should determine if additional entry is required, that is, if the entry for the fund level statements includes all applicable amounts.

Debit:	Accounts Payable	XXX	
Credit:	Due to Other Governments		XXX
	<To reclassify Baseball Park Taxes to Due to Other Governments>		

This entry may not be applicable, DOR should determine if additional entry is required, that is, if the entry for the fund level statements includes all applicable amounts.

All other material tax revenues processed or identified during the prescribed revenue accrual period (September 1st through December 31st) that the DOR is aware of but has not been discussed above should be accrued.

Deferred Revenues of Derived Taxes, Entry Prepared by State Controller's Office – Financial Reporting Section

To comply with GASB Statement No. 33, Paragraph 30 (a), the State Controller's Office – Financial Reporting Section (SCO – FRS) will complete the following entries for the fund financial statements and the government-wide financial statements based on information provided by DOR:

Fund Financial Statements:

Debit:	Receivable – Taxes	XXX	
Credit:	Deferred Inflow of Resources (Unavailable Tax Revenue)		XXX
	<Record deferred inflow of resources (unavailable tax revenue) in the fund financial statements for an amount equal to additional derived taxes under GASB Statement No. 34, for the period September 1 to December 31>		

Government-Wide Statements:

Debit:	Deferred Inflow of Resources (Unavailable Tax Revenue)	XXX	
Credit:	Revenue – Individual and Corporate Taxes		XXX
Credit:	Revenue – Sales Taxes		XXX
Credit:	Revenue – Utility Taxes		XXX
Credit:	Revenue – Other Taxes		XXX
	<Recognize GASB Statement 34 additional tax revenue and reverse fund statements deferred inflow (unavailable tax revenue) for the period September 1 to December 31 >		

TAX ABATEMENTS

Wisconsin statutes authorize tax abatements to encourage economic development and other actions beneficial to the State or its citizens resulting in a reduction in tax revenue the State would otherwise be entitled to collect. GASB Statement No. 77, *Tax Abatement Disclosures,* requires disclosure of tax abatement agreements entered into by a reporting government, along with agreements entered into by other governments, which reduce the reporting government's tax revenues.

DOR is responsible for ensuring the certified tax abatements entered into by ACFR component units and state agencies were properly applied when processing income tax returns filed by recipients.

Annually DOR shall provide the gross dollar amount categorized by program for which the State's tax revenues were abated (reduced) during the fiscal year ended June 30th to SCO-FRS for disclosure in the ACFR.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2017
SUB-SECTION:	20 - DNR Mill Tax Revenue Recognition	**REVISION DATE:**	May 7, 2018
SUBJECT:	Policy	**PAGE:**	1 of 1

2017 Wis. Act 59 ended the forestry mill tax effective with the January 1, 2017 property tax assessments (property taxes levied in 2017, for payment to the State in 2018). This was the only property tax levied by the State of Wisconsin. Because the forestry mill tax no longer exists as a source of tax revenue to the State, a policy for recognizing that tax revenue is no longer applicable.

Act 59 also created a new GPR sum sufficient appropriation 20.835(3)(ef) Transfer to Conservation Fund - Forestry. If funding is appropriated for 20.835(3)(ef), an Interfund Transfer Out should be recorded in the ACTUALS ledger for the General fund and a correlating Interfund Transfer In should be recorded in the DNR Conservation fund. An ACFR entry would be needed in the CAFR ledger to accrue the transfer *only* if the transfer of funds had not yet been recorded in the ACTUALS ledger for both GAAP funds for the fiscal year ended June 30th. Similar to other transfer transactions, an ACFR reclassification entry would be necessary if the transfer out or transfer in transactions were inappropriately coded in the ACTUALS ledger.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2017
SUB-SECTION:	20 - DNR Mill Tax Revenue Recognition	**REVISION DATE:**	May 7, 2018
SUBJECT:	Procedure	**PAGE:**	1 of 1

The forestry mill tax ended effective with the January 1, 2017 property tax assessments (property taxes levied in 2017, for payment to the State in 2018). Because the forestry mill tax no longer exists, tax revenue entries are not needed for ACFR reporting.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 1990
SUB-SECTION:	21 - Municipal and County Shared Revenue	**REVISION DATE:**	July 26, 1991
SUBJECT:	Policy	**PAGE:**	1 of 1

Through the Municipal and County Shared Revenue program (shared revenue program) the state distributes financial resources to municipal and county governments to be used at their discretion for providing local government services.

State statues require the Department of Revenue (DOR) to inform each local unit of government on or before September 15th of each calendar year the estimated shared revenue payments they will receive. Payments are made in July and November of the following calendar year.

While each local governmental unit is prohibited in considering the anticipated revenue distribution in determining local tax rates, the local government is able to include the estimated shared revenue in its budget.

The Governmental Accounting Standards Board (GASB) Codification, Section 1600, requires expenditures and liabilities be recognized in the period when transactions or events that give rise to the related liability occur. When applying this standard to the shared revenue program, a commitment exists when local governments are notified of the amount of its distribution on September 15.

In any transaction, there will be an event which will determine the timing of the recognition of the transaction and that in the case of an expenditure, that a liability exists at a certain date. Since the local governments recognize this shared revenue in the succeeding calendar year fiscal year's budget, the liability is recordable as of January 1 following the notification.

The underlying principle behind measurement of the shared revenue program's liability is that it should be recognized only to the extent that the liability at fiscal year-end match the State's revenue collection process. A rational method for calculation of the liability is a pro rata allocation based on the time period over which the revenues which will be used to finance the liability are collected. The end result is to match the liability with the State's revenue stream occurring over the calendar fiscal year of the local units of government. Matching the liability with the revenue stream results in one-half of the Municipal and County Shared Revenue program's appropriated amount being recognized as a liability as of June 30.

Therefore, the State will accrue a liability and an expenditure for the Municipal and County Shared Revenue program for one-half (six months) (January 1 - June 30) of the appropriated amount of shared revenues as a liability.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 1990
SUB-SECTION:	21 - Municipal and County Shared Revenue	**REVISION DATE:**	June 26, 2014
SUBJECT:	Procedure	**PAGE:**	1 of 1

To ensure that all local assistance expenditures are properly reported according to the policy established by Section V, Sub-section 21 of this manual, the Department of Revenue (DOR) will provide to the State Controller's Office - Financial Reporting Section (SCO-FRS) information needed to recognize expenditures in the period in which the related liability is incurred, if measurable.

The amount of the June 30 liability for the Municipal and County Shared Revenue program, is one-half (six months) (January 1 - June 30) of the appropriated amount of shared revenues.

The following journal entries will be completed and provided as part of the DOR Tax reporting package:

(1) The following journal entry must be made to eliminate the prior year's entry [see Section V, Sub-section 32 for further explanation].

Debit:	Fund Balance - Unassigned	XXX	
Credit	Intergovernmental Expenditures		XXX
	<To reverse Fiscal Year XX's entry for the Municipal and County Shared Revenues>		

(2) The following entry will be made to record the current year's liability for the State Shared Revenue Program:

Debit:	Intergovernmental Expenditures	XXX	
Credit	Due to Other Governments		XXX
	<To record one half of the Municipal and County Shared Revenue liability at June 30, YY>		

Wisconsin currently has three property tax credit programs that shift part of the burden of financing local governments from property taxes to State-collected taxes. The programs are the School Tax Credit Program, the Lottery Tax Credit Program, and the First Dollar Tax Credit Program. The programs provide tax relief to property taxpayers in the form of a credit on property tax bills.

School Tax Credit Program

Prior to Fiscal Year 1992, the State Property Tax Credit Program was split between the general government tax credit [ss. 79.10 (5)] and the school levy tax credit [ss. 79.10 (4)] components. However, the 1991 Act 39 shifted the tax credit program's focus from relieving the levies of all taxing jurisdictions toward relief of school taxes. Through a series of Legislative actions, the general government tax credit was eliminated placing total funding emphasis in the school tax credit component. Payment of the school tax credit occurs on the fourth Monday in July.

Wis. Stat. Sec. 79.10 requires the State to inform municipalities of their school levy tax credit payment on or before December 1. Since the credit is meant to reduce individual property owners' property tax bills and is not to be considered a source of revenue in determining the municipal budget, the notification date has been set at a point after most local units of government have established their budgets.

In addition, local units of government are required to show the school tax credit on tax bills sent to taxpayers in December. Wis. Stat. Sec. 79.11 (1) states in part, "... extension of the tax credits ... on the tax roll shall be deemed payment of that portion of the total tax due on property to which such credits are applicable."

Each local taxing jurisdiction determines the amount of property taxes it must assess to meet its budget. By December, all taxing jurisdictions have made this determination and notified the administering municipality of the amount of property tax due from taxpayers in each municipality.

Property taxes are typically collected and "settled for" in February and July of each Calendar Year. Wis. Stat. Sec. 74, Subchapter IV, requires that on or before February 15, the administering municipality distribute tax collections to the various taxing jurisdictions (cities, towns, villages, school districts, WTCSB Districts, etc.). For example, if 58% of property taxes are collected in January, each taxing jurisdiction receives 58% of its tax levy.

The State's July school tax credit payment is paid initially to the administering municipality who treats the payment as other property tax collections. The municipality then sends the funds to the county who distributes the monies along with the remaining tax collections to the various taxing jurisdictions included in the tax levy (cities, towns, villages, school districts, WTCSB Districts, etc.). Counties at that time "settle in full" so each taxing jurisdiction is paid the balance of its tax levy. Although the school tax credit is calculated on the property tax levy for school purposes, the State's July payment is treated the same as other tax collections and shared with all levying units.

- *Liability Recognition*

The Governmental Accounting Standards Board (GASB) Codification, Section 1600, requires that expenditures and liabilities be recognized in the period when transactions or events that give rise to the related liability occur. When applying this theoretical basis to the school tax credit, a commitment is created when (1) local units of government are notified of the amount of its school credit distribution in December, and (2) local units of government enter the amount of the school tax credit to the tax rolls.

Since a commitment exists when the local units of government enter the school tax credit on the tax rolls upon notification, and recognition of the property tax revenues at the local level occurs in the succeeding calendar fiscal year, a liability is recordable on January 1 following the notification. However, the school tax credit liability should be recognized only to the extent that the liability at fiscal year-end matches the State's revenue collection process.

The liability recognized shall be based upon the reality of the distribution of the school tax credit, that is, the State's July payment is treated the same as all other tax collections and distributed to all taxing jurisdictions. A rational method to calculate the liability at June 30 is a pro rata allocation based on the percentage of each taxing jurisdiction type tax levy to the amount of the State's July payment.

For example, assume in a fiscal year the school taxing jurisdictions' (elementary, secondary and WTCSB Districts) tax levy represents approximately 60% of the total statewide tax levy. Because the portion of the July payment going to these taxing jurisdictions relates to their fiscal year ended June 30, 100% of the 60% of the July payment is recognized as school-taxing jurisdictions' portion of the recordable liability.

The accrual for school taxing jurisdictions is calculated as follows:

Accrual = (% of tax credit earned by school taxing jurisdictions*) X (school districts' portion** of July payment)

*	100%	in this example
**	60%	in this example

In addition, the portion of the July payment applicable to the other taxing jurisdictions (cities, towns, villages) is calculated using the pro rata allocation basis using their percentage of the total State-wide tax levy. For example, these taxing jurisdictions' portion of the tax levy represents 40% of the total statewide levy. Therefore, 40% of the July payment applies to these taxing jurisdictions. However, because only 50% of their July payment fall within the State's fiscal year, only 50% of their portion of the July payment is included in the liability recognized at June 30.

The accrual for other taxing jurisdictions is calculated as follows:

Accrual = (% of tax credit earned by other taxing jurisdictions*) X (other districts' portion** of July payment)

*	50%	in this example
**	40%	in this example

Therefore, the State's policy, for liability recognition is that a liability should be recorded at June 30 for the school tax credit program. The amount of the liability should be calculated based upon each taxing jurisdiction type tax levy to the amount of the State's July payment that falls within the State's fiscal year.

This method reflects the reality of the activity relating to the school tax credit at the local level. That is, although the school tax credit is calculated on the property tax levy for school purposes, the State's July payment to the administering municipality is commingled with and treated the same as all other tax collections and distributed to all taxing jurisdictions, not just the school districts.

In addition, because Chapter 20 budgeted amounts are a control mechanism representing an authorized level of spending which can be subject to change through legislative action, this methodology provides more consistency in applying the calculation methodology between fiscal years.

LOTTERY TAX CREDIT PROGRAM

The Lottery Tax Credit Program (lottery credit) provides direct property tax relief to taxpayers in the form of State credits on property tax bills. Property owners receive a tax credit equal to the school property tax portion of the dwelling's value –the "credit base."

For eligible taxpayers, the local treasurer will compute their lottery credit and reduce their taxes by this amount. The property owner's tax bill will note the size of the lottery credit and the net property tax due will reflect the reduction due to the credit.

The State pays municipal treasurers for lottery credits extended to taxpayers in each municipality.

Wis. Stat. Section 79.10(7m)(b) states:

> *"The amount determined under sub. (5) with respect to claims filed for which the municipality has furnished notice under sub. (1m) by March 1 shall be distributed from the appropriation under ss. 20.835(3)(q) by the Department of Administration on the 4th Monday in March."*

These State payments are treated the same as other tax collections and shared with all levying jurisdictions through the property tax settlement process, e.g., a portion of the March payment applies to general governments (cities, towns, villages, counties) and the remaining portion to school taxing jurisdictions.

- Asset/Liability Recognition

The lottery credit is accounted for in the Lottery Fund, an enterprise fund that accounts for revenues and expenses on the accrual basis. Under accrual accounting, when an item is paid and recorded in advance of its use or consumption, it represents an asset (prepaid item) or deferred outflow of resources. The distinction between a prepaid item or a deferred outflow of resources depends on the type of transaction and the requirements the recipient still has to meet in order to be eligible to spend the credit. See Section V – 47 for more information about deferred outflows of resources.

Similar to the methodology applied to the School Tax Credit Program, the liability should match the State's revenue stream.

For school taxing jurisdictions, the March payment applies to their fiscal year-end June 30. Therefore, an accrual for this portion of the lottery credit is not required.

The portion of the State's March payment going to general government taxing jurisdictions applies to their fiscal period ending December 31. Therefore, part of the State's March lottery payment represents an expense in the State's current fiscal period ending June 30, while the remaining portion represents an item paid and recorded in advance of its usage by the general government taxing jurisdictions (the portion relating to the period July 1st through December 31st). In effect, the State has prepaid these taxing jurisdictions for the second half of their calendar fiscal year. However, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, paragraph 10, requires that resources received in government mandated nonexchange transactions "before the time requirements are met, but after all other eligibility requirements are met, should be reported as a deferred outflow of resources by the provider."

Therefore, the State will record a deferred outflow of resources (advances to recipients) for the amount of the March payment applicable to general government taxing jurisdictions' period July 1st through December 31st. The equation to calculate the general government accrual (deferred outflow) is:

Accrual = [(% of tax credit earned by general government taxing jurisdictions) x March payment] <u>less</u> [amount paid in March applicable to general government taxing jurisdictions].

FIRST DOLLAR TAX CREDIT

Wis. Stat. Section 79.10 requires the State to inform municipalities of their credit payment on or before December 1. Since the credit is meant to reduce individual owner's property tax bills and is not to be considered a source of revenue in determining the municipal budget, the notification date has been set at a point after most local governments have established their budgets.

Municipalities prepare tax bills after they receive notice of the credit amount. They compute the mill rate reduction produced by the credit and reduce each taxpayer's bill by that amount. In effect, each individual taxpayer in a municipality shares in the tax credits paid to the municipality, based on their share of the municipality's total assessed value. On property tax bills, school tax levies are reported net of school levy tax credits including the first dollar tax credit. In addition, the tax bill reports the school levy tax credit for the current year in a separate box. *The counties or municipalities receive the school levy tax credit payment on the <u>fourth Monday in July</u>*. Although calculated using the property tax levy for school purposes, the payment is treated the same as other tax collections and shared with all levying units through the property tax settlement process.

The State's July school tax credit payment is paid initially to the administering municipality who treats the payment as other property tax collections. The municipality then sends the funds to the county who distributes the monies along with the remaining tax collections to the various taxing jurisdictions included in the tax levy (cities, towns, villages, school districts, WTCSB Districts, etc.). At that time counties "settle in full" so each taxing jurisdiction is paid the balance of its tax levy. Although the school tax credit is calculated on the property tax levy for school purposes, the State's July payment is treated the same as other tax collections and shared with all levying units. Because the various taxing jurisdictions have a different fiscal year, this impacts the calculation of the associated accounts.

- *Liability Recognition*

The Governmental Accounting Standards Board (GASB) Codification, Section 1600, requires that expenditures and liabilities be recognized in the period when transactions or events that give rise to the related liability occur. When applying this theoretical basis to the school tax credit and the first dollar tax credit, a commitment is created when (1) local units of government are notified of the amount of its school credit distribution in December, and (2) local units of government enter the amount of the school tax credit to the tax rolls.

Since a commitment exists when the local units of government enter the school tax credit on the tax rolls upon notification, and recognition of the property tax revenues at the local level occurs in the succeeding calendar fiscal year, a liability is recordable on January 1 following the notification. However, the school tax credit liability should be recognized only to the extent that the liability at fiscal year-end matches the State's revenue collection process. This process assumes revenues collected evenly throughout the year and due to each jurisdiction is collected.

The liability recognized shall be based upon the timing of the distribution of the school tax credit, that is, the State's July payment is treated the same as all other tax collections and distributed to all taxing jurisdictions. A rational method to calculate the liability at June 30 is a pro rata allocation based on the percentage of each taxing jurisdiction type tax levy to the amount of the State's July payment.

For example, assume in a fiscal year the school taxing jurisdictions' (elementary, secondary and WTCSB Districts) tax levy represents approximately 60% of the total statewide tax levy. Because the portion of the July payment going to these taxing jurisdictions relates to their fiscal year ended June 30, 100% of the 60% of the entire July payment is recognized as school-taxing jurisdictions' portion of the recordable liability.

The accrual for school taxing jurisdictions is calculated as follows:

Accrual = (% of tax credit earned by school taxing jurisdictions*) X (school districts' portion** of July payment)

*	100%	in this example
**	60%	in this example

In addition, the portion of the July payment applicable to the other taxing jurisdictions (cities, towns, villages) is calculated using the pro rata allocation basis using their percentage of the total State-wide tax levy. For example, these taxing jurisdictions' portion of the tax levy represents 40% of the total statewide levy. Therefore, 40% of the July payment applies to these taxing jurisdictions. However, because only 50% of their July payment fall within the State's fiscal year, only 50% of their portion of the July payment is included in the liability recognized at June 30.

The accrual for other taxing jurisdictions is calculated as follows:

Accrual = (% of tax credit earned by other taxing jurisdictions*) X (other districts' portion** of July payment)

*	50%	in this example
**	40%	in this example

Therefore, the State's policy, for liability recognition is that a liability should be recorded at June 30 for the first dollar tax credit program. The amount of the liability should be calculated based upon each taxing jurisdiction type tax levy to the amount of the State's July payment that falls within the State's fiscal year.

This method reflects the reality of the activity relating to the first dollar tax credit at the local level. That is, although the tax credit is calculated on the property tax levy for school purposes, the State's July payment to the administering municipality is commingled with and treated the same as all other tax collections and distributed to all taxing jurisdictions, not just the school districts.

In addition, because Chapter 20 budgeted amounts are a control mechanism representing an authorized level of spending which can be subject to change through legislative action, this methodology provides more consistency in applying the calculation methodology between fiscal years.

To ensure that all local assistance expenditures are properly reported according to the policy established by this manual, agencies will provide to the State Controller's Office - Financial Reporting Section (SCO-FRS) information needed to recognize expenditures in the period in which the related liability is incurred, if measurable.

SCHOOL TAX CREDIT PROGRAM

The amount of the June 30 liability for the School Tax Credit Program is 100% of the school taxing jurisdictions' portion of the July payment plus 50% of the other taxing jurisdictions' (cities, towns, villages) portion of the July payment.

To illustrate, 60% of the Fiscal Year 20YY state-wide tax levy applied to school and WTCSB districts. Applying the same percentage to the State's $319,305,000 July FY 20YY school tax credit payment, $191,583,000 was distributed to these school taxing jurisdictions. Because school taxing jurisdictions are on a June 30 fiscal year, 100% of the $191,583,000 was recognized as a portion of the liability. In addition, 40% of the July FY 20YY payment (or $127,722,000) applied to the other taxing jurisdictions. However, because only 50% of their payment falls within the State's fiscal year, only 50% (or $63,861,000) was included in the liability recognized at June 30.

The total school tax credit liability recognized at June 30, FY 20YY was:

100% of the school taxing jurisdictions' portion of the July payment	$	191,583,000
50% of the other taxing jurisdictions' portion of the July payment		63,861,000
Total liability at June 30, FY 20YY	$	255,444,000

The year-end reversing and accrual amounts will be reported using the following two journal entries.

(1) Reversing journal entries must be made for Fiscal Year 20XX to eliminate the prior year's entry [see Section V - 32 for further explanation].

a.	Debit:	Fund Balance - Unassigned	XXX	
	Credit:	Tax Relief and Other General Expenditures		XXX
	<To reverse Fiscal Year 20XX entry.>			

(2) The following entry will be made to record the Fiscal Year 20YY liability:

a.	Debit:	Tax Relief and Other General Expenditures	XXX	
	Credit:	Due to Other Governments		XXX
	<To record the Fiscal Year 20YY liability.>			

LOTTERY TAX CREDIT PROGRAM

- School Taxing Jurisdiction

For school taxing jurisdiction, the March payment applies to their fiscal year-ended June 30th. Therefore, a liability accrual for the school taxing jurisdiction's portion of the March payment is not required.

- General Government Taxing Jurisdictions

Assuming that $200 was paid to general government and school taxing jurisdictions in March and that 40% of the total payment ($200 x .40 = $80) applied to the general government taxing jurisdictions, the accrual would be calculated for amounts advanced to the recipients as follows:

Accrual = [(% of tax credit earned by general government taxing jurisdictions) x March payment] less [amount paid in March applicable to general government taxing jurisdictions]

Illustration of Accrual:

Accrual = [50% of (40% of $200)] less [40% of $200] = $(40)**
** Represents a $40 Prepayment

Using the examples provided above, the entries to reflect the accruals would be as follows:

Debit:	Deferred Outflow of Resources (Advance to Recipient)	$ 40	
Credit:	Expense/Use		$ 40

To illustrate further, using the accrual policy, and the March payment schedule, the impact would be:

Background information for illustration:

March FY 20YY Payment	$ 156,161,969
Estimated school levy percentage	60.5
Estimated local government levy percentage	39.5

School Taxing Jurisdictions

[100% of (60.5% of $156,161,969)]	less [60.5% of $ 156,161,969]	= $ 00.00 Accrued Liability
Earned: $ 94,477,991	Paid: $ 94,477,991	= $ 00.00 Accrued Liability

General Government Taxing Jurisdictions

[50% of (39.5% of 156,161,969]	less [39.5% of 156,161,969]	= $ (30,841,989) Deferred Outflow
Earned: $ 30,841,989	Paid: $ 61,683,978	= $ (30,841,989) Deferred Outflow

The entry to reflect this accrual on June 30, FY 20YY is:

Debit:	Deferred Outflow of Resources (Advance to Recipient)	$ 30,841,989	
Credit:	Expense/Use		$ 30,841,989

FIRST DOLLAR TAX CREDIT PROGRAM

The amount of the June 30 liability for the First Dollar Tax Credit Program is 100% of the school taxing jurisdictions' portion of the July payment plus 50% of the other taxing jurisdictions' (cities, towns, villages) portion of the July payment.

To illustrate:

Assumptions:

July Payment:	$72,676,255 (per STAR)
School Taxing Jurisdictions Levy:	51.66% (SCO/FRS calculation from data provided by DOR)
Government Taxing Jurisdictions Levy:	48.34% (SCO/FRS calculation from data provided by DOR)

Calculation:

51.66% of the Fiscal Year 20YY state-wide tax levy applied to school and WTCSB districts. Applying the same percentage to the State's $72,676,255 July FY 20YY school tax credit payment, $37,544,553 was distributed to these school taxing jurisdictions. Because school taxing jurisdictions are on a June 30 fiscal year, 100% of the $37,544,553 should be recognized as a portion of the liability.

100% (.5166 * $72,676,255) = $37,544,553

48.34% of the July FY 20YY payment applied to the other taxing jurisdictions. However, because only 50% of their payment falls within the State's fiscal year, only 50% (or $17,565,851) should be included in the liability recognized at June 30.

50% (.4834 * 72,676,255) = $17,565,851

The total First Dollar Tax Credit liability recognized at June 30, FY 20YY should be:

100% of the school taxing jurisdictions' portion of the July payment	$37,544,553
50% of the other taxing jurisdictions' portion of the July payment	$17,565,851
Total liability at June 30, FY 20YY	$55,110,404

Journal entries:

The year-end reversing and accrual amounts will be reported using the following two journal entries.

(1) Reversing journal entries must be made for Fiscal Year 20XX to eliminate the prior year's entry [see Section V - 32 for further explanation].

a.	Debit:	Fund Balance - Unassigned	XXX	
	Credit:	Tax Relief and Other General Expenditures		XXX
		<To reverse Fiscal Year 20XX First Dollar Tax Credit entry.>		

(2) The following entry will be made to record the Fiscal Year 20YY liability:

a.	Debit:	Tax Relief and Other General Expenditures	XXX	
	Credit:	Due to Other Governments		XXX
		<To record the Fiscal Year 20YY First Dollar Tax Credit liability.>		

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2021
SUB-SECTION:	23 - General School Aids	**REVISION DATE:**	April 21, 2022
SUBJECT:	Policy	**PAGE:**	1 of 1

General school aids serve to reduce the reliance upon the local property taxpayer as a source of revenue for educational programs. This program shifts a portion of the costs of public education from the property tax payer to state-collected resources.

This aid is an appropriated amount distributed to school districts through a cost sharing formula based upon the amount by which the guaranteed valuation exceeds the equalized valuation of the school district, multiplied by the primary required tax levy rate. The amount appropriated is not determined by any statutory formula.

Payment occurs in September, December, March and June. Beginning with Fiscal Year 1998, Wis. Stat. Section 121.15(1m) required the State to delay $75.0 million in aid payments to the 4th Monday in July. School districts were specifically instructed to treat these payments as if they had been received in the previous school year and they recorded receivables at their year-end. The State in turn accrued a liability for the $75.0 million general school aids payment is not made before year end.

Under Wis. Stat. Section 121.15(1m) this delayed payment ended after Fiscal Year 2021. Since all the payments are now paid in the current fiscal year, a liability to recognize the accrual for the $75.0 million general school aids delayed payment is no longer necessary.

A liability will only be recognized if the $75.0 million general school aids payment is not made by year end. With the change to Wis. Stat. Section 121.15(1m) starting after Fiscal Year 2021 ending the delayed payment, an accrual entry is no longer needed for this.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	24 – Illinois Tax Reciprocity Program	**REVISION DATE:**	May 23, 2014
SUBJECT:	Policy	**PAGE:**	1 of 1

The Department of Revenue (DOR) administers a tax reciprocity program with Illinois.

Note: The Minnesota tax reciprocity program was discontinued in FY 2010 for tax year 2010. In FY 2012, Wisconsin paid its remaining obligation under the discontinued program to Minnesota. No further payments or entries are needed related to the Minnesota program at this time.

To ensure that all tax reciprocity expenditures are properly reported according to the policy established by this manual, the Department of Revenue (DOR) will provide to the State Controller's Office - Financial Reporting Section (SCO-FRS) information needed to recognize expenditures in the period in which the related liability is incurred, if measurable.

A liability will be recognized for any reciprocity payments due but unpaid as of June 30th. This value can be determined by DOR using actual data for the prior calendar year, plus an estimate for the first six months of the current calendar year. The methodology for estimation can be based upon the historical relationship of payments made, tempered with factors such as the impact of tax table changes, tax rate changes, the economy, etc.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	24 – Illinois Tax Reciprocity Program	**REVISION DATE:**	May 5, 2014
SUBJECT:	Procedure	**PAGE:**	1 of 1

The Department of Revenue (DOR) should calculate the liability for the reciprocity payment due but unpaid as of June 30 for the prior calendar year, plus an estimate for the first six months of the current calendar year.

The year-end reversing and accrual amounts will be reported to FRS using the following journal entries:

(1) The following reversing journal entry must be made to eliminate the prior year's entry **[**see Section V, Sub-section 32 for further explanation**]**.

Debit	Fund Balance - Unassigned	xxx	
Credit	Tax Relief and General Expenditures		xxx

<To reverse prior year's entry for the Illinois Tax Reciprocity Program>

(2) The following entry will be made to record the current year's liability.

Debit	Tax Relief and Other General Expenditures	xxx	
Credit	Due to Other Governments		xxx

<To record current year's liability @ June 30, XX for the Illinois Tax Reciprocity Program>

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 1990
SUB-SECTION:	25 - Homestead and Farmland Credit Program	**REVISION DATE:**	August 25, 1993
SUBJECT:	Policy	**PAGE:**	1 of 1

A refund liability will be recognized for unpaid calendar year credits/refunds, plus an estimate for credits/refunds for the current year. This amount should be an estimate based upon elements such as claims filed to date, average claim, anticipated increases or decreases, rate changes and previous years filing history.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	25 - Homestead and Farmland Credit Program	**REVISION DATE:**	May 5, 2014
SUBJECT:	Procedure	**PAGE:**	1 of 1

To ensure that all liabilities are properly reported in accordance with generally accepted accounting principles (GAAP) the Department of Revenue (DOR) will provide to the State Controller's Office - Financial Reporting Section (SCO-FRS) information needed to recognize liabilities in the period in which those liabilities are incurred.

A major program administered by the DOR is the Homestead and Farmland Preservation Program.

The amount of the refund liability for this program consists of any unpaid calendar year credits/refunds, plus an estimate for credits/refunds for the current calendar year. The estimation methodology can be based upon elements such as claims filed to date, average claim, anticipated increases or decreases, rate changes and previous years filing history.

The following entry will be made to record and report the current year's liability for the above program. In addition, in accordance with Section V, Sub-section 32, "Reversing Entries," journal entries must also be completed to eliminate the prior year's entry.

Homestead Credit Program:

a.

Debit:	Fund Balance - Unassigned	xxx	
Credit:	Tax Relief and Other General Expenditures		xxx

<To reverse prior fiscal year entry.>

b.

Debit:	Tax Relief and Other General Expenditures	xxx	
Credit:	Tax Refunds Payable - Homestead		xxx

<To record the Homestead Credit Program refund liability at June 30, ___.>

Farmland Preservation Program:

a.

Debit:	Fund Balance - Unassigned	xxx	
Credit:	Tax Relief and Other General Expenditures		xxx

<To reverse prior fiscal year entry.>

b.

Debit:	Tax Relief and Other General Expenditures	xxx	
Credit:	Tax Refunds Payable - Farmland Preservation		xxx

<To record the Farmland Preservation refund liability at June 30, ____.>

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2017
SUB-SECTION:	26 - DOT Transportation Aids	**REVISION DATE:**	May 10, 2018
SUBJECT:	Policy	**PAGE:**	1 of 1

The Department of Transportation provides aids to local governments to defray a portion of the costs incurred with maintaining streets and roads under local jurisdiction. State-collected highway user fees, primarily motor fuel taxes and vehicle registration fees, fund the aids programs. The total amount of the transportation aids is budgeted for in a statutory appropriation. The largest of these aids is the Transportation Aids program authorized under Wis. Stat. Sec. 86.30(2). The aids program is accounted for in the Transportation Fund (GAAP Fund 21100) which is a special revenue fund.

Wis. Stat. Sec. 86.30 specifies that local transportation aids are to be paid on a calendar year basis, with payments to *municipalities* occurring quarterly on the first Monday in January, April, July and October. Transportation aids to *counties* are paid in three installments twenty five percent paid on the first Monday in January, fifty percent percent paid on the first Monday in July and twenty five percent paid on the first Monday in October. Legislative indication of the period to which these payments relate is not readily identifiable. However, the Department of Transportation's Bureau of Local Transportation Aids has indicated that the July payment is considered to relate to the local governments' third calendar year quarter (July through September).

The Governmental Accounting Standards Board (GASB) *Codification*, Section 1600, requires that expenditures and liabilities be recognized in the period when transactions or events that give rise to the related liability occur. When applying this standard to the Transportation Aids program, a commitment is created when local units of government are notified of the amount of its distribution in September.

In any transaction, there will be an event which will determine the timing of the recognition of the transaction and that, in the case of an expenditure, a liability exists at a certain date. Since the local governments recognize this aid in the succeeding calendar year, the liability is recordable as of January 1 following the notification.

The transportation aids liability should be recognized only to the extent that the liability at fiscal year-end matches the revenue collection process. A rational basis for calculation of the liability is to recognize the liability for the time period over which the revenues which will be used to finance the liability are collected. The end result is to match the liability with the State's revenue stream occurring over the calendar fiscal year of the local units of government.

For the transportation aids program, payments to *municipalities* are made in January, April, July and October. January and April payments to the *municipalities* are made during the fiscal year in which revenues used to finance the liability are collected. Transportation aid payments to *counties* are made in January, July and October. January payments to the *counties* are made during the fiscal year in which revenues used to finance the liability are collected.

The appropriate treatment for the transportation aids paid to *municipalities* is **not** to recognize a liability for the transportation aids program at June 30 because the expenditures relating to the revenues collected to finance the aids are paid to the *municipalities* during the State's fiscal year. While statutes specify payment dates, these aid payments are not readily identifiable to any particular period, although discussions with the Department of Transportation indicate the July payment is considered to relate to the *municipalities* third calendar year quarter.

The appropriate treatment for the transportation aids paid to *counties* is to record a liability (due to other governments) for the July payment. This accrual is necessary to account for a difference between when the *counties* "earn" (January to end of June) the revenue and when the cash payments are made. In general, *counties* "earn" their revenues as time passes over a 12-month period. The amounts earned but not yet paid as of June 30th, are accrued as payables.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2012
SUB-SECTION:	26 - DOT Transportation Aids	**REVISION DATE:**	April 22, 2013
SUBJECT:	Procedure	**PAGE:**	1 of 1

Because a liability for the transportation aids paid to *municipalities* under Wis. Stat. Sec. 86.30 is not currently recognized as discussed under the policy section, GAAP reporting procedures for a liability are not applicable at this time. The ACFR will report transportation aids as an expenditure when paid, as recorded on the State Central Accounting System.

The appropriate treatment for the transportation aids paid to *counties* under Wis. Stat. Sec. 86.30 is to record a liability (due to other governments) for the **July** payment. This accrual is necessary to account for a difference between when the *counties* "earn" (January to end of June) the revenue and when the cash payments are made. In general, *counties* "earn" their revenues as time passes over a 12-month period. The amounts earned but not yet paid as of June 30th, are accrued as payables.

The Medicaid program commenced in 1965 following enactment of federal regulations requiring each state to establish systems for administering and providing Medicaid benefits. The overall objective of the program is to subsidize health care costs for economically disadvantaged individuals.

Medicaid is administered in Wisconsin by the Department of Health Services but benefit claims are processed by an external intermediary under contract with the State. Substantially all Medicaid program costs are shared by the federal and state government. Thus, the state receives federal funding for Medicaid program benefits as well as for administrative and training costs.

The State's central accounting system reflects Medicaid expenditures when paid. Providers are reimbursed using an automated claims payment system and have a business incentive to quickly request payment. This results in a majority of Medicaid claims being paid quickly and in the same fiscal year the costs were incurred. Historical data indicates over 90% of annual Medicaid claims for a fiscal year are paid by June 30th. After a fiscal year is over, providers or local governments may still submit Medicaid claims for that fiscal year. However, claims must be submitted within one year of the fiscal year end.

Because of the timing of the final payments, the State must make an entry to report the year-end liability for the ACFR. Similar to other regulatory standards, GASB standards allow for the use of reasonable estimates in furthering the goal of materially accurate *and* timely financial statements.

A reasonable method to estimate unpaid claims for the ACFR is to determine the historical runout of claims paid for four quarters after June 30th as a percentage of all claims paid for the fiscal year. Medicaid payment data shows that approximately 99.5% of all claims are paid by the end of the fourth quarter following the end of the fiscal year. Averaging the post-June 30th payment percentage for the three prior fiscal years and applying it to the current year expenditures results in a reasonable GAAP reporting estimate compliant with GASB standards. DHS should use this method to identify the amount of unpaid claims to accrue for the ACFR.

Because the federal government covers a portion of the Medicaid costs, a matching revenue should also be reported.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2017
SUB-SECTION:	27 - Medicaid Claims	**REVISION DATE:**	May 18, 2018
SUBJECT:	Procedure	**PAGE:**	1 of 1

The Department of Health Services (DHS) should accrue a liability for Medicaid claims or costs paid after fiscal year end for services rendered during the year. In addition, they should accrue associated federal revenue as well as rebates from drug manufacturers.

An adjustment for an accounts payable liability and human relations and resources expenditure should be recorded in the ACFR to reflect material unpaid Medicaid claims at fiscal year-end. Two categories of payments commonly comprise a large portion of unpaid Medicaid costs at year end:

1. **Capitation Payments**: If necessary, DHS should accrue a liability for material Medicaid capitation payments due for the fiscal year ended June 30th but not reported in the STAR ACTUALS Ledger in that fiscal year. For example, this may occur if the June payment is made in July. Conversely, prepaid assets should be reported if the July capitation payment is made in June. An average historical claims paid percentage similar to that used for fee for service claims may be incorporated into the accrual as necessary.

2. **Fee for Service Claims**: DHS should estimate the liabilities at June 30 for unpaid Medicaid claims based on an average historical claims paid percentage with a four-quarter runout over a 3 year-period. In doing so, the agency should also consider adjustments in its methodology to reflect changed conditions that would have a significant impact on the accrual (e.g., Medicaid program or system modifications that result in a change in the timing of submission or payment of claims, significant new providers, etc.)

Federal Revenue: The federal share of the accrued claims liability and capitation payments should be accrued as due from other governments and intergovernmental revenue to reflect the portion of Medicaid costs that will be reimbursed by the federal government. When determining the amount, changes in the federal Medical Assistance percentage (FMAP) rate should be considered.

Medicaid Rebates: DHS should accrue a receivable related to rebates not yet received from drug manufacturers that provided medications for the Medicaid program during the fiscal year. The offset should be a reduction to human relations and resources expenditures.

Other Medicaid Related Receivables: DHS should accrue a receivable for amounts originating from Medicaid overpayments or incorrectly paid claims. A related liability entry should also be made for the amount that will be paid back to the federal government.

Other Medicaid-Related Liabilities: DHS should also apply criteria of GASB 62 - Contingencies to report any other significant liabilities, if any, that may exist at fiscal year end (e.g., federal disallowances of paid Medicaid reimbursements).

The Payments for Municipal Services program, handled by the DOA, Bureau of Financial Management (DOA-BFM), is designed to reimburse municipalities and, in some cases, counties for the cost of providing police and fire protection, solid waste handling, and other non-user fee services to state facilities. Normally, the cost of these services is financed though property taxes. However, since state facilities are exempt from property taxes, these *payments in lieu of taxes* serve to reimburse local units of government for the services provided.

Under this program, DOA-BFM serves as an agent, who both pays local governments and collects the apportioned share of these expenditures from other state agencies and/or GAAP funds. The amounts to be distributed to local governments are calculated primarily by an established formula. In some instances, because of special circumstances, adjustments to the payment may be negotiated. Entitlements for the current calendar year are calculated based on the previous year's data and paid early in the ensuing calendar year. For example, entitlements for services provided during Calendar Year XY are based on service costs, local revenue, and property values for Calendar Year XX (the prior year). The actual payment is dispersed early in Calendar Year XZ (the ensuing year).

This program is financed through charges made to various states facilities benefiting from the provided municipal services. These facilities would include state office buildings, the University of Wisconsin System campuses, state prisons, treatment centers, and other state facilities throughout the state. Billings are prepared annually by BFM on approximately March 1st for the services provided during the previous calendar year.

Since the state uses a fiscal year, which spans from July 1 through June 30, while the Payments for Municipal Services program uses a calendar year, two significant adjustments are necessary. Both of these adjustments attempt to restate transactions from the calendar to the fiscal year basis:

1. **Reversals**, serve to eliminate the expenditures and transfers included on the financial records of the current year, which relate to accruals from the previous fiscal year.

2. **Accruals** are necessary to set up the receivables and payables for the last half of the fiscal year. Because of the lateness of the billings to the state facilities, it is necessary to use estimates to determine the appropriate amount of receivables and transfers for the fiscal year.

Additional procedures may be needed to reclassify accounts receivable and payable as "due to/from other funds" if appropriate (for those cases where state facilities are part of separately identified GAAP funds). Furthermore, transfer account usage (both interfund and intrafund) must be reviewed and reconciled.

SCO-FRS will request billing information from the BFM and use it to establish year-end accruals needed between GAAP funds for ACFR reporting. In addition, SCO-FRS establishes reversing entries needed for the prior year accruals between GAAP funds. These entries, (reflective of accrued internal state activity) will be included on the ACFR trial balance for individual GAAP funds.

Agencies will be responsible for making an ACFR entry reclassifying transactions recorded in the ACTUALS ledger *during* the fiscal year that were not coded as interfund or intrafund transfers. They will also be responsible for ensuring that any payables reported in the ACTUALS ledger for unpaid municipal services as of June 30th are reflected as an interfund payable (Due to Other Fund). Intrafund accruals are not recorded.

SCO-FRS will be responsible for the "other side" of those entries. In addition, SCO-FRS will be responsible for accruals or reclassifications needed for external financial activity e.g. payments to the local governments.

The Payments for Municipal Services program operates on a calendar rather than a fiscal year basis with payments and billings done annually. As a result, the payments and billings relating to the January 1 through June 30 portion of the fiscal year are not made until seven to nine months after the close of the fiscal year. Consequently, several procedures are necessary to accurately reflect the financial activities of this program. While DOA-BFM is responsible for administering the payment and collections processes of the Municipal Services program, SCO-FRS is responsible for making the entries required for ACFR reporting purposes. Agencies with questions on what ACFR entries are needed should contact and collaborate with SCO-FRS.

Procedure A – Reversal and accrual of payments due to local governments *(To be performed by the SCO-FRS as an adjustment to the General Fund for BU 83500)*.

Since this program operates on a calendar year basis, half of the expenditures that have been recorded on-system relate to the prior fiscal year. As a result, a reversal (as shown below) is needed to remove these expenditures from the current year's accounting records. (See Section V – 32 "Reversing Entries" for further guidance on reversing entries.)

Debit:	Fund Balance – Unassigned	XXX	
Credit:	Tax Relief and Other General Expenditures		XXX

<To eliminate expenditures recorded on-system that were paid in the current fiscal year but relate to the prior fiscal year.>

Similarly, an accrual is needed to recognize the expenditures and payables relating to the last half of the fiscal year (January 1 through June 30) which normally would not be paid until January of the next fiscal year. The amount to be accrued for the current fiscal year would equal one-half of the following fiscal year's Chapter 20 appropriation [i.e., 20.835 appropriation 5(a)].

Required Entry:

Debit:	Tax Relief and Other General Expenditures	XXX	
Credit:	Due to Other Governments		XXX

<To record the payments due to local governments that relate to the current fiscal year but will not be paid until the ensuing fiscal year.>

Procedure B – Reversal and accrual of amounts due *to the General Fund BU83500* *(To be included on the ACFR trial balances as an entry made by SCO-FRS)*

The Payments for Municipal Services program eventually bills the facilities benefiting from the municipal services for their allocated share of the payments made to municipalities/counties. Since this program operates on a calendar year basis, a reversal is necessary to remove the transfers that have been recorded in the current year which relate to the past year.

Reversing Entry (this will be included as part of the reversing entries for General Fund BU 83500):

Debit:	Interfund Transfer In	XXX	
Credit:	Fund Balance - Unassigned		XXX

<To reverse the accrued interfund transfers in from the prior fiscal year.>

In addition, an accrual is needed to pick up the activity for the last half of the fiscal year. Since the allocation of costs for the January 1 through June 30 period is not done until the following February, estimates are used to determine the amount to be accrued between GAAP funds. *(Amounts owed between General Fund agencies are not accrued.)*

Example: Experience shows 46.6% of the billings are to other GAAP funds. The remaining 53.4% relates to other state agencies in the General Fund and represent *intrafund* rather than *interfund* transfers. To arrive at the amount to be set up as a receivable, the estimated percentage of interfund receivables (46.6%) would be multiplied by the amount set up as a payable in procedure A (one-half of the Chapter 20 appropriation for the next fiscal year).

Required Entry (*made by SCO-FRS on ACFR trial balance for General Fund BU 83500*):

Debit:	Due from Other Funds	XXX	
Credit:	Interfund Transfer In		XXX

<To recognize the estimated receivables due from other funds that relate to the current fiscal year but will not be billed until the ensuing fiscal year.>

DOA-BFM will supply SCO-FRS with the estimates calculated for each GAAP fund receiving municipal services.

SCO-FRS will set up the ACFR entries with matching amounts of interfund payables/receivables and transfers out/in between the individual GAAP funds and the General Fund BU 83500, respectively.

Procedure C – Reclassification of receivables and revenues/transfers *(To be performed by SCO-FRS, as an adjustment to the General Fund BU 83500, if necessary.)*

Receivables that had previously been recorded on-system should be reviewed to determine whether any amounts are due from other GAAP funds. If applicable, the following adjustment should be made:

Debit:	Due from Other Funds	XXX	
Credit:	Accounts Receivable		XXX

<Reclassification of receivables due from other GAAP funds.>

If receipts were recorded in a revenue account code, they should be reclassified to either interfund or intrafund transfers in. SCO-FRS will work with agencies, as necessary, to determine and make the required entries as shown in the example below:

Debit:	Miscellaneous/Clearing Revenue	XXX	
Credit:	Interfund Transfers In		XXX
Credit:	Intrafund Transfers In		XXX

<Reclassification of material revenues recorded in a non-transfer account code.>

Procedure D – Accrual of amounts due to the Payments for Municipal Services program *An SCO-FRS entry will be included on the ACFR trial balances of individual GAAP funds subject to payments for municipal services.*

Step 1 - Accrual of amounts to be billed in the ensuing fiscal year. The Municipal Services program operates on a calendar year basis. As a result, GAAP funds with facilities that receive municipal services must make adjustments to convert from the calendar to the fiscal year basis. The reversal procedures, will eliminate prior year transfers from the current fiscal year's accounting records (i.e., the transfers that relate to the first half of the calendar year).

Conversely, estimated interfund transfers relating to the January 1 through June 30 portion of the current fiscal year have been excluded from calendar year reporting and need to be accrued. SCO-FRS will develop ACFR entries to accrue the amount due to the Municipal Services program (General Fund BU 83500) based on the DOA-BFM allocation.

SCO-FRS will determine which funds have a material entry. No accrual shall be made for immaterial amounts. Because SCO-FRS is reversing the prior year accrual and making the current year accrual, agencies should not make those entries.

Reversing entry (*made by SCO-FRS on the ACFR trial balance of the individual GAAP funds):*

Debit:	Interfund Transfer In	XXX	
Credit:	Fund Balance/Net Position		XXX

<To reverse the accrual from the prior fiscal year.>

Required accrual entry (*made by SCO-FRS on the ACFR trial balances of individual GAAP funds*):

Debit:	Interfund Transfer Out	XXX	
Credit:	Due to Other Funds		XXX

<To recognize the estimated payables due to the municipal services program (General Fund BU 83500) that relate to the current fiscal year but will not be billed until the ensuing fiscal year.>

Step 2 - Accrual of amounts billed in the current fiscal year. While the previous step deals with estimates that will not be billed until the next fiscal year, it is possible that there are current year billings which have not yet been reflected on the GAAP fund's accounting records. This would occur if the billing was not established in STAR and the payment to the Municipal Services program has not yet been paid during the current fiscal year (delayed, perhaps, because of dispute or error). The transfer and payable must be set up since the services giving rise to the billings have been performed. Required entry (made by owing agency):

Debit:	Interfund Transfer Out	XXX	
Credit:	Due to Other Funds		XXX

<To recognize interfund transfers and associated payables due to the municipal services program that relate to the current year but were not paid or accrued in STAR in the current fiscal year.>

SCO-FRS would also make a correlating entry for the DFOF receivable and transfer in for General Fund BU 83500. *Note*: SCO-FRS policy prohibits accruals from being made for unpaid intrafund transfers and the associated payable because General Fund to General Fund transactions get eliminated.

Procedure E – Reclassification of accounts payable and expenditures/expense/transfers (*To be performed by individual GAAP funds coordinating with SCO-FRS for the General Fund BU 83500 side of the entry, if necessary)*

Accounts payable should be reclassified as due to other funds if the transactions comprising it are payments to other GAAP funds (in this case, the General Fund BU 83500). Payments made after June 30th but with an accounting date of June 30th or before should be reviewed to identify any transactions that relate to the Payments for Municipal Services program. Any accounts payable arising from these transactions should be reclassified as "due to other funds". This would likely be done along with the review of other AP transactions:

Debit:	Accounts Payable	XXX	
Credit:	Due to Other Funds		XXX

<Reclassification of payables due to other GAAP funds.>

The payments for municipal services should typically be a debit to either interfund or intrafund (between General Fund agencies) transfer out. If another account has been used or if the wrong account was used, an ACFR reclassification entry is needed to ensure interfund and intrafund transfers reconcile as follows:

Debit:	Interfund Transfers Out	XXX	
Debit:	Intrafund Transfers Out	XXX	
Credit:	Interfund Transfers Out		XXX
Credit:	Intrafund Transfers Out		XXX
Credit:	_____________ Functional Expenditures *(specify)*		XXX
Credit:	Supplies and Services Expenses		XXX

<Reclassification entry relating to payments for municipal services.>

FoodShare Wisconsin (formerly Food Stamps)

The Department of Health Services (DHS) administers the FoodShare Wisconsin program (FoodShare) on behalf of the U.S. Department of Agriculture (USDA). Recipients qualify through their local county or tribal maintenance office. An account is then set-up by an agent contracted by DHS. Recipients are then issued a Quest card and a personal identification number (PIN). Using the Quest card and their PIN, recipients may then access their benefits through point of sale devices in retail stores.

Most Foodshare benefits flow through the Quest cards. There are limited exceptions. Manual vouchers are available for small retailers, farmer's markets or route vendors that do not have the point of sale terminals available. In these circumstances, the account balance is verified by phone and the recipient signs the voucher.

The ACFR should reflect the value of Foodshare benefits in the General Fund. Revenues and expenditures shall be recognized at time of Foodshare distribution to eligible recipients. The entry is made at the fund level for FoodShare benefits because there is an actual flow of financial resources. Under an electronic benefit transfer system, there is generally no inventory to report at year-end.

Federal Commodities

The USDA provides surplus food commodities to the DHS for use in its Emergency Food Assistance Program, to the Department of Corrections (DOC) for use in its prisons, and to the Department of Public Instruction (DPI) for use in schools. DHS, DOC, and DPI do not pay the USDA for the value of food commodities; however, are required to reimburse the USDA for inventory shortages. The State's central accounting system, STAR, reflects the cost of administering the program but not the value of food commodities distributed or on hand.

DHS has a subcontract with DPI to handle the storage and distribution of its commodities. Inventories of both DPI and DHS are kept in central warehouses. DOC obtains commodities from DPI.

Because governmental funds are uniquely concerned with flows of *financial* resources, the receipt of commodities will not be reported as revenue in the General Fund or other governmental funds. Expenses (by function) and operating grants and contributions (by function) shall be recognized in the government-wide statements for commodities distributed throughout the year.

Federal commodities on hand are resources that should be reported only at the government-wide level. Agencies shall report the value of commodities on hand at year-end as inventory with an offset to unearned revenue. Care should be taken that commodities handled by one agency for another are reported only once. The agency maintaining physical custody of the asset shall report the inventory.

Vaccines

Historically the Department of Health Services (DHS) received assistance from the federal government to purchase vaccines that were then distributed to health care providers. Expenditures, along with the associated reimbursement i.e. federal grant revenues, were reported on WiSMART for inclusion GAAP reporting. Prior to 2009, this was the primary means of vaccines being received and distributed in the state. Since that time only a small portion of the State's vaccines are handled in this manner.

In 2009, the federal government began shipping, with DHS approval, vaccines directly to health care providers. The direct shipment of vaccines to providers now accounts for the majority of vaccines received by health care providers in the state. Annually, the federal government advises DHS of the value of all vaccines that were distributed directly to providers located in the state. The value of the vaccines distributed is to be reported by the State as a grant expenditure on the Schedule of Expenditures of Federal Awards. It follows that the financial statements for the State should similarly report the vaccine-related activity.

Because governmental funds are uniquely concerned with flows of *financial* resources, the receipt of commodities will not be reported as revenue in the General Fund or other governmental funds. Expenses (by function) and operating grants and contributions (by function) shall be recognized in the government-wide statements for commodities distributed throughout the year.

Because DHS does not hold vaccines under the direct shipment method, there is no inventory to be reported.

FoodShare Wisconsin (formerly Food Stamps)

Electronic benefit transfer of FoodShare Wisconsin (FoodShare) benefits shall be reported in the General Fund in keeping with the fund treatment given various other federal assistance programs, such as Medical Assistance. Benefits transferred will be reported in the year of distribution at the fund level.

Foodshare benefits distributed to eligible recipients should be recognized as both an expenditure and revenue similar to an expenditure driven grant. An entry is made on the State's central accounting system to record expenditures and revenues monthly. Under the electronic benefit transfer system there is generally no material inventory on hand to report.

Federal Commodities

Commodities will be recognized as inventory and unearned revenue at year-end. The entries for commodities, however, should be made only at the government-wide level. The agency retaining physical custody of the asset shall report the inventory. In addition, a second government-wide entry to recognize expenditures and operating grant revenue will be made for all commodities distributed throughout the year providing they are not already recorded in the STAR ACTUALS ledger.

Agencies dispensing commodities will make the following government-wide entries:

Debit:	Inventory	XXX	
Credit:	Unearned Revenue		XXX

< To record commodities on hand at year-end.>

Debit:	Expenditure (by function)	XXX	
Credit:	Operating Grants and Contributions (by function)		XXX

< To record the value of commodities distributed throughout the year.>

Vaccines

The Department of Health Services (DHS) should report an expenditure and revenue at the government-wide level for the value of vaccines the federal government ships directly to Wisconsin health care providers (those shipments that bypass the DHS). The DHS should make the following entry:

Debit:	Human Relations and Resources	XXX	
Credit:	Operating Grants & Contributions - HRR		XXX

< To recognize commodities (vaccines) distributed in a gov-wide entry.>

INTERFUND TRANSACTIONS

GAAP classifies interfund transactions between funds as follows:

1. **Reciprocal interfund activity,** per GASB 34, para. 112, is the internal counterpart to exchange and exchange-like transactions. It includes:
   a. ***Interfund loans*** – amounts provided with a requirement for repayment. Long-term interfund loans should be reported as advances. Short-term interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.
   b. ***Interfund services provided and used*** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds.

2. **Nonreciprocal interfund activity** is the internal counterpart to nonexchange transactions. It includes:
   a. ***Interfund transfers*** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement of repayment. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers should be reported after nonoperating revenues and expenses.
   b. ***Interfund reimbursements*** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

BACKGROUND ON INTERFUND AND INTRAFUND TRANSFERS

The difference between **inter**fund and **intra**fund transfers is significant because interfund activity is reported in GAAP financial statements while intrafund activity is not reported. Thus, how transfer transactions are reported on STAR impacts how that activity is reported in GAAP financial statements. All **inter**fund transfer out transactions reported for a GAAP fund should have a correlating **inter**fund transfer in reported for a different GAAP fund. Similarly, all ***intra****fund* transfer out transactions in a GAAP fund should have a correlating ***intra****fund* transfer in *within* the same GAAP fund. In ideal and simple circumstances, both sides of the transactions would be correspondingly reported on system. Section III-6 of the State GAAP Manual provides a listing of all GAAP funds.

TRANSFERS DEFINED

Transfers *between* different GAAP funds are referred to as **Inter**fund Transfers. Transfers from one appropriation to another *within* a GAAP fund, or from one agency to another *within* a GAAP fund, are **Intra**fund Transfers. Section 02-05 of the Wisconsin Accounting Manual lists the interfund and intrafund transaction codes to be used by agencies. Interfund transfers out account for the "disbursement" side of transfers *between* GAAP funds while interfund transfers in account for the "receipt" side. Similarly intrafund transfers out account for the disbursement side of transfers *within* a GAAP fund while intrafund transfers in account for the receipt side.

RELIANCE ON STATE CENTRAL ACCOUNTING SYSTEM

Where possible, the GAAP conversion process will rely on the State central accounting system to provide the appropriate accounting of interfund and intrafund transactions. However, due to limitations of that system, budgetary constraints, and recording errors, certain accounting transactions may have to be reclassified for GAAP reporting purposes. GAAP requirements for reporting interfund and intrafund transactions are summarized below.

INTERFUND TRANSFERS - GAAP REPORTING AND RECONCILIATION PROCESS

Interfund transfers defined in 2a, on the previous page, should reconcile. That is, all *interfund transfer out* transactions in a GAAP fund should have a correlating *interfund transfer in* in a different GAAP fund. The reconciliation is accomplished via a multipart process involving both the State Controller's Office-Financial Reporting Section (SCO-FRS) and state agencies. After an initial attempt by SCO-FRS to match all in and out transfer transactions, SCO-FRS provides a list of unreconciled transactions to agencies for resolution. To spread the reconciliation work out over the course of the fiscal year and to allow for on-system corrections, SCO-FRS' reconciliations are periodically provided to agencies. After receiving the Unreconciled Transfer reports, GAAP accountants are responsible for ensuring unreconciled transactions are properly reported in the appropriate GAAP fund or reclassified to a different type of transaction. GAAP accountants should submit an Interfund Transfers Reconciliation form to SCO-FRS with their GAAP submissions so the final reconciliation may be completed.

INTRAFUND TRANSFERS

Intrafund transfers occur in two situations:

1. Between state agencies reporting activity within the same GAAP fund (such as General fund to General fund); or
2. Between appropriations within the same state agency and within the same GAAP fund.

If the transfers were truly within the same GAAP fund and recorded correctly, one appropriation within the GAAP fund would be reporting an intrafund transfer out while another appropriation would be reporting an intrafund transfer in. Although these transfers are appropriately made for budgetary, statutory, or other purposes, from a GAAP reporting perspective there should be no expenditure/expense or revenue transactions reported in the financial statements. Thus, financial activity associated with these transactions is not included in the GAAP financial statements.

INTRAFUND TRANSFERS - GAAP REPORTING AND RECONCILIATION PROCESS

A reconciliation process similar to that for interfund transfers is also completed for intrafund transactions. First, the SCO-FRS attempts to reconcile the intrafund transfers reported on system. Unreconciled transactions are then provided periodically to GAAP accountants for resolution. GAAP accountants complete an Intrafund Transfers Reconciliation form for the General fund detailing the "other side" of unreconciled transfers and submit it to SCO-FRS. SCO-FRS finishes the process for the General fund by confirming all unreconciled intrafund transactions have been materially accounted for. Agency GAAP accountants are responsible for preparing any required adjusting entries for agency GAAP funds, other than the General Fund, to ensure intrafund transfers are excluded from GAAP financial statements.

PRESCRIBED ACCOUNTING PROCEDURES

The difference between the interfund and intrafund transfers is significant because interfund activity is reported in GAAP financial statements while intrafund activity is not reported. Whenever possible, the GAAP conversion process will rely on the STAR ACTUALS ledger to provide the appropriate accounting of interfund and intrafund transactions. Agencies should follow accounting procedures prescribed in the Wisconsin Accounting Manual when recording such transactions. GAAP accountants should develop an understanding of the procedures used by their agency to report both interfund and intrafund transactions to determine if transactions are reported correctly for ACFR reporting purposes. Ideally, agencies would be using the correct account codes at the time the transactions are recorded in the ACTUALS ledger to minimize the work required during the GAAP reporting process. However, due to differences in the STAR fund structure versus the GAAP fund structure, limitations of the STAR system, budgetary constraints, operational reasons, or recording errors, GAAP accountants may have to reclassify interfund or intrafund transactions for ACFR reporting purposes.

RECONCILIATION OF TRANSFERS

A flowchart is provided as an appendix to this section which can be used to work through the unreconciled transfers reports provided by SCO-FRS.

Interfund Transfers

As a control to ensure the accuracy of the transfers reported *between* funds in the ACFR, a reconciliation is completed annually. The basic premise of the transfer reconciliation is that each interfund transfer in reported in the STAR ACTUALS ledger should have a matching interfund transfer out reported in a different ACFR fund. While the reconciliation does not ensure the transfers are recorded correctly in the ACTUALS ledger, it does provide assurance that the reporting between funds is consistent.

The transfers reconciliation is accomplished via a multipart on-going process involving both the SCO-FRS and state agencies. First, SCO-FRS periodically attempts to reconcile transfers reported in the ACTUALS ledger. That is, FRS staff attempt to match all interfund transfers out reported with the correlating interfund transfers in reported. Those transactions that cannot be reconciled are provided, via the "Unreconciled Transfers Report", to GAAP accountants at each agency for resolution. The reports will contain the total transfer amount, reconciled transfer transactions, and unreconciled transfer transactions. In addition, the account coding string, document ID, amount, and other information will be provided for each transaction included in the report. Certain other features are also incorporated into the report to assist agencies with their reconciliations.

After receiving the unreconciled transactions, GAAP accountants should determine if the transaction was appropriately coded in the STAR ACTUALS or not. If a transaction was incorrectly coded as a transfer, an adjusting entry should be made to resolve the discrepancy if not corrected before the ACTUALS year-end close. Please note that corrections made in ACTUALS in a different fiscal year than the original transaction are not reconciled because SCO-FRS is only using current fiscal year transactions in their analysis and reporting. In some cases, GAAP accountants may have to communicate with other agencies to resolve unreconciled transactions. A list of GAAP accountants by agency is provided to facilitate communication between agencies. GAAP accountants are encouraged to follow up on unreconciled transactions as the periodic SCO-FRS reports are received to ensure adequate time is available to resolve all unreconciled transactions in a timely manner.

For ACFR purposes, agencies should complete the form entitled "Interfund Transfers Reconciliation." For interfund transfers in, agencies should indicate on Part A of the form the GAAP fund(s) that will be reporting the corresponding interfund transfer out (by amount). Likewise for interfund transfers out, agencies should indicate the GAAP fund(s) that will be reporting the related interfund transfer in. Part B of this form must equal the on-system transfer amount reconciled by SCO-FRS. Finally, the total amount reported in Part C of the form should account for reconciled and unreconciled transfers as well as any adjusting journal entries made by the agency. The Interfund Reconciliation form should be submitted to FRS as part of the agency's GAAP submission.

To complete the process, FRS uses the Interfund Transfers Reconciliation forms submitted from each agency to ensure the interfund transfers "ins" match the "outs" and that all other unreconciled transactions were reclassified.

DOA Billings for the Building Trust Fund pertaining to FOM-owned Buildings

DOA bills agencies for capital projects when the agency is expected to provide cash funding for at least a portion of the project. The invoice provided by DOA states that the payment should be reported as a Transfer Out to Fund 36000 – Building Trust. When the cash is received by DOA, it is recorded in a clearing appropriation in the General Fund, and then moved to fund 36000. For budgetary reporting purposes, the nature of the transaction is an interfund transfer in to Fund 36000.

For ACFR-reporting purposes, however, financial activity of fund 36000 is split (extracted) into numerous GAAP funds (including Fund 16400 – Facilities Operations and Maintenance). For the agency making the payment, the transfer of the cash to the Building Trust Fund should actually be considered a transfer out to Fund 16400 FOM (rather than as a transfer out to the DOA General Fund or to the Building Trust Fund). FOM is the GAAP fund ultimately receiving the cash. Reconciled transactions in this situation will be correctly matched by SCO-FRS, but to properly account for unreconciled transactions at year end GAAP accountants should indicate in Part A of the Interfund Transfers Reconciliation Form that the transfer out is with Fund 16400 FOM. Similarly, Fund 16400 FOM should indicate in Part A of their Interfund Transfers Reconciliation Form the interfund transfer in from the respective fund.

Additionally, if the agency has not made the payment to DOA by year end, the agency will have to record a Due To Other Funds, FOM will record the Due From Other Funds. The agency will have to indicate in Part A of the Due to Other Funds/Due From Other Funds Form that the amount is due to Fund 16400 FOM, consequently the FOM fund should indicate that the amount is due from the respective fund.

Transfers of Capital Assets Between Funds/Agencies

To report transfers of capital assets between funds/agencies, follow the procedures found in Section V, Subsection 7 – Capital Assets. To avoid undue reporting complications and work burdens on immaterial items, only *individual* assets that had a net book value of $100,000 (cost less accumulated depreciation) or more are considered transfers for ACFR reporting purposes.

Additional Disclosure of Transfer Information

In addition to completing the reconciliation form, agencies must disclose the intended ***purpose*** and the ***amount*** of significant transfers that meet either or both of the following criteria:

1. Do not occur on a routine basis – for example, a one-time transfer to an enterprise fund to finance the start up costs to get the program operating, *or*

2. Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a special revenue fund to the General Fund to pay for activities not related to the special revenue fund.

The "purpose" should take the form of a publication-ready sentence. Agencies may submit this information on an agency-created spreadsheet or other document. The SCO-FRS will summarize these transfers and related purposes for required disclosure in the ACFR note entitled "Interfund Receivables, Payables, and Transfers".

Intrafund Transfers

As noted earlier, intrafund activity is not reported in the GAAP financial statements. However, a similar reconciliation process is used to ensure all intrafund transfers net to zero. That is, all intrafund transfers **out** should have a corresponding intrafund transfer **in** reported in the *same* GAAP fund. For individual GAAP funds (other than the General Fund), the agency responsible for preparing financial statements of the fund must analyze the intrafund transfers if the balances of the intrafund transfers in/out do not net to zero. These agencies should then prepare the appropriate GAAP adjusting entries. For example, if a GAAP accountant found an intrafund transfer in/out should have been reported as an interfund transfer in/out and it was not corrected in the ACTUALS ledger prior to the year-end close, an off-system ACFR adjusting entry should be made to correct the error.

If only one half of an intrafund entry (only the Transfer Out or only the Transfer In) is recorded in the ACTUALS ledger at fiscal year-end, an ACFR adjusting entry should be made for the other half of the entry. This would occur in the circumstance that one agency recorded the transaction in the old fiscal year while the other agency recorded the transaction in the new fiscal year. The agency recording the transaction in the new fiscal year would have to make an adjusting entry for the ACFR to correctly report the other side of the transaction to reconcile the transfer.

Accruing Intrafund Transfers for the General Fund

If *neither* side of an intrafund transfer is recorded in the ACTUALS ledger by the end of the fiscal year, ACFR accrual entries (both the Transfer Out and the Transfer In) should ***not*** be made even if the intrafund transfer will occur in the new year for budgetary reasons. Intrafund transactions are not reported in the GAAP financial statements (because they are eliminated).

Creating both sides of the accrual entry only increases work for the GAAP accountants and SCO-FRS staff. That is, entries would be created and disclosures completed by two agencies only to have them subsequently eliminated by SCO-FRS. Further, this unnecessary work occurs in two years – in the current year and in the subsequent year when the entries are reversed. As a result, SCO-FRS prohibits agency accountants from making such entries.

For the GAAP General Fund, the SCO-FRS will periodically review intrafund transfer transactions reported in the ACTUALS ledger and, with the assistance of State agencies, reconcile the intrafund transfers in/out balances. Agencies will complete Part A of the form entitled "Intrafund Transfers Reconciliation - General Fund." For intrafund transfers in, agencies should indicate on the form the agency(s) that will be reporting the corresponding intrafund transfer out (by amount). Likewise for intrafund transfers out, agencies should indicate the agency(s) that will be reporting the related intrafund transfer in. Part B of this form must equal the ACTUALS ledger transfer amount reconciled by SCO-FRS. Part C of the form should account for reconciled and unreconciled transfers as well as any adjusting journal entries made by the agency. After receiving the forms from the agencies, the SCO-FRS will use the information provided to confirm that intrafund transfers materially net to zero for the General Fund.

Guide for Working with Unreconciled Transfers Transactions from FRS Reconciliation Reports

		Actuals Ledger Adjustment Solution	CAFR Ledger Adjustment Solution	What to put on CAFR disclosure form
Was it correct to classify transaction as a transfer?	NO	Make reclassification entry in same fiscal year to undo transfers classification and put in correct account	Same (choose one ledger or the other, never both)	No action needed
YES				
Determine fund/agency for the offsetting transfer (counterparty)				
Was the item related to a prior year accrual?	YES	Not Applicable	Item should be addressed by the reversing entry process - do not need a separate entry	No action needed
NO				
Is your fund a proprietary fund with an unreconciled transfer with one of the capital accounting funds?	YES	Not Necessary - Most of these transfers are typically eliminated via the capital accounting extraction entries and will go away. Such transactions are correctly recorded as interfund transfers from a budgetary perspective; but, they are 'intrafund' transfers from a GAAP perspective and therefor must be eliminated one way or another. Certain transfers to fund 36000 are ultimately transferred to FOM (Fund 16400), in which case the transaction will not be eliminated and the amount should appear on the line for Fund 16400 as given by the Capital Accounting extraction disclosure form.		
NO				
Was the inter/intra classification correct?	NO	Not necessary - make a note to use correct inter/intra classification in the future	Make a reclassification entry to correct inter/intra type	If amount recorded as inter should have been intra, then put the amount on the intra form on the appropriate line (and vice versa)
YES				
Did the other agency record an appropriate offset? (may need to discuss with them)	NO	Not necessary - countryparty agency could make a note to use correct account classification in the future	Counterparty agency should make an adjusting journal to either accrue their side, or reclassify into transfers if another account code was used.	Both agencies will need to put corresponding amounts on their disclosure form on the line for the counterparty
YES				
SCO may have 'missed' the matching of the debit and credit pair - or the parts of the transaction may have crossed a cutoff point		Not Applicable	Not Applicable	Both agencies will need to put corresponding amounts on their disclosure form on the line for the counterparty

Appendix Transfers Flowchart

The Governmental Accounting Standards Board distinguishes between interfund activity reported in the fund financial statements. Specifically, GASB 34, Paragraph 112 defines "Interfund Services Provided and Used" and Interfund Reimbursements" as follows:

- **"Interfund Services Provided and Used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds. … Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or fund statements of net position."
- "**Interfund Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements."

Many interfund transactions processed on the state central accounting system follow these conventions; however, some do not. Sometimes, transactions that should be reported as reimbursements for GAAP purposes, must be reported as revenues and expenditures on-system for budgetary accounting purposes. Likewise, some revenue transactions that should be reported as interfund services provided and used for GAAP purposes are netted against expenditures on-system. The discussion that follows covers these two scenarios and the impact on both the fund statements and the government-wide statements.

ELIMINATE "GROSSED UP" AMOUNTS

1. Eliminate "Grossed Up" Revenues and Expenditures/Expenses

GASB 34 requires that revenues and expenditures/expenses reported as a result of certain intragovernmental transactions ***not*** be grossed up on the financial statements. This applies to both the fund operating statements and the government-wide statement of activities. Any inappropriately "grossed up" revenues and expenditures/expenses must be eliminated for reporting purposes, accordingly. The nature of the elimination entry differs, however, at the fund versus the government-wide level, as discussed below.

Fund Statements

GASB 34 provides guidance in distinguishing between ***reimbursements*** and intragovernmental ***services provided and used***.

As noted above, ***services provided and used*** represent sales and purchases of goods and services for a price approximating their external exchange value. For State reporting purposes, a key criteria in determining if an intragovernmental transaction meets the definition of a "sale/purchase of goods and services" is whether or not the service or good that an agency provides is related to that agency's primary purpose. That is, is providing this good or service part of the agency's (or fund's, if analyzing an individual fund) primary focus or purpose? Intragovernmental transactions that meet these criteria *should be reported as revenues by the seller agency and as expenditures/expenses by the purchasing agency*.

Reimbursements on the other hand, represent repayments between agencies for particular expenditures/expenses to the fund that initially paid for them. Reimbursements are not displayed on the financial statements, that is, the repayment is reported as a reduction of an expenditure/expense rather than as revenue. *Reporting the receipt and payment of a reimbursement transaction as revenues and expenditures/expenses improperly results in "grossed up" revenues and expenditures/expenses.* Any grossed up revenues and expenditures/expenses on the fund statements resulting from reimbursement transactions not recorded as reductions of expenditures/expenses *should be eliminated*. This elimination entry is prepared at the fund level. Since the fund statements roll-up to the government-wide statements, the elimination entry is "automatically" also reflected at the government-wide level.

Government-wide Statements

On the government-wide statement of activities, GASB 34 requires that eliminations be made to remove the doubling-up effect of internal service fund activities and similar internal events (such as allocations of salaries that are, in effect, allocations of overhead expenses from one function* to another). In doing so, the allocated expenses are reported only by the function to which they were allocated. As noted above, an entry to eliminate similar internal events at the fund statements will roll up to the government-wide statements.

GASB 34 also requires that the "doubling-up" effect resulting from charges for services and goods provided <u>within a function</u> should be eliminated, if material. That is, intragovernmental charges for goods and services (referred to as program revenues on the government-wide statements) are reported gross, except for those cases where the intragovernmental transaction falls within the same function. Resulting grossed up revenues and expenses within that function must be eliminated, if material.

The flowchart on Page 4 summarizes the state's application of GASB requirements for reporting *reimbursements* and *services provided and used* on the fund and the government-wide financial statements.

A discussion of the flowchart follows.

a.) Eliminate "Internal Service" Fund Activities [#1 of flowchart on Page 4]

Following GASB 34 guidance, for the government-wide financial statements, internal service fund activities will be eliminated to remove the doubled-up revenues and expenses created by the funds. Following the **decision box #1** of the flowchart, only agencies responsible for preparing financial statements of the internal services funds will be impacted by this requirement.

b). Eliminate Similar Internal Events [#2 of flowchart on Page 4]

The grossed up effect of internal activities, such as allocations of costs within departments, should also be eliminated under GASB 34. For example, an agency may allocate staff salaries of one division to another division within the same agency. If the billing division (the division initially incurring the salary expenses) records revenues, while the paying division (the division to which salaries are allocated) records expenditures, the agency will have to prepare an adjusting entry to remove the resulting doubling up effect of this "allocation".

Further, agencies sometimes provide goods or services to other State agencies or within their own agency, such as services for training, data processing or photocopying. In recording the related transactions, the billing agency (the agency providing the service) often records a revenue, while the paying agency (the agency receiving the service) records an expenditure. Under GASB 34, with the exceptions discussed in "c", below, the grossed up revenues and expenditures/expenses represent a reimbursement and must be eliminated on the fund statements.

---

* In the context of the financial statements, *function* refers to the nine functional categories (generally corresponding to the numbers assigned to state agencies) that are used to classify governmental expenditures as shown below:

Functional Category	Agency #	Functional Category	Agency #
• Commerce	1xx	• General Executive	5xx
• Education	2xx	• Judicial	6xx
• Transportation	395	• Legislative	7xx
• Environmental Resources	3xx, excluding 395	• Tax Relief and Other General Expenditures	8xx
• Human Relations and Resources	4xx		

To alleviate the impact of this requirement on agencies that generate grossed up revenues (and corresponding expenditures/expenses) that are not material to the financial statements, SCO-FRS has established materiality levels *by function*. These materiality levels are listed in the procedures sub-section of the manual.

Agencies may use these materiality levels when determining the need to prepare adjusting entries to reduce doubled-up revenues and expenditures/expenses. However, when applying the materiality levels, agencies must consider grossed up amounts from various agency sources in the aggregate, rather than individually. For example, if an agency has several different activities that generate doubled-up revenues (and expenditures/expenses) reported for a function, the doubled-up revenues from the various sources must be added together in applying the materiality levels.

c.) Exceptions for Eliminating "Grossed up" Revenues and Expenses on the fund statements

There are exceptions to the requirement to prepare an entry at the fund level to eliminate grossed up revenues and expenditures/expenses resulting from intragovernmental services provided and used - specifically, transactions that (a) involve goods sold or services provided to external parties, or (b) relate to the provider agency's primary activity.

As noted in **decision box #2-A** of the flowchart, if a transaction is similar to an arm's length transaction*, the revenues and expenses should* ***not*** *be eliminated* at the fund level. Applying this criteria, if an agency provided these goods or services primarily to the public, and a state agency represented a "customer" receiving the service, the agency receiving the service would report an expenditure and the agency providing the service would report a revenue. For example, a state university provides education to the public (external customers). Therefore, if a state agency remits a payment to the university to cover tuition for an employee, neither the resulting revenue nor expense should be eliminated.

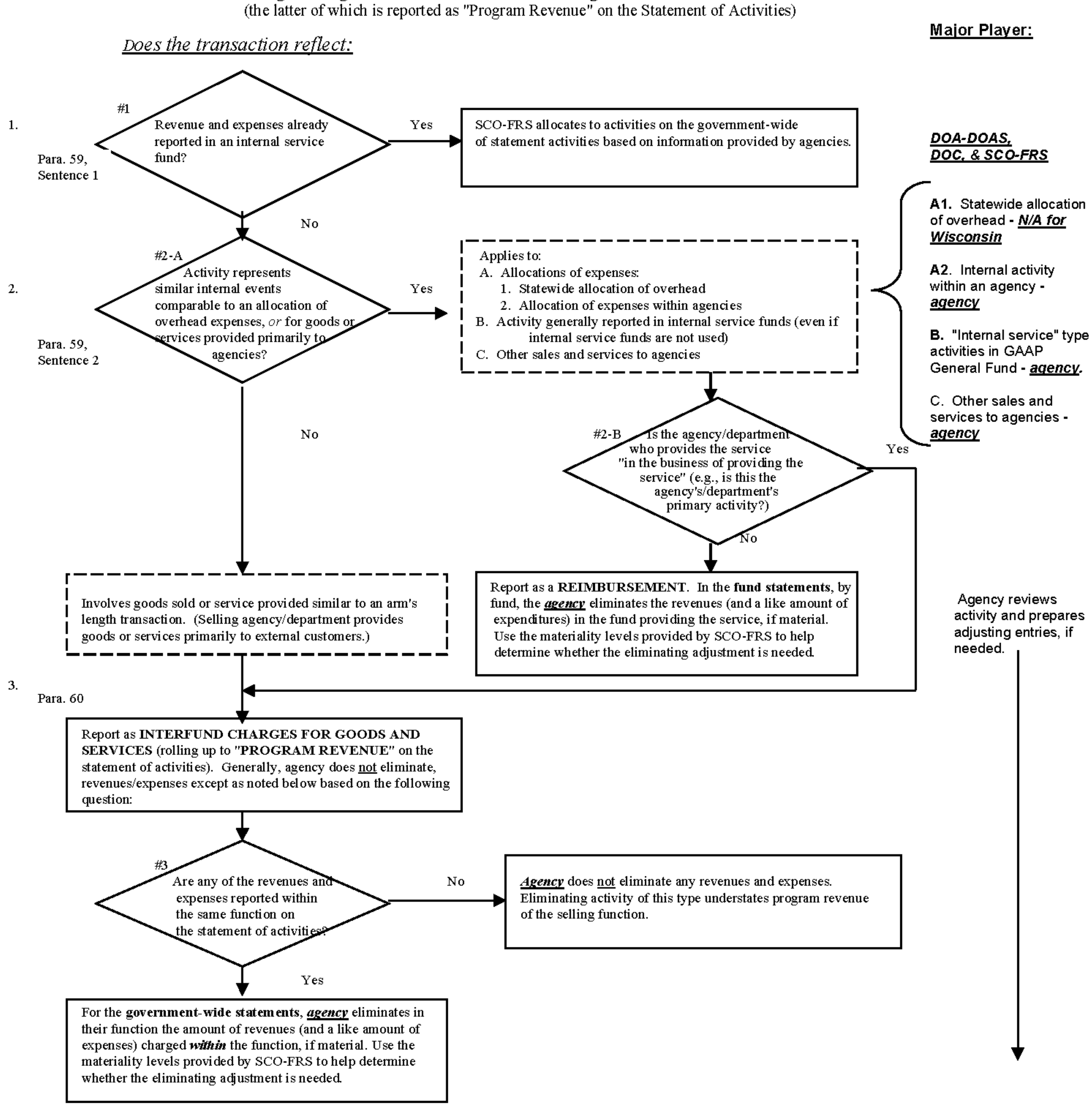
If the services provided mainly involve state agencies rather than external customers, **decision box #2-B** provides further guidance as to whether or not the grossed up revenues and expenditures/expenses should be eliminated at the fund level. If the services provided relate to the agency's primary activity, an elimination entry should not be prepared at the fund level. While most intragovernmental transactions will not meet the criteria, certain services may qualify. For example, a state agency, whose primary purpose is to provide legal guidance, would not eliminate the grossed up revenues and expenditures resulting from attorney services provided to other agencies.

d.) Eliminating "Grossed up" Revenues and Expenses on government-wide statements [#3 of flowchart on p. 4]

If the intragovernmental transaction is similar to an arm's-length transaction or the activity is the primary program of the agency (fund) reporting the revenue, the grossed up revenues (referred to as program revenues on the government-wide statement of activities) and expenditures/expenses should not be eliminated on the fund statements or the government-wide statements, with the exception discussed below. (Reminder: The fund statements roll-up to the government-wide statements, so any adjustment made at the fund level would automatically be also reflected at the government-wide level.)

As shown in the **decision box #3** on the flowchart, any program revenues that generate material grossed up revenues and expenses *within a function* at the government-wide level should be eliminated, if material. For example, if a General Fund agency, that issues a certain type of permit primarily to external parties, issued some permits to another state agency, this resulting internal revenue and expense, while not eliminated at the fund level, should be eliminated *within the function* at the government-wide level, if material. Typically these types of transactions would not be material, however. For determining materiality, agencies should use the same materiality levels discussed in "b", above.

Flowchart for Distinguishing *Reimbursements* from *Intragovernmental Services Provided and Used*
(the latter of which is reported as "Program Revenue" on the Statement of Activities)



2. Eliminate "Grossed Up" Accounts Receivable and Accounts Payable within an Activity

Transactions processed during the "13th month" between (or within) state agencies may result in "grossed up" accounts receivable and accounts payable. This is the result of on-system entries prepared at year-end by the State Controller's Office to reflect July "13th month" cash transactions as receivables and payables. If these transactions are between or within agencies *in the same GAAP fund*, receivables and payables become overstated.

GASB 34 requires the elimination of all internal balances in the total primary government column of the statement of net position. This would include the receivables and payables between or within agencies in the same fund created by "13th month" transactions, discussed above. This requirement impacts the fund level. Therefore, agencies generating the accounts receivable portion of this overstatement should prepare an off-system adjusting entry to eliminate the double reporting in the fund statements. (Note: This would generally impact transactions within, rather than between, funds.)

In order to minimize the impact of this requirement on the smaller agencies and those agencies generating insignificant intrafund accounts receivable and accounts payable balances, the SCO-FRS will propose materiality levels that agencies may use in determining whether or not to prepare receivable/payable entries. These materiality levels are listed in the "procedures" sub-section of this manual. (In establishing these materiality levels, the focus was on "Other Accounts Receivable", rather than specifically identified and reported receivables. Specific receivables, such as Taxes Receivable, would not typically include balances between or within agencies of the same fund.)

Therefore, only agencies that process transactions generating intrafund "Other Accounts Receivable" balances that result in material grossed up receivables and payables at year-end will be required to prepare an adjusting elimination entry for the fund statements.

REPORT REVENUES AND EXPENDITURES NETTED ON-SYSTEM

The state central accounting system does not prohibit expenditures from being recorded as negative revenues and revenues from being recorded as negative expenditures for budgetary accounting purposes, (for example, in certain circumstances an agency has recorded an expenditure for legal services as a negative revenue). For financial reporting purposes the netting of revenues and expenditures described above does not always properly reflect the flow of resources. Agencies that net revenues and expenditures in this manner must prepare an entry to adjust for the understatement.

Agencies should not confuse the impropriety of netting, discussed above, with the appropriate use of reimbursements as defined by GASB or the appropriate accounting for refunds.

As discussed under policies of Section V-31 “Reporting Transactions at Gross/Net”, generally accepted accounting principles distinguishes *Interfund Services Provided and Used* from *Interfund Reimbursements*. The guidance provided below applies to intragovernmental transactions reported by the State.

ELIMINATE “GROSSED UP” AMOUNTS

1. Eliminate "Grossed Up" Revenues and Expenditures/Expenses

Fund Statements

Under GASB 34, certain "grossed up" revenues and expenditures/expenses reported on the fund's operating statements must be eliminated. The policy Sub-section 31 of the Manual describes the type of transactions to be eliminated. The adjusting entry to eliminate the "grossed up" revenue and expenditure/expense amounts follows.

Debit:	X1CHARG - Charges for Goods and Services	XXX	
Credit:	X2 _ _ _ _ _ ___________Expenditures (by function – identify)/Expenses		XXX
	<To eliminate the annual "grossed up" revenues and expenditures/expenses within the fund's operating statement.>		

Agencies may use the materiality levels provided on Page 2 of 5 when determining whether or not they should make an elimination adjusting entry.

Subgrants Recorded in ACTUALS ledger as Revenues/Expenditures

Debit:	X1OPGNT - Intergoverenental Revenue (federal grants & aid)	XXX	
Credit:	X2 _ _ _ _ _ ___________Expenditures (by function – identify)/Expenses		XXX
	<To eliminate the annual "grossed up" revenues and expenditures from recording the disbursement of a subgrant to another agency.>		

Subgrants Recorded in ACTUALS ledger as Interfund Transfers

	Debit:	X1OPGNT - Intergoverenental Revenue (federal grants & aid)	XXX	
	Credit	X5OUTER – Interfund Transfer OUT*		XXX
OR				
	Debit:	X5INTER – Interfund Transfer IN**		XXX
		X10PGNT – Intergovernmental Revenue (grants and aids)		XXX
		<To report the intergovernmental revenue in the fund incurring the expenditure/expense.>		

* Agency disbursing subgrant to other agency will prepare this entry.
** Agency receiving subgrant from other agency will prepare this entry.

Government-wide Statements

Under GASB 34, certain "grossed up" revenues and expenses reported on the statement of activities ***by function*** must be eliminated. The policy Sub-section 31 of the Manual describes the type of transactions to be eliminated. The adjusting entry to eliminate the "grossed up" revenue and expense amounts follows.

Debit:	X1CHARG - Charges for Services (for function identified below)	XXX	
Credit:	X2_ _ _ _ _ _____________Expenses (by function – identify)		XXX
	<To eliminate the annual "grossed up" revenues and expenses within functions/activities on the statement of activities.>		

Agencies may use the materiality levels below when determining whether or not they should make an elimination adjusting entry.

Materiality Levels

Each agency should analyze the substance of its revenue transactions to determine whether or not they result in grossed up revenues (reported as "Charges for Goods and Services") and expenditures/expenses on the fund statements. If the agency has generated transactions that result in grossed up revenues greater than or equal to the materiality levels presented below, they should prepare an off-system entry to eliminate the double reporting.

Materiality Levels for Revenues and Expenditures/Expenses	
Function	**Amount**
Commerce	$3,000,000
Education	500,000
Transportation	50,000,000
Environmental Resources	13,000,000
Human Relations & Resources	11,000,000
General Executive	6,000,000
Judicial	1,000,000
Legislative	500,000
Tax Relief & Other General Exp/Intergovernment Shared Revenue	3,000,000

Agencies may also use these materiality levels in assessing whether or not they have to prepare elimination entries for grossed up revenues/expenses reported within the function on the government-wide statement of activities.

Using these materiality levels, those agencies with minimal transactions generating grossed up revenues and expenditures/ expenses would not have to prepare an elimination adjusting entry.

The extent of the analysis performed will vary from agency to agency, depending on the nature of the agency's programs. In performing this analysis, agencies should at a minimum consider the following:

- Program revenue-service (PR-S) appropriations -- review what is being charged on-system to these appropriations and how the related transactions are being recorded.
- Amounts charged to "Charges for Services", the 5****** series account codes -- review the nature of transactions charged to revenue accounts such as:
    - Account 5415000 "Services within Department"
    - Account 5410000 "Miscellaneous State Services"
    - Generic accounts, such as Account 5000000 "General Sale of Goods"
- Amounts charged to other revenue codes that might include revenues generated from charges to agencies as reported on the statement of activities. For example, as shown on Page 9 of Section IV-4 that discusses trial balances, "Charges for Services" on the statement of activities include the 4****** series of revenue accounts (i.e., licenses and permits.) -- review use of these codes to determine extent of revenues generated from charges to agencies.
- Other allocations within an agency that result in the doubling-up of revenues and expenses on the statement of activities.

Examples of applying the materiality levels follows:

Example A
Agency Required to Prepare Entry to Eliminate "Grossed up" Revenues and Expenditures

Background: A "Commerce" function agency will determine whether an adjusting entry to eliminate grossed up revenues and expenditures must be prepared. The agency has activity in the General Fund.

The agency reviews the revenues assigned to the "Charges for Goods and Services" revenue codes. Based on this review, the agency identifies (or estimates) that the amount of reimbursement revenues generated from services/goods provided to agencies (including itself) totaled $3,100,000.

Using the materiality levels provided on Page 2, the materiality threshold for a "Commerce" agency is $3,000,000. Total grossed up revenues of the Commerce agency equaled $3,100,000, which meets the "equal to or exceeds" criteria for preparing an adjusting entry. Therefore, the agency would prepare the following adjusting entry at the fund level:

Debit:	Charges for Goods and Services	3,100,000	
Credit:	Commerce Expenditures		3,100,000
	<To eliminate grossed up reimbursement revenues and expenditures resulting from goods sold/services provided to agencies.>		

Note that the agency reporting the revenue prepares both sides of the adjusting entry, while the agencies reporting the expenditures would not prepare any adjusting entry. Also, note that the amount of the revenues for the entry determines the amount of the expenditures.

Example B
Agency Not Required to Prepare Entry to Eliminate "Grossed Up" Revenues and Expenditures

Background: The same background information of Example A applies to Example B, *except* the agency 's revenues from goods/services provided to agencies (including itself) totaled $500,000, rather than $3,100,000.

Since the total revenues for all governmental activities did not exceed the materiality threshold of $3,000,000, the "Commerce" agency would not be required to prepare an adjusting entry.

In all cases, the agency must consider the aggregate impact of all governmental funds together when applying the materiality threshold. For example, if an agency was responsible for a special revenue fund, in addition to activity recorded in the GAAP General Fund, they would have to consider charges for goods and services to agencies for both funds together in assessing materiality. Any resulting adjustments would be in each individual fund, however.

Materiality Levels - Enterprise funds

One would not expect enterprise funds to report significant reimbursements. The primary purpose of an enterprise fund is to provide goods or services to external entities or individuals. In applying the criteria found in the flowchart, a deciding question is: "Is the agency in the business of providing the service?" This question would most likely be answered "yes" for enterprise funds, since the fund typically constitutes the program to be considered in the analysis. Therefore, most charges for services would be program revenues rather than reimbursements.

However, if an agency determines that a material amount of an enterprise fund's charges for services to state agencies are reimbursements instead of program revenues, it should analyze the impact and prepare elimination entries, if needed. Agencies in these circumstances should apply a predetermined materiality level (e.g., 5%) to the *total operating revenues*.

2. Eliminate "Grossed Up" Accounts Receivable and Accounts Payable within a Fund

Following the theory of GASB, the "grossed up" amounts included in "Accounts Receivable" and "Accounts Payable" on the financial statements, representing balances due to and from other state agencies, must be eliminated. The policy Sub-section 31 of the Manual describes the mechanism that creates these balances.

Based on the materiality levels presented below, agencies will determine whether they have outstanding "Accounts Receivable" resulting from year-end billings to other agencies (or their own agency) for amounts that are greater than or equal to the total of the materiality level for the activity. If so, they will prepare an adjusting entry to eliminate the "grossed up" asset and liability amounts. The adjusting entry can be found on the “Eliminating Gross Up Amounts – Fund Entries” form.

Using this method, the materiality thresholds are:

Accounts Receivable/Payable Materiality Levels for Current Fiscal Year	
Fund Type	**Amount**
Governmental	$2,000,000
Enterprise	3,000,000

Agencies having material levels of grossed up " Accounts Receivable" balances will make the following adjustment:

Debit:	W4PAY11 Accounts Payable	XXX	
Credit:	W1RECV9 Accounts Receivable		XXX
	<To eliminate the "grossed up" receivables and payables due to intrafund activity.>		

Using the materiality threshold above, a governmental fund with "Other Accounts Receivable" of $2,000,000 or more will analyze their intrafund "grossed up" accounts receivable and eliminate the overstatement of accounts receivable/payable using the above entry.

Note that the majority of these grossed up balances will result in transactions processed by two General Fund agencies during the 13th month. Transactions between funds (such as the General Fund and a special revenue fund) would have already been reflected as "Due from Other Funds" and "Due to Other Funds" in the fund financial statements, and would have been handled by the SCO-FRS at the Government-wide level.

REPORT REVENUES AND EXPENDITURES NETTED ON-SYSTEM

The state central accounting system allows for certain revenues and expenditures to be netted against expenditure and revenue accounts, respectively, resulting in the understatement of revenues and expenditures. For example, an agency records legal expenditures as a negative revenue. For financial reporting purposes, GAAP does not allow such netting of revenues and expenditures.

Agencies that record expenditures to revenue accounts and vice versa must review the propriety of these transactions and prepare an entry to adjust for any understatement. The specific fiscal year-end journal entries required to convert from the netted entries to actual revenue and expenditure amounts will vary according to the accounts involved. The generic entry follows:

Debit:	Expenditures	XXX	
Credit:	Revenues		XXX
	<To record netted revenues and expenditures at gross during fiscal year XX>		

The entry will allow total revenues and total expenditures for the period to be accurately reported.

Who Prepares the Reversing and Re-establishing Entries

Reversing Entries

Generally, if an agency uses a CUTE file to upload their entries to the CAFR ledger then SCO-FRS prepares the reversing entries. As a result, SCO-FRS prepares reversing entries for the General fund, most of the other governmental funds, and certain proprietary funds. The reversing entries are emailed to GAAP accountants for confirmation of their accuracy. Ultimately, the agreed-upon reversing entry is uploaded to the CAFR ledger by SCO-FRS and appears on the ACFR trial balance.

Agencies that are not required to use the CUTE file to load their entries are responsible for making ACFR reversing entries and ensuring beginning equity ties out to prior year ending equity.

Re-establishing Beginning Balances Entries

SCO-FRS re-establishes beginning balance sheet accounts for certain off-system activity. After agency accountants confirm the entries are correct, SCO-FRS uploads the entry to the CAFR ledger. The fund balance/equity account used for re-establishing beginning balances is the fund balance/equity account used to report prior year ending balances. For example, if the prior year off-system account balances were offset by restricted equity, the reestablishing entry uses the restricted equity account as well.

Because the beginning off-system balances will already be recorded on the ACFR trial balance, agency GAAP accountants should make entries only to record **current year activity** for off-system accounts. These entries should be included in the ORDINARY CUTE file. After the CUTE file is uploaded, agency accountants should confirm the accuracy of the ending balances and current year activity by reviewing the ACFR trial balance.

Agencies that are not required to use the CUTE file to load their entries are responsible for re-establishing beginning balances, recording entries for the current year activity, and ensuring beginning equity ties out to prior year ending equity.

Capital Accounting Extracted Funds - Reversing and Reestablishing Balances: Some proprietary funds must also report account balances and financial activity related to the Capital Improvement, Building Trust, and Bond Security and Redemption funds (the extractions). Using data files from Capital Accounting, SCO-FRS develops and uploads these entries to the CAFR ledger. Agencies will see those entries on the ACFR trial balances.

SCO-FRS Entries for Other Accounts Impacting Equity: SCO-FRS prepares and uploads several entries that impact equity for funds e.g. capital assets, net pension liability, OPEB liabilities, compensated absences, etc. SCO-FRS will upload reversing and reestablishing entries to the CAFR ledger in the spring. The remaining entries will be completed and uploaded in summer/fall when the current year information is available to SCO-FRS.

Attachment A contains a table listing who is responsible for which ACFR entries that impact equity.

Theory Behind Reversing/Re-establishing Entries

Because the STAR ACTUALS ledger and the ACFR report financial activity using a different basis of accounting, revenues and expenditures/expenses recorded in one fiscal year in the STAR ACTUALS ledger may be reported in a different fiscal year in the ACFR. Agencies establish the ACFR's additional accruals and deferrals with additional ACFR entries. These entries must be "reversed" when preparing the subsequent year's ACFR.

If an entry *debited* a revenue/expenditure/expense/transfer account when originally establishing the accrual or deferral, the subsequent year's reversal entry *credits* that account. Likewise, if an entry initially *credited* a revenue/expenditure/expense/transfer account, it should be *debited* in the reversing entry. In both situations, the other side of the reversing entry would be a debit or credit to fund balance/net position.

For example, in compiling information for the Fiscal Year 01 ACFR, an entry must be made to accrue accounts payable for goods received in Fiscal Year 01 but charged to/reported in Fiscal Year 02 in the STAR ACTUALS ledger. For the Fiscal Year 02 ACFR, a reversing entry removes the accrued expenditure amount from Fiscal Year 02. The following entries illustrate this reversal:

Accrual entry made for Fiscal Year 01 ACFR:

Debit:	General Executive* (Expenditure)	4,321		-->*increases expenditures of Fiscal Year 01*
Credit:	Accounts Payable		4,321	-->*increases liability at 6/30/01*

<To accrue payables for goods received in Fiscal Year 01 but charged to Fiscal Year 02 in the STAR ACTUALs ledger.>

Reversing entry required for Fiscal Year 02 ACFR:

Debit	Fund Balance **	4,321		-->*decreases fund balance at 7/1/01****
Credit:	General Executive (Expenditure)		4,321	-->*decreases expenditures of Fiscal Year 02*

<To reverse payables for goods received in Fiscal Year 01 but charged to Fiscal Year 02 in the STAR ACTUALS ledger.>

* *For illustration purposes, the agency's expenditure classification is "General Executive".*
** *Reversing entries for governmental funds should be to the "default" fund balance classification for the GAAP fund as indicted in Section V-16 "Equity". The default fund balance category for the General Fund is 'Unassigned".*
*** *Decreases fund balance because additional expenditures of Fiscal Year 01 would have reduced 6/30/01 fund balance.*

Not all entries prepared during the GAAP conversion process require a subsequent year's reversing entry. Typically, only entries between asset/liability accounts and revenue/expenditure accounts require a reversing entry.

Conversely, reclassification entries between balance sheet accounts or between operating statement accounts do not require reversals. For example, an entry to reclassify accounts receivable to Due from Other Funds would not require a reversing entry.

Reporting Off-System Accounts in the ACFR: Sometimes ACFR entries are needed to report limited financial activity that is not reported in the ACTUALS ledger. These off-system accounts might include cash, investments, loans, tax and other deposits, etc. CAFR ledger balances are not rolled forward from the prior year, so entries are required to establish the beginning balance annually. The beginning balances are based on prior year ending balances. SCO-FRS makes the entry to establish beginning balances while agency accountants are responsible for making an entry to reflect only current year activity.

Below are entry examples for off-system activity:

SCO-FRS re-establishes the FY02 beginning balances entry using the Fiscal Year 01 ending balances:

Debit:	Cash	5,000	
Debit:	Investments	40,000	
Credit:	Tax and Other Deposits		50,000
Dr./Cr.	Fund Balance **	5,000	

<To establish beginning balances for Fiscal Year 02 using Fiscal Year 01 ending balances.>

Agency GAAP accountant made beginning current year activity entry for Fiscal Year 02 ACFR:

Debit:	Cash	1,000	
Debit:	Investments	2,000	
Debit:	General Executive* (Expenditure)	5,000	
Credit:	Tax and Other Deposits		5,000
Credit:	Investment & Interest Income		2,000
Credit:	Charges for Goods and Services		1,000

<To record current year activity for off-system accounts.>

SCO-FRS makes entry to re-establish FY03 beginning balances using Fiscal Year 02 ending balances:

Debit:	Cash	6,000	
Debit:	Investments	42,000	
Credit:	Tax and Other Deposits		55,000
Dr./Cr.	Fund Balance **	7,000	

<To establish beginning balances for Fiscal Year 03 using Fiscal Year 02 ending balances.>

Attachment A

ACFR Entries that Impact Equity

Governmental Funds (including General Fund)	Who Makes the Entry
Reversing Entries	SCO-FRS
Reestablishing Beginning Balances – Off system Activity	SCO-FRS
Inventory	Agency includes entry, if needed, in Ordinary CUTE uploader.

Proprietary Funds Using CUTE Uploader**	Who Makes the Entry
Reversing Entries	SCO-FRS
Reestablishing Beginning Balances – Off system Activity	SCO-FRS
Inventory	Agency GAAP Accountant includes entry, if needed, in Ordinary CUTE uploader.

Capital Accounting Extractions provided to Proprietary Funds*	Who Makes the Entry
Reversing Entries for Bond Security and Redemption, Building Trust and Capital Improvement Funds	Capital Accounting staff develop entries and provide electronic file to SCO-FRS. SCO-FRS uploads and posts entries to the CAFR ledger.
Beginning Balance Entries for Bond Security and Redemption, Building Trust and Capital Improvement Funds	Capital Accounting staff develop entries and provide electronic file to SCO-FRS. SCO-FRS uploads and posts entries to the CAFR ledger.

* The nVision ACFR Trial Balance reports will also include current year activity for the Bond Security and Redemption, Building Trust and Capital Improvement funds. These entries do not hit equity directly like reversing and beginning balance entries do. Capital Accounting also develops those entries and SCO-FRS uploads and posts them to the CAFR ledger.

Other Comments
SCO-FRS will continue to include centrally-developed entries on the ACFR Trial Balance Reports that also impact beginning equity e.g. capital assets, compensated absences, OPEBs, net pension asset or liability, etc.
**Agency accountants not using the CUTE uploader process to submit financial statements must make sure that all entries impacting equity are appropriately included in their "home-grown" reporting processes. Those accountants are responsible for reversing their accrual entries and re-establishing off-system balances while SCO-FRS will continue to make centrally developed entries for capital assets, compensated absences, OPEBs, etc. Agencies are generally required to use CUTE files to upload their entries unless they SCO-FRS allows them to use a non-standard approach.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2018
SUB-SECTION:	32 - Reversing & Reestablishing Entries	**REVISION DATE:**	June 5, 2019
SUBJECT:	Procedure	**PAGE:**	1 of 1

Entries must be made to reverse ACFR accruals made during the previous year's GAAP conversion process. Entries are also required to establish beginning balance sheet accounts for off-system activity.

SCO-FRS prepares the reversing entries for many GAAP accountants who use the CUTE template to submit their ACFR entries.

SCO-FRS prepares entries to reestablish beginning balances for off-system accounts.

SCO-FRS also records reversing and reestablishing entries for Capital Accounting extracted funds in the CAFR ledger.

SCO-FRS also reverses entries prepared centrally e.g. entries to accrue compensated absences, net pension, and OPEB liabilities.

Confirmation by Agency Accountants: SCO-FRS emails reversing and re-establishing entries to GAAP accountants in the spring for confirmation of accuracy. After confirming the entries, SCO-FRS uploads them to period 995 so it is included in the ACFR trial balance reports.

Inventory Entry: Agency accountants of governmental funds should make an entry to report ending inventory that impacts fund equity. This entry should be recorded in Ordinary CUTE template and submitted as part of the GAAP submission. See section V-3 of the GAAP Manual for more information on the entry needed for inventory.

Governmental Fund Equity Category

GASB 54 established five categories of fund balance that must be used for governmental funds. When reversing accrual entries, the reversals should be made to the default fund balance category for their fund. See Section V-16 “Equity” for a listing of the default fund balance categories for each GAAP fund.

General Fund: Fund Balance – Unassigned is the default fund balance account for the General Fund. All reversals should be made to this account.

Please Do Not Duplicate Entries

Agency accountants should not duplicate entries already posted to the ACFR trial balance by SCO-FRS.

Proprietary Funds

Agencies that have permission to use an alternative method for creating their ACFR statements, should include applicable reversing entries. Agency accountants should also make entries to re-establish off-system items such as investments or inventory that impact beginning fund equity. Accountants will need to consider the impact of entries already posted to the ACFR Trial Balance by SCO-FRS when completing their entries. They should contact SCO-FRS if they have questions on reversing or re-establishing entries.

GASB 100 - Accounting Changes and Error Corrections

GASB Statement No.100 *Accounting Changes and Error Corrections* is effective starting for the FY 2024 ACFR. GASB 100 amends GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance* and prescribes the accounting treatment for the correction of errors and accounting changes. The primary objective of this statement is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Accounting Changes

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for certain changes in accounting principles and certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferibility should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability.

A Change in Accounting Principle results from a change from one generally accepted accounting principle to a more preferable generally accepted accounting principle on the basis that it will improve financial reporting. This category also includes the implementation of new accounting pronouncements.

For a change in accounting principle, financial statements that present a single period should be reported retroactively by restating beginning net position, fund balance, or fund net position, as applicable, for the cumulative effect of the change to the newly adopted accounting principle on prior periods. For comparative financial statements, a change in accounting principle should be reported retroactively by restating financial statements for all prior periods presented, if practicable.

A Change in Accounting Estimate occurs when inputs change as a result from a change in circumstance, new information or more experience. Accounting estimates are defined as amounts subject to measurement uncertainty that are recognized or disclosed in the basic financial statements and are outputs determined based on inputs such as data, assumptions, and measurement methodologies. Changes to inputs result from a change in circumstance, new information, or more experience. A change in measurement methodology used to determine an estimate should based on the new methodology being preferable, except when the change in measurement methodology is required by a GASB pronouncement. The qualitative characteristics of financial reporting-understandability, reliability, relevance, timeliness, consistency, and comparability-should be the basis for determining whether the new measurement methodology is preferable.

Changes in estimates are to be accounted for prospectively. This means that adjustments resulting from revised estimates will only affect the period of the change and future periods, rather than restating prior periods. This treatment helps to reflect the most current information without altering historical data.

A Change to or Within the Financial Reporting Entity results from:

a. The addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component units
b. A change in a fund's presentation as major or nonmajor
c. The addition of a component unit to the financial reporting entity or removal of a component unit from the financial reporting entity (except as described below)
d. A change in a component unit's presentation as blended or discretely presented.

The following should not be considered a change to or within the financial reporting entity:

1. Acquisitions, mergers, or transfers of operations (as defined by Statement 69) that result in the addition or removal of a discretely presented component unit
2. A component unit reported pursuant to Statement No. 90, Majority Equity Interests.

Changes to or within the financial reporting entity should be reported by adjusting the current reporting period's beginning net position, fund balance, or fund net position for the effect of the change as if the change occurred as of the beginning of the reporting period.

Error Corrections

GASB 100 also addresses corrections of errors in previously issued financial statements.

Errors result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date. Facts that existed at the time the financial statements were issued are those facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date. Errors also result from applying an accounting principle that is not generally accepted to an accounting principle that is generally accepted.

For financial statements that present a single period, an error correction should be reported retroactively by restating beginning net position, fund balance, and fund net position for the cumulative effect of the error correction on prior periods. For comparative financial statements, an error correction should be reported retroactively by restating financial statements for all prior periods presented.

Reclassification in the Financial Statements Resulting From a change in Accounting Principle or an Error Correction

Also under GASB 100, changes in accounting principles and error corrections that do not affect the beginning position but require reclassification should be disclosed in the notes to financial statements. The disclosure should include the nature of the change and for comparative financial statements and reclassification for all prior periods, if practicable.

Materiality Threshold

An adjustment due to accounting changes or error corrections should be prepared only for significant errors or omissions. In general, SCO suggests that these adjustment entries should not be considered except when the amount of an accounting mistake or miscalculation exceeds $100,000. Adjustments that fall under this threshold should be debited or credited to the appropriate revenue or expenditure/expense account of the current year, rather than to beginning-of-year fund balance/ net position.

In actual practice, a significantly higher materiality level may be appropriate for larger funds or for adjustments relating to government-wide statements. Agency accountants should use professional judgment to determine the appropriateness of a proposed accounting change or error correction. Additional information on materiality may be found in Section III-8 - Materiality. In case of questions or if you need additional assistance, please contact a member of the State Controller's Office – Financial Reporting Section.

Accounting Changes and Correction of Errors

Errors in the financial statements result from mathematical mistakes, misunderstandings about how to compute required amounts, failure to make all required adjusting entries, information not available at the time the previous financial statements were prepared, and certain changes from an unacceptable to an acceptable method of accounting. Any *significant* item relating to the correction of an error in the financial statements of a prior period should be accounted for and reported as an accounting change or error correction and excluded from the determination of excess revenues over expenditures/expenses (net income) for the current period.

Those items identified as accounting changes or error corrections adjustments must be reflected as adjustments of the opening balance of fund balance/net position on the current year's financial statements. Agencies identifying accounting changes or error corrections adjustments should prepare adjusting journal entries to correct the beginning fund balance/net position, accordingly. Each of these entries should specifically refer to the accounting changes or error corrections adjustments in the description. In addition, agencies should complete the accounting changes or error corrections adjustments form. The accounting changes or error corrections adjustments note disclosure form requires an entry to show what the change would have been if it had been done in the prior year(s). The State Controller's Office – Financial Reporting Section (SCO-FRS) will use these entries to restate the appropriate prior year's amounts for the comparative statements in the Management Discussion and Analysis (MD&A). To ensure proper treatment in the MD&A, it is important that agencies adhere to the accounts used in the government-wide statements. Accountants should contact the SCO-FRS if they have questions regarding how a fund-level account should "roll-up" to the government-wide accounts.

When using the accounting changes or error corrections adjustments note disclosure forms, agencies should indicate whether the proposed accounting changes or error corrections adjustments effects the fund and/or the government-wide financial statements. **Note:** Any accounting changes or error corrections adjustments done for the fund statements will automatically roll up to the government-wide financial statements. Consequently, agencies should only check the Government-wide Statement box if the accounting changes or error corrections adjustments exclusively relates to the governmental-wide level (e.g., a capital asset correction for a governmental fund). (*In contrast, a capital asset adjustment for an enterprise fund would affect the fund statements so that box should be checked. This adjustment would be reflected in the fund statements and then automatically carried forward into the government-wide statements.)*

In addition to requiring an adjustment to the beginning of the year fund equity, GAAP requires a footnote disclosure on the effect of the accounting changes or error corrections adjustments on the prior year's net income. Accordingly, agencies that identify a accounting changes or error corrections adjustments should calculate the impact of the adjustment on net income and report this number on the accounting changes or error corrections adjustments form.

Finally, agencies should indicate on the accounting changes or error corrections adjustments form what the effect of the accounting changes or error corrections adjustments would be on beginning-of-the-year fund balance/net position. This information is needed regardless of whether you are making a fund statement accounting changes or error corrections adjustments (that automatically rolls-up to the government-wide statements) or simply a government-wide adjustment. Contact a member of the SCO-FRS staff if you have any questions about how to calculate this number.

Note: Agencies should also ensure that all accounting changes or error corrections adjustments are considered when preparing the current year reversing entry.

Reclassification of Existing Funds

Because of the impact on basic and combining comparative financial statements, agencies responsible for a GAAP fund that has been reclassified from one fund type to another (e.g., from a special revenue fund to a fiduciary or enterprise fund) should contact SCO-FRS for further guidance. SCO-FRS will review your prior year statements to determine what corrections or restatements are required. Governmental and proprietary/fiduciary activities report according to a different basis of accounting. Therefore, adjustments for capital assets/depreciation and long-term assets and liabilities may be necessary.

GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* establishes standards for reporting cash flows of proprietary (enterprise and internal service) funds.

The **Statement of Cash Flows** provides pertinent information about the cash receipts and cash payments of an entity during a period including investing and financing activities. Along with the other statements and disclosures, the statement of cash flows should enable financial report users to assess:

1. An entity's ability to generate future cash.
2. Its ability to meet obligations as they come due.
3. Needs for external financing.
4. The reasons for differences between operating income and net cash flows from operating activities.
5. The effects on the entity's financial position of both its cash and noncash investing, capital, and financing transactions during the period.

To facilitate this type of analysis, the cash flows statement is broken down into four categories:

A. Cash Flows from Operating Activities: Operating activities generally result from providing goods or services. This category should include the **cash effects** of transactions and other events that enter into the determination of operating income. Net cash provided by operating activities **should not include GPR supplements** from the General Fund. These receipts should be reported as a cash inflow under the noncapital financing activities category. In addition, only interest receipts resulting from loan programs should be reported under this category. This treatment of interest receipts is appropriate if the loan program is the fund's primary operating activity and the loans are to provide a direct benefit to individual constituents (e.g., low-income housing loans and student loans).

Cash flows from transactions and events not meeting the criteria of noncapital financing activities, capital and related financing activities or investing activities should be reported under the category Cash Flows from Operating Activities. Operating activities is considered the residual category. This applies even though the activity is reported as nonoperating on the Operating Statement. Examples of revenues and expenses that should be reported as "Other Operating Revenues (Expenses)" in the Operating Activities section of the Cash Flows Statement are: State owned employee housing rental, insurance loss recoveries, industry sales and other revenue.

B. Cash Flows from Noncapital Financing Activities: Noncapital financing relates to borrowing that is done for reasons other than the acquisition, construction, or improvement of capital assets. Also included under this category are certain other interfund and intergovernmental receipts and payments. **GPR supplements** from the General Fund should be reported here. Interfund transfers and interfund loans should be reported gross rather than net. The cash portion of an interfund transfer out should be included in noncapital financing activity. If an enterprise fund is receiving a transfer to be used for the purchase, construction or improvement of a capital asset it should be classified as capital and related financing activity.

C. Cash Flows from Capital and Related Financing Activities: Capital and related financing activities include (1) borrowing for the acquisition, construction, or improvement of capital assets, (2) acquiring and disposing of capital assets used in producing goods or providing services, and (3) paying for capital assets purchased on credit. Interest income should be reported as investing activity even if the interest is from capital related items such as earnings on capital debt proceeds. Cash paid by lessees, including the interest portion, should be included in this section as an outflow. Cash received by lessors should be classified consistent with how the underlying asset is classified in the statement of net position, that is, as an investing or capital and related financing activity. Cash payments or receipts on short term leases should be presented as cash outflows or inflows within the operating activities, unless factors indicate classifications as an investing activity.

D. Cash Flows from Investing Activities: Investing activities include acquiring and disposing of debt or equity instruments, and making and collecting loans (except in circumstances when loan activities are an integral part of an entity's operations). Under these circumstances loan activities should be reported as a cash flow from operating activities.

Cash Flows Statements are to be prepared using the direct (income statement) approach. Under this approach, cash revenues and cash expenses from operations are determined. The difference between these two amounts equals the cash flow from operating activities. In effect, the first portion of the cash flows statement presents a condensed cash basis income statement. The cash flows statement also provides a reconciliation of operating income to net cash provided by operating activities. This reconciliation starts with accrual-based operating income and backs out noncash expenses (i.e. depreciation and amortization) and eliminates the effects of changes in various asset and liability accounts (such as inventory, payables, receivables, and deferred revenue) to arrive at net cash provided by operating activities.

Information must also be provided about all **noncash** investing, capital and financing activities that affect recognized assets and liabilities. Examples of these types of transactions would be:

(a) Acquiring an asset by entering into a lease.
(b) Purchasing a building by incurring a mortgage.
(c) Exchanging noncash assets or liabilities for other noncash assets or liabilities.
(d) Bond refundings where the new bond issues are not converted to cash prior to defeasance of the obligations associated with the refunded debt.
(e) Net change in unrealized gains and losses from the adjustment to mark investments to market in accordance with GASB Statement No. 31.

Information provided to meet this requirement should clearly describe the cash and noncash aspects of transactions involving similar items. This data will be incorporated into a schedule that follows the Statement of Cash Flows.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2001
SUB-SECTION:	34 - Cash Flows Statement	**REVISION DATE:**	May 28, 2002
SUBJECT:	Procedure	**PAGE:**	1 of 1

A **Statement of Cash Flows** should be prepared for enterprise and internal service funds per GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.* GASB has also developed a Cash Flows Statement Implementation Guide for use in preparing the cash flows statement. This is a Q&A with examples for different types of proprietary activities.

Cash flows statements should conform with the model included in the Pro Forma Statement section of this manual (see Section VI). Agencies must contact the Financial Reporting Section (SCO-FRS) before deviating from this model.

In addition, agencies are **required** to provide data on all noncash investing, capital, and financing activities that affect recognized assets and liabilities. The agency procedure checklist has a question about noncash transactions that must be answered by all agencies required to prepare cash flows statements. If an agency has noncash transactions they must complete the schedule following the "Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations" portion of the Statement of Cash Flows.

Examples of noncash transactions include the purchase of fixed assets through leases or an installment purchase, the donation of assets, or the exchange of one noncash asset for another. The net change in unrealized gains or losses from the adjustment to mark investments to market in accordance with GASB Statement No. 31 must be shown as a noncash item. In addition, when a bond refunding does not result in a cash flow because the new bond issue is not converted to cash or cash equivalents before the old debt is defeased, it should be included in the noncash transactions.

Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, amends GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments* to include public colleges and universities.

Applying GASB Statement No. 14, *The Financial Reporting Entity*, Paragraph 15, and GASB Statement 35 standards to the State's Annual Comprehensive Financial Report (ACFR), the University of Wisconsin System will be included in the ACFR as an enterprise fund. Because of the material account balances of the University of Wisconsin System, the fund is considered a "major" fund and, consequently, is separately reported in the ACFR's basic financial statements.

Financial statements of the University of Wisconsin System (the UW System) are presented in the ACFR as an enterprise fund. The financial activity of the UW System meets the criteria of a major fund. Therefore, the UW System will be reported as a separate column in the basic *fund* financial statements and as a separate line item on the *government-wide* statement of activities.

The UW System prepares GAAP financial statements based on their accounting records, although activity of the UW System is also accounted for on the State central accounting system in the budgetary General Fund (Fund 15000), University Trust Principal Fund (Fund 51100) and University Trust Income Fund (Fund 51200).

Information provided to the UW System by the State Controller's Office

SCO-FRS will provide, as part of the financial reporting package distributed to the UW System, various financial information, including (but not limited to) the following:

1. **Trial Balance Worksheet.** For informational purposes, the SCO-FRS will provide the UW System with a trial balance worksheet, which contains account balances from the central accounting system and ACFR adjustments [(a)].

2. **GPR Interfund Transfer Information.** While GPR expenditures are reported on the State central accounting system in Fund 15000, the related resources to fund these expenditures are not recorded on-system in that fund. As a result, transfers from the GAAP General Fund to the UW System enterprise fund are recorded as off-system adjustments on the trial balance worksheet. [(b)] (Section IV – 4 of the GAAP Manual covering trial balances discusses GPR subsidies to GAAP funds that are reported as interfund transfers from the GAAP General Fund to the recipient funds. The general guidance found in that section applies to the UW System.) Specific examples related to this and other types of GPR-related information are described below.

   a. ***GPR Expenditures Reported On-System***. The SCO-FRS will compile, document and prepare the journal entry for the GPR transfers to the UW System (fiscal year totals). The UW System should review and compare the supporting documentation provided by the SCO-FRS to ensure consistency with their data. The format of the entry follows:

Debit:	[Revenues (State Appropriation)]*	$(Fiscal year expenditures)	
Credit:	Interfund Transfer In		$(Fiscal year expenditures)

<To reclassify the GPR appropriation from the General Fund
as a Fiscal Year XX Interfund Transfer in.>

* *Debit this account if the UW System initially records the GPR appropriation to this revenue account. (The UW System is responsible for adjusting any other amounts classified to this revenue account, if necessary.)*

The amount of fiscal year GPR expenditures is temporarily used in this entry, although a portion of the expenditures represent accruals (i.e., expenditures paid for during the "13th month" (i.e., after June 30)). Rather than reflecting the accruals recorded on the State central accounting system, the UW System provides the amount of the accruals to SCO-FRS (as noted on Page 5 of this Section). The SCO-FRS, in turn, prepares a subsequent adjusting entry to reflect the accruals.

(a) These adjustments include items discussed further in this section.
(b) Because the impact of transfers for similar GPR appropriations have not been made on-system since the 1994 implementation of the current State central accounting system, the trial balance worksheet also reflects adjustments to fund equity to reflect the effect of transfers for prior year GPR expenditures recorded in Fund 15000 (formerly fund 103).

(c) ***GPR Revenues***. Total revenues for Fund 15000 include amounts that relate to GPR appropriations. Since these appropriations cannot accept revenues, the receipts are credited to an unassigned revenue account. Per Chapter 20, this revenue is treated as a nonappropriated receipt and is not available for expenditure. Ultimately the monies lapse to the General Fund, so consequently it is not appropriate to show these receipts as revenues of the UW-System.

The SCO-FRS will prepare an entry on the trial balance worksheet to remove GPR revenues from the University and report them in the General Fund. The entry to remove GPR revenue would be as follows: [c]

Debit:	Revenues	$(Total GPR revenues)	
Credit:	Cash		$(Total GPR revenues)
	<To eliminate the GPR revenues recorded under the UW-System for Fiscal Year XX.>		

(d) **GPR Encumbrances and Continuing Balances in GPR Appropriations.** GPR appropriation encumbrances are considered part of the GAAP General Fund until actually expended. For this reason, no interfund transfer will be made for the encumbered amounts.

Similarly, GPR continuing balances are also considered part of the GAAP General Fund until expenditure occurs. Accordingly, the UW System financial statements should not include unexpended continuing GPR balances in its fund equity.

3. **Interfund "Loans".** The statutory General Fund typically has a positive cash balance. In contrast, the GAAP General Fund may have a cash deficit, which must be covered through interfund borrowing. This deficit occurs primarily due to the elimination of the UW System activity from the statutory General Fund during the GAAP conversion process. To cover this deficit, an interfund "loan" is set up between the GAAP General Fund and the UW System enterprise fund. [d] As a result, the UW System reduces cash and recognizes a corresponding interfund (loan) receivable.

   Therefore, in those years when the GAAP General Fund reports a cash deficit, the SCO-FRS will provide the UW System with the amount of the interfund "loans" as of June 30. [e] Accordingly, the UW System will prepare the following entry:

Debit:	Interfund Receivables	$(Amount of Interfund "Loans")	
Credit:	Cash and Cash Equivalents		$(Amount of Interfund "Loans")
	<To reflect the amount of interfund receivables from the GAAP General Fund.>		

4. **Investment Interest Accrual.** June earned interest on the State Investment Pool (Fund 39900) is reflected in the appropriate funds, including the UW System enterprise funds, as Cash and Cash Equivalents at June 30th in the ACTUALS ledger. As a result, an ACFR entry is not required to accrue the interest earned.

5. **Mark to market adjustment**. The SCO-FRS will distribute the GASB 31 "mark to market" adjustment relating to the UW System's share of the State Investment Pool (Fund 39900), if needed.

(c) Because the impact of similar GPR revenues have not been made on-system since the 1994 implementation of the current State central accounting system, the trial balance worksheet also reflects adjustments to fund equity to reflect the effect of prior year GPR revenues recorded in Fund 15000 (formerly fund 103).
(d) The ACFR distinguishes Interfund Receivables/Payables from Due from/to Other Funds. The former reflects account balances established to cover cash deficits, while the latter reflects amounts due typically for goods/services provided between funds
(e) During the ACFR process, the General Fund cash deficit frequently changes based on entries submitted by various agencies. As a result, in years when the General Fund reports a cash deficit, the SCO-FRS will provide the UW System with a preliminary amount based on an initial calculation, and with an adjusted amount near the end of the ACFR compilation process.

6. **June transactions hitting Treasury in July**. For cash reconciliation purposes, the SCO-FRS will provide information pertaining to transactions (e.g., manual warrants and payroll transactions) processed in late June that impacted the Treasurer in July.

7. **"July cash" supporting documentation**. The SCO-FRS will provide the UW System with a list of "July Cash" transactions that were processed during the 13th month (such as July cash receipts, manual warrants and payroll transactions processed by the UW System) that are included in Account 1352000 "Accounts Receivable (Between Year) and Account 2001000 "Accounts Payable (Between Year). These transactions set up receivables/payables rather than affecting cash, accordingly.

8. **"UW Due to/from Other Funds"** and **"UW Interfund Transfers In and Out"** reconciliation forms. The SCO-FRS will provide special forms to assist in the reconciliation of amounts reported as "Due to/from Other Funds" and "Interfund Transfers In and Out".

9. **DOA Billings.** The SCO-FRS may provide information on DOA billings to help substantiate additional "due to other funds" amounts that are due to the DOA-Bureau of Financial Management or other DOA divisions. These amounts may pertain to the DOA internal service funds, General Fund, or other GAAP funds.

10. **State withholdings payable**. The SCO-FRS will provide the liability reported by the UW System on the state central accounting system for state withholding taxes, which should be reported as a "Due to Other Funds" by the UW System. (The UW System should notify the SCO-FRS if an adjustment is needed to this balance, since the State's General Fund reports a corresponding "Due from Other Funds" for a like amount.)

11. **Account 2000000 Detail**. The SCO-FRS will provide the details to support the amount reported in Account 2000000 "Accounts Payable".

12. **University Expenditures Reported in Other Segregated Funds.** A portion of the activity of the UW System is recorded in various segregated funds (e.g., Funds 21200 Conservation or 27400 Environmental) on the State central accounting system. The revenues for these activities are generated primarily from the respective funds (e.g., Conservation Fund), while the expenditures are incurred by the UW System.

    Accordingly, for ACFR purposes, the UW System's financial statements should report the expenses for this activity, with the corresponding source reported as an interfund transfer in. The segregated fund (e.g., Fund 21200) should report the revenues with a corresponding interfund transfer out. Further, in the event that expenditures are recorded after June 30th, an entry should be prepared to reflect the Due from Other Funds for the accrual period amount. The summarized entries for the University follow:

Debit:	*[Revenues/Expenditures] ****	$(Total fiscal year expenditures)	
Credit:	Interfund Transfer In		$(Total fiscal year expenditures)
	<To reclassify revenues generated in non-university funds for UW System activities.>		

*** *Account debited will depend on the account initially recorded by the UW-System.*

Debit:	Due from Other Funds	$(Accrual period expenditures)	
Credit:	*[Cash and Cash Equivalents] *****		$(Accrual period expenditures)
	<To report payments made after June 30th for UW System activity that is paid from non-university revenue sources.> *****		

**** *Credit this account if the UW System initially adjusted cash to include July accruals.*

The SCO-FRS will also make entries on the ACFR trial balances of the individual GAAP funds that include UW System activities as follows:

Example: **Conservation Fund:**

Debit:	Interfund transfers out	$(Total fiscal year expenditures)	
Credit:	Expenditures		$(Total fiscal year expenditures)
	<To reclassify expenditures for University of Wisconsin System activities recorded in the Conservation Fund.>		

Debit:	Accounts Payable	$(Accrual period expenditures)	
Credit:	Due to Other Funds		$(Accrual period expenditures)
	<To reclassify payments made after June 30th for University of Wisconsin System activity initially reported as Accounts Payable on the trial balance.>		

The ***State Controller's Office-Capital Accounting Section*** will provide the following:

13. **Capital Expenditures.** The UW System has various capital projects that are accounted for in the Building Trust and Capital Improvement funds (36000/36300). The State Controller's Office - Capital Accounting Section will provide the UW System with the extracted data of this activity, and with related debt information reported in the Bond Security and Redemption fund (31500).

Information Provided to the SCO-FRS by the UW-System

1. **Enterprise fund financial statements for inclusion in the ACFR**. The UW System will provide the SCO-FRS with fund financial statements listed below, following the pro forma enterprise fund prescribed format:
   - Classified balance sheet
   - Operating statement
   - Cash flow Statement

2. **Government-wide financial statement roll-up information.** The UW System will provide the SCO-FRS with the breakdown of various accounts reported in the fund operating statement to allow for the proper roll-up to the government-wide statement of activities. Examples include, but may not be limited to, the following:

Fund operating statement	Breakdown needed for government-wide statement of activities	For activity related to:
Investment and Interest Income (a nonoperating revenue)	• ***Program Revenue:*** Operating Grants and Contributions	Interest on endowments
	• ***General Revenue:*** Interest and Investment Earnings	Remaining interest

3. **June 30 Accruals/Checks paid out in July -- to Adjust for the GPR Expenditures Reported on System.** The UW System will determine the amount of (1) the June 30 accruals, and (2) the checks paid out of the Treasury after June 30th, which adjust the GPR appropriation entry discussed on Page 1 of this section. The UW System should make the following entry, accordingly:

Debit:	Due from Other Funds	$(Accrual period expenditures)	
Credit:	*[Cash]* **		$(Accrual period expenditures)

<To recognize the receivable for 6/30/XX accruals related to on-system GPR expenditures.>

*** Credit this account if the University initially adjusts cash to include GPR July accruals.*

To ensure that the SCO-FRS is reporting a corresponding entry in the State's General Fund, the UW System should provide the SCO-FRS with the amounts. The SCO-FRS will, in turn, prepare the entry for the General Fund debiting "Cash" and crediting "Due to Other Funds".

4. **Disclosure footnotes and other financial information.** The UW System will provide the SCO-FRS with disclosure footnotes and other financial information including, but not necessarily limited to, the following:

- Summary of significant accounting principles (including those unique to university accounting and those relating to GASB Statement No. 14, *The Financial Reporting Entity*).
- Deposits and investments (i.e., GASB Statement No. 3, *Deposits with Financial Institutions …,* disclosure requirements), including a listing of all bank deposits with bank name, location, bank balance, book balance and authorized amount of each contingent fund.
- Cash and cash equivalents reconciliation listing cash reported by Treasury, deposit accounts and "other" cash such as sinking funds.
- Capital assets major categories (e.g., land and land improvements, buildings and improvements, equipment, construction in progress), distinguishing between depreciable and nondepreciable assets. This information must include (1) beginning balances, (2) additions, (3) retirements, and (4) ending balances for both of the following:
  - Gross capital assets
  - Accumulated depreciation
- Long-term debt information (e.g., repayment schedules, excluding repayment of University's share of general obligation debt which is compiled by SCO-Capital Accounting Section);
- Derivative instruments.
- Prior period adjustments, including the effect of the restatements on the operating statement of the prior fiscal year (required by APB 9, Para. 26).
- Leases and SBITAs, including
  - Future lease/SBITA payments broken into principal and interest portions,
  - Current year lease/SBITA expenditures, and
  - Schedule of Right to Use Assets financed through leases and SBITAs
- Installment purchases.
- Asset Retirement Obligations.
- Litigation, contingencies and commitments (excluding claims administered by DOA-Bureau of State Risk Management which are compiled by SCO-FRS).
- Subsequent Events.

5. **MD&A Information.** The UW System will provide the SCO-FRS with information that is required to be discussed in the Management Discussion and Analysis (MD&A). Such information would cover:

   - A description of reasons for any significant changes in account balances on the balance sheet or operating statement.
   - A description of currently known facts, decisions or conditions that are expected to have a significant effect on financial positions or results of operations.

The footnote disclosures and MD&A information may be submitted on forms provided in the *Uniform GAAP Conversion Manual* **or** on other documents (for examples, disclosure notes appearing in the draft stand alone statements) prepared in a comparable format.

Events or transactions that occur after the fiscal year end but prior to issuance of the ACFR and the auditors report are referred to as subsequent events. Subsequent events that have a material effect on the ACFR require consideration by individual agencies and the State Controller's Office – Financial Reporting Section (SCO-FRS).

Guidelines

The SCO-FRS and individual agencies should identify those events and transactions which meet the definition of subsequent events.

Events or transactions which may lead to subsequent event reporting include, but are not limited to:

- Financing agreements which require assets to be pledged or otherwise restricted.
- Liabilities which have been settled for less than face value.
- Material amounts of receivables which have become delinquent, doubtful or uncollectible.
- Events which render a material amount of fixed assets inoperable or obsolete.
- The issuance of debt.
- Outstanding obligations which cannot be met.
- Audits which are other than routine.
- New lease agreements or subscription-based IT arrangements.
- Law suits filed by or against your agency.
- The early retirement of debt.
- Large or unusual commitments for materials or services.
- Pollution remediation obligations (also see Section V – 42 *Pollution Remediation Obligations* of GAAP Manual)

Previous accounting guidance related to subsequent events was found only in AICPA Statements on Auditing Standards. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, incorporated the basic principles of the AICPA guidance that identifies and describes the accounting and disclosure treatment for two types of subsequent events: (1) "type one events," which require adjustments to the financial statements (renamed to "*recognized*" events in GASB Statement No. 56), and (2) "type two events," which do not require financial statement adjustments but may require disclosure in the notes to the financial statements (renamed to "*nonrecognized*" events in GASB Statement 56).

Recognized events provide additional evidence with respect to conditions that existed at the date of the financial statements and affects the estimates that were used in the preparation of the financial statements (e.g., the settlement of a lawsuit related to an event that occurred prior to the date of the financial statements). For recognized events, the financial statements should be adjusted for any changes in estimates resulting from this new evidence.

Nonrecognized events provide evidence with respect to conditions that did not exist at the financial statement date but arose subsequent to that date. These subsequent events do not result in adjustment to financial statement amounts but should be disclosed in the notes to the financial statements if considered essential to a user's understanding of the statements. For example, changes in the quoted market prices of a government's investments subsequent to year-end would generally not require adjustment to the financial statement amounts because the change in market value typically reflects a concurrent evaluation of new conditions.

SECTION:	V – Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2009
SUB-SECTION:	36 – Subsequent Events	**REVISION DATE:**	June 9, 2010
SUBJECT:	Policy	**PAGE:**	2 of 2

Reporting Requirements

Government funds should report only the current portion of *Recognized Event* adjustments in the fund financial statements. The remainder of the adjustments (the non-current portion) should be reported in the government-wide financial statements.

Proprietary fund types should account for *Recognized Event* adjustments in the fund.

Subsequent events which provide evidence with respect to conditions that did not exist at the financial statement date but arose subsequent to that date, *Unrecognized Events*, may require disclosure in the notes to the financial statements.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2009
SUB-SECTION:	36 - Subsequent Events	**REVISION DATE:**	June 9, 2010
SUBJECT:	Procedure	**PAGE:**	1 of 1

Agencies should report subsequent events to the State Controller's Office - Financial Reporting Section (SCO-FRS) using the form supplied in the financial reporting package entitled "Note Disclosure Information - Subsequent Events". For subsequent events pertaining to litigation, claims and assessments, agencies should refer to Section V - 14 – Litigation, Contingencies and Commitments.

Agencies should also adjust the balance sheet and operating statement for subsequent events which provide evidence with respect to conditions which existed at June 30 (*Recognized Events*, as described in the Policy Section).

Agency representatives should notify the SCO-FRS of any subsequent events that occur after submitting the note disclosure form but before the ACFR is issued.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2022
SUB-SECTION:	37 - Segment Information	**REVISION DATE:**	June 30, 2023
SUBJECT:	Policy	**PAGE:**	1 of 1

A segment is defined as an identifiable activity (or grouping of activities) reported as or within an enterprise fund (or other stand-alone entity) that has one or more bonds or other debt instruments (such as certificates of participation) outstanding, with a revenue stream pledged in support of that debt. To be considered a segment, activities meeting this definition must also be required, by an outside party, to report revenues, expenses, gains and losses, assets, and liabilities separately. This is common in bond indentures. Segment disclosure is not required for segments that are also major funds because the detail is already reported in the financial statements.

In addition to the type of goods or services provided, condensed financial statements are required for activities identified as segments. This includes a condensed statement of net position, changes in net position, and cash flows. Agencies with activities that require segment footnote disclosures will provide the stand-alone statements for the segment to the State Controller's Office - Financial Reporting Section (SCO-FRS). SCO-FRS will compile the condensed statements from the stand-alone statements.

Material activities that constitute a segment as defined above shall be disclosed in the footnotes. This includes the Leveraged Loan Program, a subprogram of the Environmental Improvement Fund.

Agencies shall consider an activity a segment if all of the following criteria are met:

- The activity is reported as or within an enterprise fund or other stand-alone entity that has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt.
- An external party requires separate financial reporting of the revenue, expenses, gains and losses, assets, and liabilities.
- The activity is not already reported as a major fund.

Condensed financial statements are required for activities identified as segments. This includes a condensed statement of net position, changes in net position, and cash flows. Agencies that report activities that qualify as a segment will provide the stand-alone statements for the segment. The State Controller's Office – Financial Reporting Section (SCO-FRS) will compile the disclosure from the stand-alone statements. The following will be disclosed where applicable:

- The types of goods or services provided.
- Condensed statement of net position including:
  - Total assets including current assets, capital assets, and other assets separately identified; receivables from other funds or components units should be clearly identified
  - Total deferred outflows of resources
  - Total liabilities, distinguishing between current and long-term; payables to other funds or components units should be clearly identified
  - Total deferred inflows of resources
  - Total net position including restricted and unrestricted net position and invested in capital assets, net of related debt
- Condensed statement of revenues, expenses, and changes in net position:
  - Operating revenues by major source
  - Operating expenses with depreciation listed separately
  - Operating income or loss
  - Nonoperating revenues and expenses with separate reporting of major revenues and expenses
  - Capital contributions and additions to permanent and term endowments
  - Special and extraordinary items
  - Transfers
  - Change in net position
  - Beginning net position
  - Ending net position
- Condensed statement of cash flows:
  - Net cash provided (used) by operating activities
  - Net cash provided (used) by noncapital financing activities
  - Net cash provided (used) by capital and related financing activities
  - Net cash provided (used) by investing activities
  - Beginning cash and cash equivalents
  - Ending cash and cash equivalents

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2019
SUB-SECTION:	38 - Deferred Compensation	**REVISION DATE:**	June 30, 2020
SUBJECT:	Policy	**PAGE:**	1 of 1

The deferred compensation plan is established under Section 457 of the Internal Revenue Code and Sections 40.80, 40.81 and 40.82 of the Wisconsin Statutes (Chapter 187, Laws of 1981). The plan allows state employees to defer receipt of a portion of their salary and the payment of federal income taxes on those deferred amounts. The Department of Employee Trust Funds and the Deferred Compensation Board (Board) have statutory authority for program administration and oversight. The Board contracts for the administrative services with an independent agent to administer the plan. The State remits employee contributions to the agent which places them in one of the tax-deferred investments of the participant's choice which are available under the plan. All records detailing the contributions, earnings and balances on deposit for individual participants are maintained by the agent.

Under IRC (Internal Revenue Code) Section 457(g), all assets attributable to the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries. Essentially, under IRC Section 457 the State does not own the amounts deferred by employees or related income on those amounts. Previously with the requirements in IRC Section 457 requirements and GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the State determined that deferred compensation did not need to be reported in the State's ACFR. With the issuance of GASB Statement No. 84, *Fiduciary Activities,* the State needed to re-evaluate the need to report deferred compensation in the State's ACFR.

FINANCIAL REPORTING REQUIREMENTS:

GASB Statement No. 84 states that activity is fiduciary if the following are met (¶ 11).

1. The government has control of the assets as described in paragraph 12.
2. The assets associated with the activity are *not* derived either:
    a. Solely from the government's own-source revenues described in paragraph 13 **or**
    b. From government-mandated nonexchange transactions or voluntary nonexchange transactions.
3. The assets are held in a qualifying trust where the government is not the beneficiary, the assets are legally protected from creditors and dedicated to providing benefits to recipients.

The State has control of the assets because the State is holding the assets. Section 7.04 of the Plan and Trust Document specifies that all assets of the plan shall be held in trust by the trustees for the exclusive benefit of participants and their beneficiaries. Since the trustees are the Wisconsin Deferred Compensation Board and approved by the governor, the State holds the assets.

Next, since assets are solely from participants money and there are no required employer contributions, the assets are not derived from own-source revenues. Also, the assets are not from non-exchange transactions.

Finally, the assets are held in a qualifying trust where the government is not the beneficiary and they are legally protected from creditors and dedicated to providing benefits to recipients of the plan.

Since the State's Deferred Compensation Plan meets the criteria as fiduciary activity under GASB Statement No. 84, the activity has been presented as a fiduciary fund under other employee benefit trust fund in the State's ACFR since FY 2020.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2019
SUB-SECTION:	38 - Deferred Compensation	**REVISION DATE:**	June 30, 2020
SUBJECT:	Procedure	**PAGE:**	1 of 1

The State's Deferred Compensation Plan will be presented as a fiduciary fund in the State's ACFR starting in FY 2020 with the implementation of GASB Statement No. 84. The significant factors contributing to this conclusion include, and are consistent with the provisions of GASB Statement No. 84:

- The State has control of the plan assets,
- The plan assets are not derived from own-source revenues or non-exchange transactions, and
- Assets are held in a qualifying trust where the State is not the beneficiary, the assets are legally protected from creditors and are dedicated to providing benefits to recipients of the plan.

The State's Deferred Compensation Plan will be reported as a fiduciary fund, under other employee benefit trust fund using the separately issued financial statements by ETF. SCO-FRS will work with ETF to identify any additional information needed for the State's ACFR that is not in ETF's separately issued statements.

The separately issued statements for deferred compensation can be found on ETF's website, under governing boards (https://etf.wi.gov/about-etf/governing-boards/deferred-compensation-board/deferred-compensation-board-agendas-and-materials). The financial statements are usually approved during the June board meetings and can be found attached to the agenda.

The State reporting entity includes activities for which there are specialized applications of generally accepted accounting principles (GAAP), including insurance activities. The State's manual provides limited guidance on how to report insurance activities; therefore, State agencies with these activities should ensure they follow the reporting and disclosure requirements applicable to the industry.

Insurance activities required to meet the specialized standards include, but are not limited to, the following:

Activity	**Administering Agency**
• State Risk Management	Department of Administration
• State Life Insurance	Office of the Commissioner of Insurance
• Injured Patients & Families Compensation	Office of the Commissioner of Insurance
• Wisconsin Health Care Liability Insurance Plan	Office of the Commissioner of Insurance
• Income Continuation Insurance	Department of Employee Trust Fund
• Health Insurance	Department of Employee Trust Fund
• Duty Disability	Department of Employee Trust Fund
• State Retiree Health Insurance	Department of Employee Trust Fund
• Local Retiree Health Insurance	Department of Employee Trust Fund
• State Retiree Life Insurance	Department of Employee Trust Fund
• Local Retiree Life Insurance	Department of Employee Trust Fund

While insurers are often required to report to regulatory authorities on a statutory basis, they must follow GAAP reporting standards for insurance activities for ACFR purposes. Examples of authoritative literature for insurance activities include, but are not limited to pronouncements of the Governmental Accounting Standards Board. Examples of GASB standards that may be referenced include:

- Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*;
- Statement No. 30 *Risk Financing Omnibus*;
- Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and
- Statement No. 66 *Technical Corrections an amendment of GASB Statements No. 10 and No. 62;*

Because of the varied and specialized authoritative guidance relating to insurance activities reported in the State's ACFR, GAAP accountants responsible for an insurance activity should research and comply with applicable GAAP reporting standards.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 1991
SUB-SECTION:	39 - Industry Specific Guidelines-Insurance	**REVISION DATE:**	September 2, 1992
SUBJECT:	Procedure	**PAGE:**	1 of 1

GAAP accountants, who are responsible for financial reporting and disclosure of insurance activities, must identify, research and comply with the authoritative literature that establishes generally accepted accounting principles for that specialized industry.

In addition, where authoritative literature is absent, these agencies should comply with all State policies and procedure identified within this manual.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	40 – Management Discussion and Analysis Requirements	**REVISION DATE:**	May 7, 2014
SUBJECT:	Policy	**PAGE:**	1 of 2

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* establishes financial reporting requirements for governmental units, including the State of Wisconsin. The *Management Discussion and Analysis* (MD&A) introduces the basic financial statements and provides an analytical overview of the State's financial activities. GASB 34 requires that the MD&A include a discussion of the government'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. This analysis must include reasons for significant changes from the prior year to the currently year for asset, deferred outflow of resources, liability, deferred inflow of resources, revenue and expense accounts for *both* governmental and business-type activities, including the effect of economic factors. GASB 34 also requires a discussion of any restrictions, commitments, or other limitations that would significantly affect the availability of individual fund resources for future use.

Agencies are required to provide additional information to assist in the preparation of the MD&A. The State Controller's Office – Financial Reporting Section (SCO-FRS) will compile and evaluate this information for potential inclusion in the MD&A. Agency input is crucial because agency accountants are closer to the State's programs than SCO-FRS staff and can better understand the reasons and circumstances behind changes. Similarly, they may have more insight and a better understanding of the potential impact of new legislation and other events that should be highlighted and discussed in the ACFR.

Specific information that should be provided (if applicable) includes:

A. Description of Significant Changes in Account Balances to Potentially be Discussed in the MD&A

If an agency's account balances (individual asset, deferred outflow of resources, liability, deferred inflow of resources, revenue, and expenditure/expense accounts) have changed significantly from the previous year to the current year, the agency should communicate the reason(s) for the change to the SCO-FRS for consideration of inclusion in the MD&A. The agency should also communicate any restrictions, commitments or other limitations that could impact fund resources in the future.

To help identify major changes in revenue and expense accounts, the SCO-FRS will compare current and previous years' balances as recorded on system that may potentially need to be addressed in the MD&A section of the ACFR.

B. Description of Currently Known Facts, Decisions or Conditions to Potentially be Discussed in the MD&A

GASB 34 requires a description of currently known facts, decisions, or conditions that are expected to have a *significant* effect on financial position (net position) or results of operations (revenue, expenses, and other changes in net position) be disclosed in the MD&A. "Currently known" means to have been aware of at the date of the auditor's report. The key word in the requirement is *known*—that is, this discussion should be based on events or decisions that have already occurred, or have been enacted, adopted, agreed upon, or contracted. Agencies should not discuss in the MD&A the *possible* effect of events that *might* happen.

Some examples of "currently known facts, decisions, or conditions" to consider are:

- Award and acceptance of a major grant
- Adjudication of a significant lawsuit
- Significant change in the tax base
- Adopted increase in a state's sales tax rate
- Approved increase in a university's tuition
- A flood that caused significant damage to a government's infrastructure
- A renegotiated labor contract with government employees

Some examples that would *not* be "currently known facts, decisions, or conditions" are:

- Predicting how much sales tax revenues would increase if a planned shopping mall is built
- Predicting that a data-processing system under construction "will pay for itself" over a certain period of time

The State Controller's Office – Financial Reporting Section (SCO-FRS) will prepare the Management Discussion and Analysis (MD&A) section of the ACFR with input from agency accountants. Agencies are required to provide the following information:

A. Description of Significant Changes in Account Balances Reported by Your Agency in the MD&A

GASB 34 requires that the MD&A portion of the ACFR include an analysis of the financial position and results of operations of the government. This analysis would address significant changes in account balances (assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses/expenditures), along with the following information:

- important economic factors that significantly affect current operating results, and
- restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use.

Agencies should compare current year accounts balances with previous year account balances to identify any significant changes that could impact either the individual fund statements or the government-wide statements (governmental and business-type activities). To assist with identifying changes in revenues and expenditures/expenses, SCO-FRS will review year-end balances recorded on-system in these accounts and send a list of significant changes, along with a request for information on the nature of these changes, to affected agencies. Agencies with significant changes in account balances should describe the reasons for the changes on the form entitled "Analysis of Major Changes In Account Balances to be Discussed in MD&A" form.

In addition to the changes in account balances identified on-system, agencies should also consider any ACFR adjusting entries they have prepared that significantly change the account balances from the prior year to the current year. A description of the underlying reasons for such changes should also be included in the discussion on the form. Finally, agencies should describe on the form:

- any economic factors that significantly affected *current* operating results associated with their agency, and
- any restrictions, commitments, or other limitations that could significantly affect the availability of agency fund resources for *future* use.

Descriptions provided by agencies should <u>not</u> be "broad" or "general" in scope but should provide sufficient information necessary to fully explain the reason for the change in account balance. These descriptions are typically between one and three sentences in length and should be written in a format that is publication-ready. *(Agency descriptions may be modified by SCO-FRS for consistency purposes, etc.)*

For example, a "broad" or general description could be, "additional educational aids were appropriated during the current fiscal period." However, because this statement does not fully disclose or explain the condition, a more appropriate explanation may be, "The amount of educational equalization aids paid is determined by a formula, which is driven by the current State's policy of paying XX% of the cost of public education in the State. As the general costs of education throughout the State increase, so does the amount of the equalization aid. Due to the increase in education expenditures on a State-wide basis, the general educational aids increased X.X % from Fiscal Year 200X to Fiscal Year 200Y."

B. Description of Currently Known Facts, Decisions or Conditions to be Discussed in the MD&A

GASB 34 requires that *currently known* facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position) should be discussed in the MD&A. “Currently known” is defined as items, decisions or events that have been settled, enacted, or contracted by the date of the auditor’s report. See the Sub-section 40 Policy discussion for examples of items that should be addressed for the MD&A.

If an agency has “currently known facts, decisions, or conditions” that meet the disclosure criteria, they should describe them on the form titled “Currently Known Facts, Decisions, or Conditions to be Discussed in MD&A”.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2020
SUB-SECTION:	41 – Other Postemployment Benefits	**REVISION DATE:**	June 30, 2021
SUBJECT:	Policy	**PAGE:**	1 of 1

Background

In addition to participation in pension plans, governments provide other postemployment benefits (OPEBs) as part of the total compensation package offered to employees. OPEBs includes postemployment healthcare, as well as other forms of benefits (for example, life insurance, dental, and prescription drug coverage) provided separately from the pension plan. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, required that a portion of OPEB liabilities be accrued and the full amount disclosed.

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* replaces GASB Statement No. 45. It requires the entire OPEB asset or liability, along with the related expenses and deferred inflows and outflows of resources be recognized in full accrual financial statements. Governmental funds (i.e., the General Fund, special revenue funds, debt service funds, capital project funds, permanent funds) report on the modified accrual basis of accounting and will not reflect OPEBs at the fund level. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is a companion standard applicable to *plan* reporting rather than *employer* reporting.

OPEB Plans

The State Retiree Health Insurance Plan (SRHIP), State Retiree Life Insurance Plan (SRLIP) and Supplemental Health Insurance Conversion Credit Program (SHICCP) are considered OPEBs under GASB 75. State agencies, the UW System, and component units are participating employers in the plans. SRHIP is a nontrusted single employer plan (with multiple participating employers) while SRLIP and SHICCP are trusted single employer plans (with multiple participating employers). Categorization as a trusted versus non-trusted and a single versus cost-sharing plan impacts the State's ACFR and ETF's reporting requirement.

Determination of OPEB Liability and Other OPEB Related Information

ETF administers several government employee benefit programs and is responsible for maintaining technical and sensitive information pertaining to those programs. As a result, ETF plays a critical role in SCO-FRS obtaining information, including actuarially-generated information, that follows applicable GASB standards. ETF is required to provide OPEB actuarial reports to SCO-FRS for use in ACFR reporting. SCO will coordinate with ETF to ensure the required information is available for the State's ACFR.

Based on the information in actuarial reports and from ETF, SCO-FRS will complete the necessary OPEB-related entries, note disclosures, RSI, etc. for inclusion in the ACFR.

Agencies preparing individual GAAP fund statements for inclusion in the ACFR must include the OPEB-related entries created by SCO-FRS in a manner consistent with ACFR reporting requirements.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2020
SUB-SECTION:	41 – Other Postemployment Benefits	**REVISION DATE:**	June 30, 2021
SUBJECT:	Procedure	**PAGE:**	1 of 3

SCO-FRS will prepare ACFR adjusting entries at the fund and government-wide levels to report the State's other post employment benefits (OPEB) liability, and associated expenses and deferred inflows/outflows associated with the State Retiree Health Insurance, State Retiree Life Insurance and Supplemental Health Insurance Conversion Credit Program plans. The basis for the entries will be an actuarial report to be acquired with the assistance of ETF.

Allocation of OPEB Liability and Creation of Adjusting Entries

To determine the amounts to report for each GAAP fund, the SCO-FRS will allocate the State's portion of the OPEB liability, expenses, and related deferred inflows and outflows. The allocation will be based on a percentage of each agency's related payroll expenditures per GAAP fund in the preceding fiscal year to align with actuarial measurement dates. For the current fiscal year (6/30/xy) ACFR, SCO-FRS will allocate the 6/30/xx or 12/31/xx balances based on the prior FYxx expenditures in STAR.

After allocating the amounts to GAAP funds, SCO-FRS will prepare the required adjusting entries and post them to the ACFR trial balances for GAAP funds reporting on a full accrual basis of accounting for which OPEB-related activity exists. This is true for most, but not all, proprietary funds.

SCO-FRS will also prepare and make the entry at the government-wide level for governmental activities.

Because the entries are complex, numerous, and prepared by SCO-FRS staff centrally, detailed information on the entries is not presented here. Rather, information is maintained within SCO-FRS work files on the required entries.

Agency Inclusion of OPEB Entries in Individual GAAP Fund Statements

Agencies preparing individual GAAP fund statements should report the OPEB-related entries as presented on the ACFR trial balance. It is important for agencies to include the appropriate level of detail on the information submitted to SCO-FRS to allow for accurate and complete financial reporting and efficient desk review.

The table below summarizes the appropriate presentation of the many different OPEB-related accounts that should be followed for the financial statements submitted to SCO-FRS:

Statement	Account	Present on Separate ACFR Line?
Statement of Net Position	OPEB Asset (SHICCP)	Yes
Statement of Net Position	OPEB Liability (Health & Life)	Yes
Statement of Net Position	Deferred Outflows – Life OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows - Life OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows - Life OPEB Net Difference Between Projected & Actual Investment Earnings	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows - Life OPEB Change in Proportionate Share	Yes – need detail for note disclosure

Statement	Account	Present on Separate ACFR Line?
Statement of Net Position	Deferred Outflows - Life OPEB Contributions Subsequent to the Measurement Date	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows - Life OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows - Life OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows - Life OPEB Net Difference Between Projected & Actual Investment Earnings	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows - Life OPEB Change in Proportionate Share	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – Health OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows - Health OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – Health OPEB Change in Proportionate Share	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – Health OPEB Amount Paid Subsequent to the Measurement Date	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – Health OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – Health OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – Health OPEB Change in Proportionate Share	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – SHICC OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows - SHICC OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – SHICC OPEB Change in Proportionate Share	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – SHICC OPEB Amount Paid Subsequent to the Measurement Date	Yes – need detail for note disclosure
Statement of Net Position	Deferred Outflows – SHICC OPEB Net Difference Between Projected & Actual Investment Earnings	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – SHICC OPEB Differences Between Expected & Actual Experience	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows - SHICC OPEB Change of Assumptions	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – SHICC OPEB Change in Proportionate Share	Yes – need detail for note disclosure
Statement of Net Position	Deferred Inflows – SHICC OPEB Net Difference Between Projected & Actual Investment Earnings	Yes – need detail for note disclosure

Statement	Account	Present on Separate ACFR Line?
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Increase (Decrease) in OPEB Asset	Yes – do not combine with other asset accounts such as pensions; do not combine with Deferred Outflows
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Increase (Decrease) in OPEB Liability	Yes – do not combine with other liability accounts such as pensions or compensated absences; do not combine with Deferred Inflows
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Decrease (Increase) in Deferred Outflows of Resources	No – all Deferred Outflows and Deferred Inflows are combined on one line on the SOCF
Statement of Cash Flow – Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	Increase (Decrease) in Deferred Inflows of Resources	No – all Deferred Outflows and Deferred Inflows are combined on one line on the SOCF

Attachment A shows the OPEB liability and deferred outflows and deferred inflows in the manner that should be used for the statement of net position and the reconciling portion of the statement of cash flows.

Note Disclosure and Required Supplementary Information

SCO-FRS will prepare the notes required to meet the GASB 74 and 75 disclosure requirements in the ACFR. ETF, in conjunction with the actuaries, will provide the information needed for this note. Further, Required Supplementary Information (RSI), covering funding progress and trend factors, will also be provided by ETF and the actuaries.

****

Classified Statement of Net Position - Proprietary Funds
June 30, 20XX

Fund Name:

A classified statement of net position for proprietary funds will be created from the STAR CAFR ledger for those accountants uploading ACFR adjusting journals.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.

Agencies may not sum all types of Deferred Inflows of Resources or Deferred Outflow of Resources and present them on one line. Rather, each detailed type of deferred inflow and deferred outflows must be presented separately to allow SCO-FRS to develop related note disclosures.

Similarly, assets and liabilities should not be combined e.g. do not combine NPL, OPEBs and Comp Abs together. They are reported on their own lines in the ACFR.

Assets and Deferred Outflows of Resources		
Current Assets:		
Cash and Cash Equivalents	$	
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due from Other Funds		
Due from Component Units		
Interfund Receivables		
Due From Other Governments		
Inventories		
Prepaid Items		
Advances to Other Funds		
Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Other Assets		
Total Current Assets		0.00
Noncurrent Assets:		
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due From Other Governments		
Prepaid Items		
Advances to Other Funds		
Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Net Pension Assets NPA		
OPEB Asset (Life + SHICC)		
Depreciable Capital Assets		
Accumulated Depreciation		
Nondepreciable Capital Assets *(Includes Construction in Progress)*		
Other Assets		0.00
Total Noncurrent Assets		0.00
Total Assets		
Deferred OUTFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Pension Subsequent Contributions		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Life OPEB Subsequent Contributions		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
Health OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Investment Earnings		
Asset Retirement Obligations		
Advance to Recipient(s) by State (only time requirement remains)		
Loss on Debt Refunding		
Accumulated Decrease in Fair Value of Hedging Derivatives		
Other		
Total Deferred Outflows of Resources		0.00
Total Assets and Deferred Outflows of Resources		0.00

Liabilities, Deferred Inflows of Resources, and Fund Equity		
Current Liabilities:		
Accounts Payable and Other Accrued Liabilities		
Due to Other Funds		
Interfund Payables		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Interest Payable		
Advance from Federal Government		
Short Term Notes Payable (Commercial Paper)		
Current Portion Of Long Term Liabilities:		
Future Benefits and Loss Liabilities		
Leases		
Installment Contracts Payable		
Compensated Absences COMP ABS		
General Obligation Bonds Payable		
Revenue Bonds and Note Payable		
Total Current Liabilities		
Current Liabilities:		
Accounts Payable and Other Accrued Liabilities		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Advances from Other Funds		
Advance from Federal Government		
Noncurrent Portion Of Long Term Liabilities:		
Future Benefits and Loss Liabilities		
Leases		
Installment Contracts Payable		
Compensated Absences COMP ABS		
Net Pension Liability NPL		
Other Postemployment Benefits OPEBs (Health+Life+SHICC)		
Asset Retirement Obligations		
General Obligation Bonds Payable		
Revenue Bonds and Note Payable		
Total Current Liabilities		
Total Liabilities		0.00
Deferred INFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Difference in Investment Earnings		
Gain on Debt Refunding		
Advance Received by State (only time requirement remains)		
Accumulated Increase in Fair Value of Hedging Derivatives		
Other		
Total Deferred Inflows of Resources		0.00
Net Position:		
Net Investment in Capital Assets		
Restricted for Unemployment Compensation		
Restricted for Environmental Improvement		
Restricted for Expendable Trusts		
Restricted for Nonexpendable Trusts		
Restricted for Net Pension Asset & OPEB		
Restricted for Future Benefits		
Restricted for Other Purposes		
Unrestricted		
Total Net Position		0.00
Total Liabilities and Net Position		0.00

Statement Of Cash Flows for Fiscal Year Ended June 30, 20XX

Fund Name:	
Net Increase (Decrease) in Cash and Cash Equivalents	$
Cash and Cash Equivalents, Beginning of Year	
Cash and Cash Equivalents, End of Year	$
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:	
Operating Income (Loss)	$
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	
Amortization	
Provision for Uncollectible Accounts	
Operating Income (Investment Income) Classified as Investing Activity	
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	
Miscellaneous Nonoperating Income (Expense)	
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Decrease (Increase) in Receivables	
Decrease (Increase) in Due from Other Funds	The accounts the agency uses must be consistent with this presentation used for the State's ACFR. Agencies must separately present the increase (decrease) in Postemployment Benefits, Net Pension liabilities, and compensated absences liabilities. That is why we have separate lines for those accounts. Conversely, because only one line is presented for deferred outflows of resources in the SOCF, those amounts should be summarized. Similarly, because only one line is presented for deferred inflows of resources, those amounts should also be summarized. Note: Deferred outflows and deferred inflows must be broken out into detailed lines shown in the balance sheet.
Decrease (Increase) in Due from Component Units	
Decrease (Increase) in Due from Other Governments	
Decrease (Increase) in Inventories	
Decrease (Increase) in Prepaid Items	
Decrease (Increase) in Net Pension Assets	
Decrease (Increase) in Postemployment Benefit Asset	
Decrease (Increase) in Other Assets	
Decrease (Increase) in Deferred Outflows of Resources	
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	
Increase (Decrease) in Due to Other Funds	
Increase (Decrease) in Due to Component Units	
Increase (Decrease) in Due to Other Governments	
Increase (Decrease) in Tax and Other Deposits	
Increase (Decrease) in Unearned Revenue	
Increase (Decrease) in Interest Payable	
Increase (Decrease) in Future Benefits and Loss Liabilities	
Increase (Decrease) in Compensated Absences Liability	
Increase (Decrease) in Postemployment Benefit Liability	
Increase (Decrease) in Asset Retirement Obligation Liability	
Increase (Decrease) in Net Pension Liability	
Increase (Decrease) in Deferred Inflows of Resources	
Total Adjustments	
Net Cash Provided by Operating Activities	$
Noncash Investing, Capital and Financing Activities:	
Assets Acquired through Installments	$
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	
Lottery Prize Annuity Investment Assumption	
Lottery Prize Annuity Investment Liability	
Net Change in Unrealized Gains and Losses	
Other	

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2009
SUB-SECTION:	42 – Pollution Remediation Obligations	**REVISION DATE:**	June 24, 2010
SUBJECT:	Policy	**PAGE:**	1 of 4

POLLUTION REMEDIATION OBLIGATIONS

GASB Statement 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses pollution remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution *prevention and control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an assets, such as landfill closure and post closure care and nuclear plant decommissioning.

Recognition and Measurement Criteria

Once an obligating event has occurred, a government should determine whether one or more components of a pollution remediation obligation are recognizable as a liability. Components of a liability (for example, legal services, site investigation, cleanup, or post-remediation monitoring) should be recognized as their cost ranges become reasonably estimable. Measurement is based on the current value of outlays expected to be incurred. The current value should be based on reasonable and supportable assumptions about future events that may effect the eventual settlement of the liability. The components of the liability should be measured using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts – the estimated mean or average.

As noted, liabilities should be recognized when cost ranges becomes reasonably estimable. In some cases, agencies or GAAP accountants may be able to reasonably estimate only certain components of the liability. In that case, they should accrue the reasonably estimable costs and re-evaluate the entire liability in the next reporting period. In other cases, the entire remediation cost may be reasonably estimable – in that case, the entire cost should be accrued at that time.

A polluted site may require remediation over decades or even centuries. Changes in technology, the law, or other areas over time could significantly change the remediation effort required. In those cases, it is not reasonable to assume agencies could reliably estimate costs or the period of remediation. It is also presumed an imminent threat does not exist and, therefore, no obligating event exists.

Obligating Events

Statement 49 does not require governments to go on a scavenger hunt for pollution. However, when a state agency knows or reasonably believes a site is polluted, they should determine whether one or more components of a pollution remediation obligation are recognizable as a liability when *any* of the following events occurs (Para 11, GASB 49):

1. The State is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment leaving little or no discretion to avoid remediation action;
2. The State is in violation of a pollution prevention-related permit or license;
3. The State is named, or evidence exists it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation or as a government responsible for sharing costs;
4. The State is named, or evidence indicates it will be named, in a lawsuit to compel the State to participate in remediation;
5. The State commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the State has initiated and is legally required to complete.

<u>**Appendix A**</u> provides information on determining if a pollution remediation obligation should be reported.

Benchmarks

Pollution remediation obligation estimates should be adjusted when benchmarks are met or new information indicates changes to the estimate are needed. At a minimum, the estimate of a pollution remediation obligation should be evaluated as each of these benchmarks occurs:

a. Receipt of an administrative order that compels the State to take a response action at a site or risk penalties;
b. Participation as a responsible party or a potentially responsible party (PRP) in the site assessment or investigation - the State has been identified as a responsible party or PRP and has agreed to pay all or part of a study that will investigate the polluted site;
c. Completion of a corrective measures feasibility study - this should generally provide a reasonable estimate of the range of the remediation outlays and the State's allocated share;
d. Issuance of an authorization to proceed – a regulatory authority, such as the EPA, has issued its decision on a preferred remedy; and
e. Remediation design and implementation through and including operation and maintenance, and post-remediation monitoring.

Exclusions

Pollution remediation obligations do *not* include pollution prevention or control obligations with respect to current operations, such as obligations to install smokestack scrubbers, treat effluent or use environmental-friendly products (Para 6, GASB 49). Further, removal of asbestos, such as that contained in undamaged ceiling and floor tiles, is *not* considered remediation. The assumption is that removal of asbestos-containing building material while still intact is considered pollution *control* and accrual of a liability is not necessary. Alternatively, if the tiles were crumbling (i.e., friable) a pollution remediation obligation would exist because the work would have to be done in order to remedy a health hazard. (See example 5 of GASB Statement 49).

Materiality

The threshold for reporting pollution remediation obligations in the Annual Comprehensive Financial Report (ACFR) is $1.0 million or greater per polluted site. That is, the agency has a reasonable expectation that an outflow or sacrifice greater than that will occur without consideration for expected recoveries. Agencies are not required to prepare adjusting entries or make disclosures for obligations less than that amount.

Accounting for Recoveries

Expected recoveries from other parties, and insurance recoveries that indemnify the State for its pollution remediation obligations, should be measured based on their current value and using the expected cash flow technique. (Paragraphs 21 and 22 of Statement 42 provide guidance for determining when an insurance recovery is realized or realizable.) Expected recoveries should be included in the measurement of the State's liability and should reduce the expense and affect the liability for government-wide and proprietary fund statements as follows:

a. If the expected recoveries are *not yet* realized or realizable, they should reduce the measurement of the State's pollution remediation liability.
b. If the expected recoveries *are* realized or realizable, they should be recognized separately from the liability as recovery assets (for example, cash or receivables).

If recoveries are expected in periods following the completion of all remediation work, such that a pollution remediation obligation no longer exists, those transactions should be recorded as revenue and cash or accounts receivable, when they are realized or realizable.

Capitalization of Pollution Remediation Outlays

Usually pollution remediation outlays are reported as an expense when a liability is recognized. However, goods or services should be *capitalized* in the government-wide and proprietary fund statements if made:

a. to prepare property in anticipation of a sale;
b. to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated;
c. to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as a capital impairment; or
d. to acquire property, plant, and equipment that have a future alternative use. Outlays should be capitalized only to the extent of the estimated service utility remaining after pollution remediation activities have ceased.

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2009
SUB-SECTION:	42 – Pollution Remediation Obligations	**REVISION DATE:**	June 24, 2010
SUBJECT:	Policy	**PAGE:**	4 of 4

Reporting Requirements

The ACFR should reflect pollution remediation liabilities in accordance with the recognition criteria and reporting requirements presented in GASB Statement No. 49. The State Controller's Office - Financial Reporting Section (SCO-FRS) and individual agencies should identify those items that meet the recognition criteria.

Agency GAAP accountants should contact knowledgeable individuals within their agency, such as legal counsel, management, or program managers, to determine whether there are any pollution remediation obligations that should be reported under the established guidelines. **In addition, agencies should review agency-managed construction projects to determine whether pollution remediation costs meeting the reporting threshold will be incurred as part of project costs.**

The **Capital Accounting Unit** within the State Controller's Office should consult with the DOA Division of State Facilities to determine if pollution remediation obligations exist for DOA-managed active construction projects accounted for in the Building Trust Fund (fund 36000) or the Capital Improvement Fund (fund 36300). **The SCO-FRS** should contact the Bureau of State Risk Management and the State Attorney General's Office (Department of Justice) to identify other potential pollution remediation liabilities.

While the criteria for recognizing an obligation is the same for all GAAP funds, the reporting treatment differs.

Governmental funds: For goods and services used for pollution remediation activities, amounts that are normally expected to be liquidated with expendable available financial resources should be recognized as liabilities upon receipt of those goods and services. These accruals are not reported as long-term pollution remediation liabilities, rather they should be reported as accounts payable or other short-term liability.

In the Statement of Revenues, Expenditures, and Changes in Fund Balance, facilities and equipment acquisitions for pollution remediation activities should generally be reported as functional expenditures rather than as capital outlay.

In certain instances, expenditures associated with pollution remediation may be capitalized but only if they meet the requirements noted on page 3 of this policy. Estimated recoveries from insurers or others should reduce any pollution remediation expenditures when the recoveries are measurable and available.

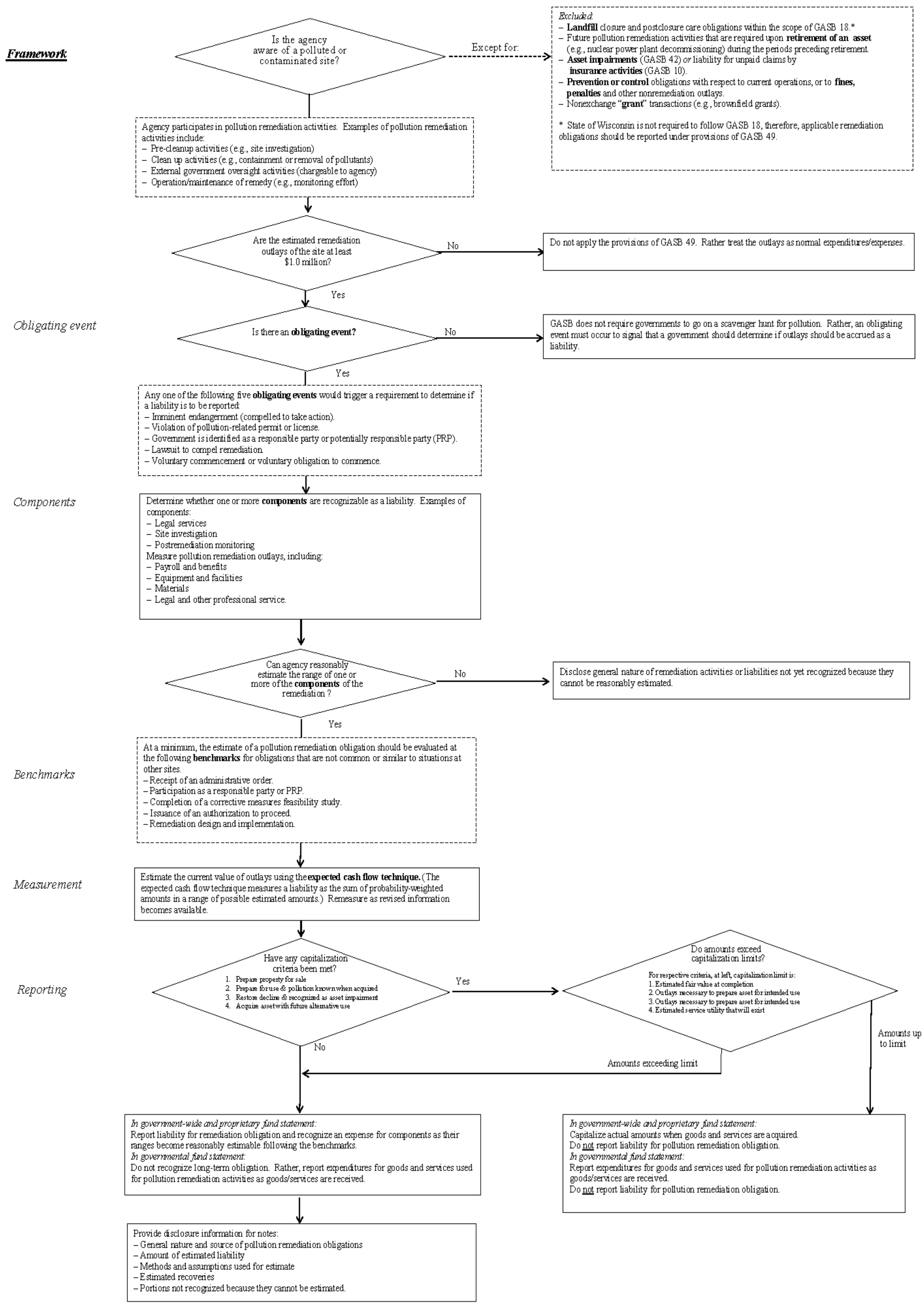
Government-wide and Proprietary fund Statements: Pollution remediation costs (or revenue, if applicable) should be reported in the Statement of Activities, and Statement of Revenues, Expenses and Changes in Fund Equity, as applicable, as a program or operating expense (or revenue), special item, or extraordinary item in accordance with the guidance in paragraphs 41-46, 55, 56, 101 and 102 of Statement 34.

Disclosures

For recognized pollution remediation liabilities and recoveries of pollution remediation outlays, the following disclosures should be made:

a. The nature and source of pollution remediation obligations (for example, federal, state, or local laws or regulations);
b. The amount of the estimated liability, the methods and assumptions used for the estimate, and the potential for changes due to, for example, price increases or reductions, technology, or applicable laws or regulations; and
c. Estimated recoveries reducing the liabilities.

GASB 49
Pollution Remediation Obligations Flowchart



POLLUTION REMEDIATION OBLIGATIONS/LIABILITIES

Liabilities Reported by Department of Administration Risk Management or Department of Justice

Annually, the State Controller's Office - Financial Reporting Section (SCO - FRS) will contact the Department of Administration - State Risk Management to obtain information pertaining to potential pollution remediation obligations as of June 30. Further, as part of their inquiry to legal counsel (as documented in Section V-14), SCO - FRS will determine if pollution remediation issues are reported as part of the communication with the Wisconsin Department of Justice.

Liabilities Identified and Reported by State Agencies

To determine whether an obligating event has occurred and a pollution remediation liability exists for their agency or GAAP fund(s), GAAP accountants should:

1. Inquire of agency legal counsel, management, program managers or other pertinent agency staff if they are aware of pollution remediation obligations;
2. Determine if there are agency-managed projects that may have a pollution remediation component by inquiring of appropriate agency personnel such as project managers or management; and
3. Inquire as to the existence of insurance or other recoveries for pollution remediation obligations identified.

Liabilities Identified and Reported by Capital Accounting

The Department of Administration's Division of Facilities Development (DOA - DFD) manages design and construction of state building projects while the Capital Accounting unit within the State Controller's Office is responsible for accounting for them. Remediation of pollution may be completed as a component of the projects. If the expected cost of the pollution remediation portion of a project meets the established materiality threshold, steps must be taken to determine whether a pollution remediation liability should be reported in the ACFR. If the remediation work remaining on a project as of June 30th is estimated to cost less than $1.0 million, a liability would not be reported.

To determine whether an obligating event has occurred and a pollution remediation liability exists for DOA-managed construction projects, Capital Accounting staff should consult with project managers or others within the DOA - DFD. Capital Accounting staff should also inquire as to the existence of insurance or other recoveries. Based on the information obtained, Capital Accounting should record the entries needed in the extracted proprietary funds and for the government-wide statements. In addition, they should provide note disclosures related to DOA-managed projects to SCO - FRS.

Determining the Amount to Report

If a pollution remediation liability is identified for a project or site and it meets the $1.0 million reporting threshold, GAAP accountants should make the required adjusting entry at the appropriate fund or government-wide level and return the applicable disclosure forms to SCO-FRS. The estimated obligation should be measured using the expected cash flow technique **(**see illustration in **Appendix A**) through which the liability equals the sum of probability-weighted amounts in a range of possible estimated amounts. The liability should be reduced by the amount of expected insurance recoveries or other recoveries. GAAP accountants should determine if recoveries exist during their discussions with pertinent agency staff. Finally, GAAP accountants should provide note disclosures for pollution remediation obligations they identified to FRS.

The amount budgeted or the amount contracted for the pollution remediation component of construction projects may be a reasonable estimate of the liability to report for a project or site. GAAP accountants should confirm with project managers that it is reasonable. The liability should be reduced by the cost of the remediation work that has already been completed. That is, as the remediation progresses, the liability will be adjusted downward unless it is discovered additional costs will be incurred. If GAAP accountants determine the budgeted or contracted amount is not a reasonable estimate, they should use the expected cash flows technique to determine an estimated liability.

For other pollution remediation obligations (i.e. obligations that are not part of an agency- or DOA-managed construction projects) the estimated obligation should be measured using the **expected cash flow technique** through which the liability equals the sum of probability-weighted amounts in a range of possible estimated amounts.

Expected recoveries from other responsible parties or potentially responsible parties, and expected insurance recoveries from policies that indemnify the State for its obligations, also should be included in the measurement by reducing the expense and affecting the liability as follows:

a) If the expected recoveries are *not* yet realized or realizable, they should reduce the measurement of the government's pollution remediation liability.
b) If the expected recoveries are realized or realizable, they should be recognized separately from the liability as recovery assets (for example, cash or receivables).

<u>Recording the Pollution Remediation Liability</u>

The following journal entries should be prepared to record a pollution remediation liability:

Government-wide Statements (Governmental Activity)
Note: Pollution remediation obligations recognized in proprietary funds will automatically roll up to the government-wide statements.

The following entry should be made to report a liability in the *government-wide* financial statements (entry form GW-9):

Debit:	Fund Equity (beginning-of-year liability reported)	XXX	
Debit:	Expense _________ (Identify function)	XXX	
Credit:	Pollution Remediation Liability – Current Portion		XXX
Credit	Pollution Remediation Liability – Noncurrent Portion		XXX

<To record pollution remediation obligations at fiscal year end – governmental activity>
Capital Accounting will report amounts for the Building Trust (36000) and Capital Improvement (36300) funds' projects.

Proprietary Funds

For proprietary funds, the following entry is made in the *fund* statements ("Blank" entry form F1):

Debit:	Operating Expenses-Personal Services	XXX	
Debit	Operating Expenses-Supplies & Services	XXX	
Debit	Operating Expenses-Other	XXX	
Debit:	Fund Equity (beginning-of-year liability reported)	XXX	
Credit:	Pollution Remediation Liability – Current Portion		XXX
Credit	Pollution Remediation Liability – Noncurrent Portion		XXX

<To record pollution remediation obligations at fiscal year end – proprietary funds>

<u>Recording Insurance and Other Recoveries</u>

Until a recovery is realized or realizable, it should be used to offset the liability and expense for a polluted site or construction project. Once the recovery *is* realized or realizable but has not yet been received, an entry should be made to report the revenue.

For governmental and proprietary funds, the following entry is made in the *fund* statements ("Blank" entry form F1):

Debit:	Cash	XXX	
Debit	Receivables	XXX	
Credit:	Revenue – Miscellaneous Other		XXX

<To record realized or realizable pollution remediation recoveries when pollution remediation liabilities no longer exist – governmental and proprietary funds>

****

<u>**Appendix A**</u>

Measuring Pollution Remediation Liabilities Using the Expected Cash Flow Technique

- Measure based on pollution remediation ***outlays*** expected to be incurred to settle the liabilities
- Measured at the ***current value (*****not** present value which considers the time value of money)

Expected cash flow technique = Liability equals the sum of probability-weighted amounts in a range of possible estimated amounts

Expected Outlay for Component A:

Scenario 1. Probability of costing	$XX	x est % =	$XX
Scenario 2. Probability of costing	$XX	x est % =	XX
Scenario 3. Probability of costing	$XX	x <u>est %</u> =	<u>XX</u>
		100%	$XX

Expected Outlay for Component B:

Scenario 1. Probability of costing	$XX	x est % =	$XX
Scenario 2. Probability of costing	$XX	x est % =	XX
Scenario 3. Probability of costing	$XX	x <u>est %</u> =	<u>XX</u>
		100%	$XX

Total Cost of Obligation Using Expected Cash Flow Technique <u>$XX</u>

Examples of expected cost outlays for components A and B might include: site assessment/feasibility study, waste removal, legal services for a trial, pump & treatment system, or monitoring system.

<u>**Illustration**</u>

Expected Outlay for Probability Component A:

$100	10%
$200	60%
$300	<u>30%</u>
	100%

Resulting liability = $220 calculated as:

$100 X 0.10 =	$ 10
$200 X 0.60 =	120
$300 X 0.30 =	<u>90</u>
	$220

Analytical procedures are an important component of an agency's internal control structure because they can enhance the efficiency and effectiveness of determining whether there are errors in financial statements. Errors may be identified if financial statements contain relationships, balances or items that are unusual or unexpected. For example, a simple but significant data entry error, such as if an amount was entered in a wrong account or line on the financial statements, may be easily identified by simply comparing the current year financial statements to prior year statements. Once reasonable explanations have been obtained for the unusual or unexpected items and/or adjustments have been made to the statements, increased confidence in the accuracy of the statements is reached via analytical procedures.

Analytical procedures will vary depending on the agency, the fund, the nature and materiality of the accounts involved, financial data available, and prior years' experience. Procedures can range from simple comparisons of items to complex analytical models of relationships. Professional judgment is needed in deciding the amount of effort to complete analytical reviews, selecting the data to be used, identifying relationships, identifying potential errors and reaching conclusions. Key areas that can provide relevant and helpful information include:

- previous financial information;
- expected results based on known activity or changes during the period; and
- interrelation of financial and non-financial data.

Because agency accountants and managers work with financial information throughout the fiscal year and are familiar with agency programs, financial activity, and related changes, they will likely have expectations for what should be reported in the financial statements. The larger the agency or number of programs, however, the more difficult this can be. Nonetheless, useful information is often known and can be used to form financial reporting expectations. For example, if fees (such as vehicle registration) are increased as part of the budget act, accountants should expect there may be a correlating increase in license and fee revenues for that year. However, other factors also need to be considered such as the timing of the fee increase, number of licensed vehicles, etc. Accountants might determine that, at a minimum, revenues should be higher on the financial statement. Therefore, if the expected change is not seen, an error may be present. Errors might occur, for example, if revenues were not coded to the correct accounting string, an ACFR adjusting entry was not made, or an entry was incorrect (in account or dollar value).

Agency Responsibility for Completing an Analytical Review of Financial Reporting

The implementation of STAR changed the method in which SCO-FRS distributes the trial balance and the comparative analysis that had been included in the GAAP App prior to FY 2016. However, GAAP accountants should still perform an analytical review to reasonably satisfy themselves the amounts presented in statements or composite entries are accurate given current year circumstances. GAAP accountants should use their judgment to identify all significant or unusual changes and obtain explanations for those changes. Accountants should be prepared to provide explanations to SCO-FRS staff as requested.

The sophistication and extent of the procedures used in the analysis should be based on the GAAP accountant's judgment. Agency management or operations staff may be able to provide useful information in the event GAAP accountants are unable to determine a reason for a significant change or unusual item. If there is no obvious or reasonable explanation, additional steps should be considered to ensure an error has not occurred with recording accounts or amounts or in compiling the statements. Further, a review of activity for the year as reported on STAR or other financial systems in comparison to prior years may be needed ensuring an error did not occur at that level.

Analytical Procedures to Consider

The following steps might be used by agencies in their analytical review. Professional judgment should be used by each agency/fund in developing their procedures:

- Compare financial information for prior period(s) giving consideration to known changes (increased/ decreased enrollment or costs, timing of large transactions that may change from year to year, constructing or obtaining significant capital assets, increases in the number of loans outstanding, additional federal funding, etc.).

- For funds with relatively stable activity, expectations can often be established for current year's income and expenses based on prior year data (what trends have been apparent over the past years?)

- Compare the financial statements with expected results using expectations developed from budgets, forecasts, or from interim data.

- Consider relationships among elements of financial information within the period. For example, consider the interaction of related accounts, such as depreciable capital assets and depreciation expense, and other accounts such as maintenance and repairs. Similarly, if loans receivable increased significantly on the balance sheet, interest income will also likely have increased on the operating statement assuming consistent interest rates. Or if aids payments have increased significantly for an agency with federal grant programs, a correlating increase in federal revenues will likely be seen.

- Relationship of financial information with relevant nonfinancial information. At times, using non-financial information can be a very effective way of predicting revenues or costs for an agency/fund. Expectations may be developed utilizing economic data (such as personal income or sales figures), enrollment data, square footage, services provided or other information for application of the relationships.

Simple Ways to Identify Errors during an Analytical Review

Scan the amounts and accounts reported in the financial statements or entries and assess whether they look reasonable based on your experience and knowledge.

- Are there account balances or account titles reported that don't make sense. For example, are there:
    - assets with a credit balance or liabilities with a debit balance;
    - Due To Other Governments in a program that does not do business with other governments; or
    - very low payable balances in a program that spends hundreds of millions of dollars each year.

- Do accounts on the balance sheet, operating statement and statement of cash flows (if applicable) match?
    - Fund balance on the balance sheet should match ending fund balance on the statement of revenues, expenditures and changes in fund balance for governmental funds;
    - total assets should equal total liabilities plus fund balance/equity on the balance sheet; and
    - cash on the balance sheet should match cash on the statement of cash flows.

- Did you make all the entries you typically make:
    - Compare this year's entries to prior years' entries to identify potentially missing entries;
    - Are there any new entries needed this year or entries that should change significantly (making notes in the GAAP file throughout the year is a good way to remember to make additional adjustments).

As part of their internal controls over financial reporting, agencies should complete an analytical review for each of their GAAP funds.

Comparative statements are available in the STAR nVision ACFR trial balances for agencies using the nVision report to develop their ACFR statements. Agencies should take steps to analytically review their financial statements or entries for reasonableness. Accountants should be prepared to provide reasons for large or unusual changes that occurred during the year. Agencies not using STAR nVision reports should submit comparative analysis they have performed to SCO-FRS with their GAAP reporting materials.

Materiality Considerations

Financial statement items that are clearly immaterial do not have be considered during the agency analysis. Although quantitative factors are generally considered of primary importance in preparing financial statements, agencies should consider relevant qualitative factors. For example, errors that are immaterial but that appear obviously inappropriate to readers of the financial statements should be corrected, e.g. assets with credit balances, liabilities with debit balances, accounts not typically reported in that fund, etc.

Professional Judgement

GAAP accountants should use their professional judgment to identify which changes are significant or unusual or whether there are accounts that merit further attention. Due to differences in the nature and size of the various GAAP funds and General Fund operations, the SCO-FRS is unable to provide pre-established rules for agencies to follow in making the determination. However, clearly immaterial accounts to the GAAP fund should generally be ignored. GAAP accountants should contact a member of the SCO-FRS team if they desire further guidance.

The goal is to have agencies gain a reasonable sense that the financial activity appears correct based on known agency experience for the year and what was discovered by the GAAP accountant during the ACFR process. Having an understanding of an agency's internal controls, as well system controls, may allow accountants to reduce analytical efforts in some areas while increasing them in others. The primary effort should be placed on the larger accounts most likely to contain misstatements. Further, account balances bearing little risk of error need not be given significant analysis. The analytical review should generally *not* include looking at individual transactions although in some cases a single material transaction could be the reason for a significant change.

General Fund

Agencies should analytically review their portion of the General Fund presented in the nVision reports. Agencies should provide brief explanations for large or unusual changes since the prior year in anticipation of questions from management, SCO-FRS, and auditors.

Governmental GAAP Funds

After completing their individual GAAP fund financial statements, agencies should identify large or unusual changes since the prior year and provide brief explanations for them in anticipation of questions from management, SCO-FRS, and auditors.

Proprietary and Fiduciary GAAP Funds

After completing their financial statements, agencies should identify large or unusual changes since the prior year and provide brief explanations for them in anticipation of questions from management, SCO-FRS, and auditors.

Statement of Cash Flows for Proprietary Funds: Significant variances in cash flows may occur as part of normal operations. However, as part of their internal control over financial reporting, agencies should take care to ensure the statement of cash flows is correctly presented for the current year. In that regard, agencies should consider how changes in the balance sheet and operating statement would have impacted the Statement of Cash Flows. It may also be useful to compare the current year statement to prior years.

BACKGROUND

Governmental Accounting Standards Board (GASB) Statement 53 *Accounting and Financial Reporting for Derivative Instruments* requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. Derivative instruments are often complex financial arrangements used to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. However, they can also expose governments to significant risks and liabilities. Common types of derivative instruments used include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the cost of borrowings. Often derivative instruments are used with the intention of effectively fixing cash flows or synthetically fixing prices. For example, a government with variable-rate debt may enter into a derivative instrument designed to synthetically fix the debt's interest rate, thereby hedging, i.e. offsetting, the risk that rising interest rates will negatively affect cash flows. Governments also enter into derivative instruments to offset the changes in fair value of hedgeable items.

A key provision of GASB 53 is that derivative instruments covered within its scope are reported at fair value. Thus, interperiod equity is applied, which means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments (hedges) are reported in the statement of net position as deferred inflows or outflows of resources.

<u>**Exhibit 1**</u> contains a flowchart illustrating how to apply the provisions of GASB 53.

Due to the technical complexity of GASB 53 and the underlying financial instruments covered by its provisions, each agency or GAAP fund 1) holding investments *not* under the control of the State of Wisconsin Investment Board (SWIB); 2) reporting debt instruments; or 3) participating in any type of derivative activity, should refer to GASB 53 for guidance. In addition, the GASB has issued a question and answer guide "*Guide to Implementation of GASB 53*" (*the Guide*) which clarifies, explains and elaborates on topics addressed in the statement. Both the statement and the guide should be referenced for additional guidance as necessary.

FINANCIAL INSTRUMENTS EXCLUDED FROM GASB STATEMENT 53

GASB 53 specifically *excludes* the following from being reported as derivative instruments:

- Normal purchases and normal sales contracts that are distinguished by their net settlement feature. That is, the government may have a choice to take or make delivery of the commodity or exchange the cash value of the contract to terminate the government's rights or obligations.
- Insurance contracts accounted for under GASB Statement 10. If an insurance contract is not accounted for by GASB 10 and it meets the definition of a derivative instrument, it is included in the scope of GASB 53.
- Certain financial guarantee contracts that provide for payments to be made because a specific debtor fails to make a payment when due under the terms of a debt instrument. However, financial guarantee contracts that provide for payments to be made in response to changes in a reference rate are included in the scope of GASB 53 if they meet the definition of a derivative instrument.
- Certain contracts that are not exchange-traded and if their reference rate is based on one of the following:
    - a climatic, geological, or other physical variable; or
    - a price or value of a non-financial asset that is not readily convertible to cash (such as a contract with liquidated damages).
- Loan commitments, such as those extended to first-time home buyers for mortgage loans.

DEFINITIONS/TERMS

Under GASB 53, derivative instruments are categorized as either investment derivative instruments (investments) or hedging derivative instruments (hedges). Financial reporting is on an accrual basis; the categorization of the derivative impacts the financial reporting requirements. Specifically, changes in the fair value of a derivative categorized as an investment must be reported in the Statement of Activities (or equivalent statement for proprietary or fiduciary funds) similar to how gains and losses for non-derivative investments are reported. Alternatively, if a derivative is found to be effectively hedged, it is not considered an investment and changes in value do not have to be reported through the Statement of Activities. Rather, hedge accounting is applied which allows for changes in fair value to be reported as deferred inflows and outflows on the Statement of Net Position (or equivalent statement for proprietary or fiduciary funds).

A **derivative instrument** is a financial instrument or other contract that has all of the following characteristics:

1) Settlement factors with one or more reference rates and one or more notional amounts or payment provisions or both. These terms determine the amount of the settlement.
2) Leverage - it requires no initial net investment or less than would be required for other types of contracts that would have similar responses to changes in market factors; and
3) Net settlement - its terms require or permit net settlement, it can be readily settled net by a means outside the contract or provides for delivery of an asset that puts the recipient in a position similar to net settlement.

DEFINITIONS/TERMS (continued)

The essential characteristic of a **reference rate** is that it is observable and otherwise objectively verifiable. Examples of potential reference rates that meet this test include:

- A security price or security price index;
- A commodity price or commodity price index;
- An interest rate or interest rate index;
- A credit rating or credit index;
- An exchange rate or exchange rate index;
- An insurance index or catastrophe loss index; or
- A climatic or geological condition (e.g. rainfall), another physical variable, or a related index.

A **hedging derivative instrument** is established if both of the following criteria are met:

1) the derivative instrument is associated with a hedgeable item; and
2) the potential hedging derivative instrument is effective in significantly reducing the identified financial risk.

Hedgeable items expose a government to identified financial risks that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Hedgeable items can be all or a specific portion of:

(a) a single asset or liability, for example, an entire bond issue or a specific portion of a bond issue;
(b) groups of similar assets or liabilities; and
(c) an expected transaction that is probable, supported by observable facts.

Association with a hedgeable item is established by consideration of the facts and circumstances including whether:

(a) the notional amount of the derivative instrument is consistent with the principal amount or quantity of the hedgeable item;
(b) the derivative instrument will be reported in the same fund, if applicable, as the hedgeable item; and
(c) the term or time period of the derivative instrument is consistent with the term or time period of the hedgeable item.

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. See Section V – 47.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. See Section V – 47.

DEFINITIONS/TERMS (continued)

Hybrid instruments are instruments that consist of a derivative instrument and a companion instrument such as a debt instrument, a lease, and insurance contract, or a sale or purchase contract. A hybrid instrument exists when the instrument meets all of the following criteria:

1) the companion instrument is not measured on the statement of net position at fair value;
2) a separate instrument with the same terms as the derivative instrument would meet the definition of a derivative instrument; and
3) the economic characteristics and risks of the derivative instrument are not closely related to those of the companion instruments. GASB Statement No. 53 provides example of when this would be the case.

A **guaranteed investment contract (GIC)** is one in which the issuer of the contract takes deposits from the State and purchases investments, which the issuer holds in its own general account. The issuer guarantees the State a certain rate of rate of return and is obligated to repay the State the principal and the specific guaranteed interest. In a **synthetic guaranteed investment contract (SGIC)**, the State continues to own the underlying assets but purchases a “wrap contact” from an issuer to provide cash flow and simulate the performance of a traditional GIC. Paragraph 67 of GASB Statement No. 53 provides numerous criteria that must be for a SGIC to be consider **benefit-responsive**.

METHODS OF ESTABLISHING HEDGE EFFECTIVENESS

Hedge effectiveness is established if the changes in cash flows or fair values of the potential hedging instrument substantially offset the changes in cash flows or fair values of the hedgeable item. Under the provisions of GASB 53, effectiveness must be reassessed each reporting period, that is, annually for Wisconsin's ACFR.

GASB 53 allows different methodologies to be used for evaluating effectiveness. The extent to which these methods are required to be applied in the evaluation of effectiveness is as follows:

a. ***Evaluation of effectiveness in the first reporting period***: If a potential hedging derivative instrument is first evaluated using the consistent critical terms method (CCTM) and does not meet the criteria for effectiveness, at least one quantitative method also must be applied before concluding it is ineffective. If a potential hedging derivative instrument is evaluated using a quantitative method and does not meet the criteria for effectiveness of that method, a government may, but is not required to apply another quantitative method before concluding it is ineffective. If it is determined that a potential hedge is ineffective in the first reporting period, evaluation of effectiveness in subsequent periods should not be performed for financial reporting purposes. Once a hedge is determined to be ineffective, it will always be ineffective.

b. ***Evaluation of effectiveness in subsequent reporting periods***: All potential hedging derivative instruments that were determined to be hedging derivatives instruments in the prior reporting period should be re-evaluated as of the end of the current reporting period using the method that was previously applied. If the hedge no longer meets the criteria for effectiveness, a government may, but is not required to, apply another method(s) before concluding the hedge is no longer effective.

SELECTING A METHOD FOR EVALUATING EFFECTIVENESS

Agencies should first evaluate potential hedging derivative instruments using the consistent critical terms method (CCTM) as allowed by GASB 53. The synthetic instrument, dollar-offset, and regression analysis methods should be considered secondary methods for measuring effectiveness. If agencies wish to use a different precedence or method not listed here, they should first contact staff in the State Controller's Office, Financial Reporting Section.

TERMINATION OF HEDGES

Hedge accounting is necessary and appropriate only if the hedged item is not reported at fair value. All hedges must come to an end. As provided in GASB 53 and amended by GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*, a hedge is considered to have terminated if:

- The hedge anticipates an actual future event and it no longer is considered probable that the event will, in fact occur;
- The hedged item is sold or retired (there can be no hedge without both a hedging item and a hedged item);
- The hedging instrument is terminated unless an effective hedging relationship continues as provided below. An effective hedging relationship continues when all of the following criteria are met:
    - i. Collectability of swap payments is considered to be probable.
    - ii. The swap counterparty of the interest rate swap or commodity swap, or the swap counterparty's credit support provider, is replaced with an assignment or in-substance assignment.
    - iii. The government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty's credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement.
- The hedged item is debt and that debt has been defeased; or
- The hedge anticipates an actual future event that finally occurs.

GASB Statement No. 93, *Replacement of Interbank Offered Rates,* provides an exception to terminating hedge accounting as required under GASB 53, as amended, when a government renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. With the use of the London Interbank Offered Rate (LIBOR), a common Interbank Offered Rate (IBOR) used in hedging derivatives, coming to an end in December 2022 GASB 93 provides an exception to terminating hedge accounting if an IBOR is replaced with a similar rate.

IDENTIFICATION OF DERIVATIVE INSTRUMENTS

It is the responsibility of the State agency GAAP accountants to determine whether derivative instruments may exist for their GAAP funds. Consultation with other agency staff, such as investment or debt professionals, may be required. If derivatives are found to exist, appropriate entries and disclosures should be made. Additional guidance is available from staff in the Financial Reporting Section of the State Controller's Office.

SWIB staff is responsible for determining the existence of and appropriately reporting derivative investments instruments for SWIB-managed investments.

ACCOUNTING AND FINANCIAL REPORTING

Government-wide, Proprietary Fund, and Fiduciary Fund Statements

Derivative instruments, except for fully benefit-responsive synthetically guaranteed investment contracts, should be reported at fair value on the government-wide and proprietary statement of net position or statement of fiduciary net position. The classification depends on whether they represent assets or liabilities. Changes in fair value of derivative instruments that are used for investment purposes, or that are reported as investment derivative instruments because of ineffectiveness, should be reported within the investment revenue classification. That is, a gain/loss is recognized for the change in fair value for the current reporting period in economic resources, measurement-focus financial statements. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net position as deferred inflows and outflows of resources.

Footnote Disclosure

Consistent with GASB 53, paragraphs 69-79, the following note disclosures will be made, as necessary:

Summary of Derivative Instrument Activity

A summary of derivative instrument activity during the period and balances at the end of the reporting period should be included and organized by governmental activities, business-type activities, and fiduciary funds. The information should be further divided into hedging derivative instruments (fair value and cash flow) and investment derivative instrument categories. Within each category, derivative instruments should be aggregated by type, for example, receive fixed swaps, pay fixed swaps, basis swaps, futures contracts, etc.

Information presented in the summary should include:

(a) Notional amount.
(b) Changes in fair value during the reporting period and the classification in the financial statements where those changes in fair value are reported.
(c) Fair values as of the end of the reporting period and the classification in the financial statements where those fair values are reported. If fair values are based on other than quoted market prices, the methods and significant assumptions should be disclosed.
(d) Fair values of derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument and the deferral amount that was reported within investment revenue upon reclassification.

Hedging derivative instruments
The requirements of GASB 53, paragraphs 71-75 should be presented, as applicable, for each hedging derivative instrument including:

1. Objectives.
2. Terms – significant terms including:
   (a) notional amount
   (b) reference rates such as indexes or interest rates
   (c) embedded options, such as caps, floors, or collars
   (d) date entered into and scheduled termination or maturity date
   (e) the amount of cash paid or received, if any, when forward contract or swap (including swaptions) was entered into.
3. Risks including:
   (a) Credit
   (b) interest rate
   (c) basis
   (d) termination
   (e) rollover
   (f) market access
   (g) foreign currency
4. Hedged debt
5. Other quantitative method of evaluating effectiveness.

Investment derivative instruments
In addition to making investment disclosures required by GASB statements effective prior to GASB 53, additional disclosures should be made related to credit, interest rate, and foreign currency risks as required by GASB 53.

Contingent features of derivative instruments
If the derivative instruments included contingent features, the following should be disclosed:
- Existence and nature of contingent features
- Aggregate fair value of instruments that contain those features
- Aggregate fair value of assets required to be posted as collateral or transferred related to triggering of contingent liabilities
- Amount, if any, posted as collateral as of the end of the reporting period.

Hybrid Instruments
If an agency reports a hybrid instrument, disclosures of the companion instruments should be consistent with disclosures required of similar transactions such as those for debt instruments.

Synthetic guaranteed investment contracts
Synthetic guaranteed investment contracts that are fully benefit-responsive should be disclosed with a description of the nature and the fair value of the SGIC including the fair value of the wrap contract and underlying investments.

Exhibit 1: GASB 53 Accounting and Financial Reporting for Derivative Instruments

Framework:

Definition: A derivative instrument is a financial instrument or other contract that has all of the following characteristics:
1) Settlement factors with one or more reference rates and one or more notional amounts or payment provisions or both. These terms determine the amount of the settlement.
2) Leverage - it requires no initial net investment or less than would be required for other types of contracts that would have similar responses to changes in market factors; and
3) Net settlement - its terms require or permit net settlement, it can be readily settled net by a means outside the contract or provides for delivery of an asset that puts the recipient in a position similar to net settlement.

Except for Financial Instruments Excluded from Statement 53 (paragraphs 14 - 18):

– **Normal purchases and normal sales contracts** that are distinguished by their net settlement feature. That is, the gov't may have a choice to take or make delivery of the commodity or exchange the cash value of the contract to terminate the govt's rights or obligations.
– **Insurance contracts accounted for under GASB 10**. If an insurance contract is not accounted for by Stmt 10 and meets the definition of a derivative instrument, it is included in the scope of Stmt 53.
– **Certain financial guarantee contracts** that provided for payments to be made because a specific debtor fails to make a payment when due under the terms of a debt instrument. However, financial guarantee contracts that provide for payments to be made in response to changes in a reference rate are included in the scope of Stmt 53 if they meet the definition of a derivative instrument.
– **Certain contracts that are not exchange-traded and its reference rate is based on one of the following**:
a) a climatic, geological, or other physical variable;
b) a price or value of a non-financial asset that is not readily convertible to cash (such as a contract with liquidated damages).
– **Loan commitments**, such as to first-time home buyers for mortgage loans.

A hedging derivative instrument is established if both of the following are met:
1) the derivative instrument is associated* with a hedgeable** item and
2) The potential hedging instrument is effective*** in significantly reducing the identified financial risk.

* Association is established by consideration of the facts and circumstances including:
a) the notional amount of the instrument is consistent with principal amount or quantity of the hedgeable item;
b) the instrument will be reported in the same fund, if applicable, as the hedgeable item; and
c) the term/time period of the instrument is consistent with the term/time period of the hedgeable item.

** Hedgeable items expose a government to identified financial risks that can be expressed in terms of exposure to adverse changes in cash flows or fair values. Hedgeable items can be all or a specific portion of: a) a single asset or liability, for example, an entire bond issue or a specific portion of a bond issue; b) groups of similar assets or liabilities; c) an expected transaction that is probable, supported by observable facts.

*** Effectiveness is established if the changes in cash flows or fair values of the potential hedging instrument substantially offset the changes in cash flows or fair values of the hedgeable item. Effectiveness must be reassessed each reporting period i.e. annually for Wisconsin's CAFR.

Reporting and Note Disclosures:

Recognition and Measurement of Derivative Instruments:

In government-wide, proprietary fund, and fiduciary fund statements:
Derivative instruments, except for fully benefit-responsive synthetically guaranteed investment contracts SGICs (see para. 67), should be reported at fair value on the government-wide and proprietary statement of net assets or statement of fiduciary net assets. The classification depends on whether they represent assets or liabilities. Report changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness within the investment revenue classification. That is, recognize a gain/loss for the change in fair value for the current reporting period in economic resources measurement-focus financial statements.

The changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

In governmental fund statements: Do not recognize at governmental fund level.

Required disclosure information for notes (para 69-79):

1. Summary of derivative instrument activity during the period and balances at the end of the reporting period organized by governmental activities, business-type activities, and fiduciary funds. The information should be divided into hedging derivative instruments (fair value and cash flow) and investment derivative instrument categories. Within each category, derivative instruments should be aggregated by type, for example, receive fixed swaps, pay fixed swaps, basis swaps, future contracts, etc.) Information in the summary should include:

a. Notional amount.

b. Changes in fair value during the reporting period and the classification in the financial statements where those changes in fair value are reported.

c. Fair values as of the end of the reporting period and the classification in the financial statements where those fair values are reported. If fair values are based on other than quoted market prices, the methods and significant assumptions should be disclosed.

d. Fair values of derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument and the deferral amount that was reported within investment revenue upon reclassification.

2. Hedging derivative instruments including :

a. Objectives

b. Terms including notional amount, reference rates, embeded options, date entered into and scheduled termination or maturity date, cash paid or received, if any, when forward contract or swap was entered into

c. Risks including credit, interest rate, basis, termination, rollover, market access, and foreign currency risks

d. Hedged debt

e. Other quantitative method of evaluating effectiveness.

3. Investment derivative instruments including risks related to credit, interest rate, and foreign currency.

4. Contingent features included in derivative instruments including:

a. Existence and nature of contingent features

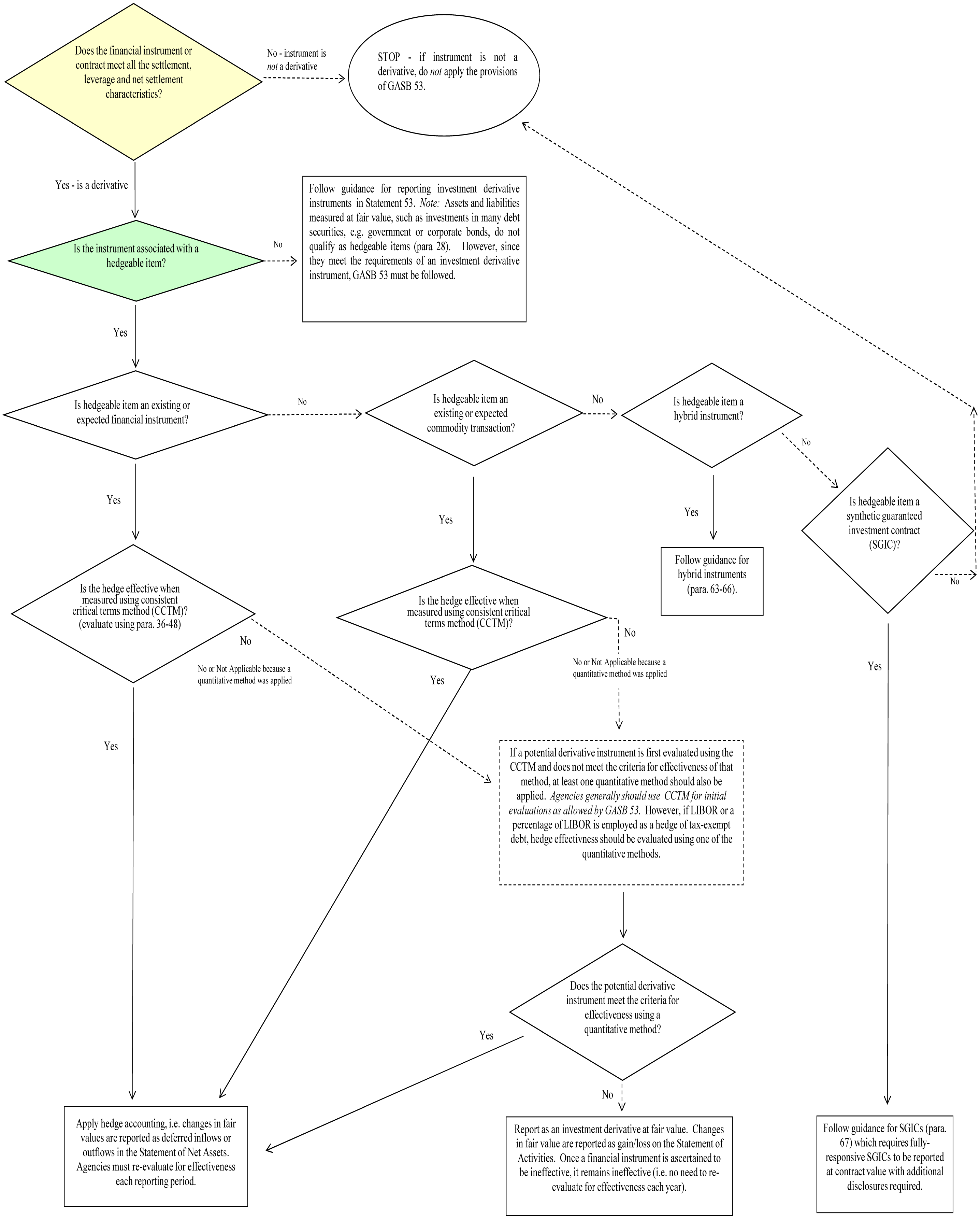
b. Aggregate fair value of instruments that contain those features

c. Aggregate fair value of assets required to be posted as collateral or transferred related to triggering of contingent liabilities

d. Amount, if any, posted as collateral as of the end of the reporting period.

5. If a government reports a hybrid instrument, disclosures of the companion instruments should be consistent with disclosures required of similar transactions such as those for debt instruments.

6. Synthetic guaranteed investment contracts that are fully benefit-responsive should disclose a description of the nature and the fair value of the SGIC including separate disclosure of the fair value of the wrap contract and underlying investments.


Does the financial instrument or contract meet all the settlement, leverage and net settlement characteristics?
No - instrument is *not* a derivative
STOP - if instrument is not a derivative, do *not* apply the provisions of GASB 53.
Yes - is a derivative
Is the instrument associated with a hedgeable item?
No
Follow guidance for reporting investment derivative instruments in Statement 53. *Note:* Assets and liabilities measured at fair value, such as investments in many debt securities, e.g. government or corporate bonds, do not qualify as hedgeable items (para 28). However, since they meet the requirements of an investment derivative instrument, GASB 53 must be followed.
Yes
Is hedgeable item an existing or expected financial instrument?
No
Is hedgeable item an existing or expected commodity transaction?
No
Is hedgeable item a hybrid instrument?
No
Is hedgeable item a synthetic guaranteed investment contract (SGIC)?
No
Yes
Yes
Yes
Follow guidance for hybrid instruments (para. 63-66).
Yes
Is the hedge effective when measured using consistent critical terms method (CCTM)? (evaluate using para. 36-48)
No
No or Not Applicable because a quantitative method was applied
Is the hedge effective when measured using consistent critical terms method (CCTM)?
No
No or Not Applicable because a quantitative method was applied
Yes
Yes
If a potential derivative instrument is first evaluated using the CCTM and does not meet the criteria for effectiveness of that method, at least one quantitative method should also be applied. *Agencies generally should use CCTM for initial evaluations as allowed by GASB 53.* However, if LIBOR or a percentage of LIBOR is employed as a hedge of tax-exempt debt, hedge effectivness should be evaluated using one of the quantitative methods.
Does the potential derivative instrument meet the criteria for effectiveness using a quantitative method?
Yes
No
Apply hedge accounting, i.e. changes in fair values are reported as deferred inflows or outflows in the Statement of Net Assets. Agencies must re-evaluate for effectiveness each reporting period.
Report as an investment derivative at fair value. Changes in fair value are reported as gain/loss on the Statement of Activities. Once a financial instrument is ascertained to be ineffective, it remains ineffective (i.e. no need to re-evaluate for effectiveness each year).
Follow guidance for SGICs (para. 67) which requires fully-responsive SGICs to be reported at contract value with additional disclosures required.

BACKGROUND

Governments may hold derivatives for the purpose of generating income (i.e. investments). In other cases, governments may use derivatives to reduce the potential volatility associated with changes in the fair value of assets or liabilities, or changes in related cash flows. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Governments are required to measure derivative instruments at fair value in their economic resources measurement focus and accrual basis financial statements. Derivatives are not reported in modified accrual basis of accounting. Derivative instruments covered within the scope of GASB 53 are reported at fair value. Therefore, changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the Statement of Net Position or equivalent statement as deferred inflows or deferred outflows of resources.

PROCEDURES FOR EVALUATING EFFECTIVENESS OF POTENTIAL HEDGING DERIVATIVE INSTRUMENTS

To ensure that agencies are determining the effectiveness of potential hedging derivative instruments according to the policy established by Section V, Sub-section 44 of this manual, agency staff should first evaluate potential hedging derivative instruments using the consistent critical terms method (CCTM). GASB 53 requires that prior to determining a hedge is ineffective, it must be evaluated using CCTM. The synthetic instrument, dollar-offset, and regression analysis methods should be considered secondary methods for measuring effectiveness. If agencies plan to use a different method, other than the four methods listed in this paragraph, or if they need assistance in applying the provisions of GASB 53, they should contact staff in the State Controller's Office, Financial Reporting Section.

Hedge accounting is necessary and appropriate only if the hedged item is not reported at fair value. Hedges should be evaluated in the first and all subsequent fiscal years in which derivative instruments exist. All hedges must come to an end. If a hedge is considered to have terminated, the related balance of deferred inflows and outflows should be eliminated in the Statement of Activities or equivalent financial statement.

Annually GAAP accountants responsible for reporting long term debt in their GAAP funds should determine if derivative instruments exist in those funds. For example, interest-rate swap agreements may exist on variable rate debt. GAAP accountants should work with the DOA, Capital Finance Office (DOA-CFO) in evaluating the effectiveness of potential hedging derivative instruments held in relation to State-issued debt. Annually, contractual arrangements must be reviewed to ensure effectiveness of hedging derivatives. Evaluations performed in second and subsequent years should be completed using the same method as applied in the first year the derivative instrument existed. GAAP accountants should report the results of the evaluation using hedge or derivative investment instrument accounting, whichever is applicable under GASB 53, in the appropriate GAAP fund.

EVALUATING EFFECTIVENESS OF POTENTIAL HEDGING (continued)

If existing hedges are found to be effective, an entry should be made to report the deferred inflows and deferred outflows on the Statement of Net Position or equivalent statement. A determination that a previously effective hedge is now ineffective constitutes a terminating event, which means that any related balance of deferred inflows/outflows reported on the statement of net position or equivalent statement should be eliminated by an adjustment to investment income. The gain or loss should be reported in the Statement of Activities as "Investment Earnings/Loss".

Annually, SCO-FRS staff will contact DOA Procurement Office staff to inquire as to the existence of contractual agreements that may meet the definition of a derivative instrument as defined in GASB 53. If derivative instruments are found to exist in relation to commodities or other purchases, SCO-FRS staff shall work with the DOA Procurement Office staff to determine the effectiveness of potential hedging derivative instruments or the fair value of derivative investment instruments. SCO-FRS staff shall be responsible for making required entries on the Statement of Activities or Statement of Net Position or equivalent proprietary or fiduciary statements. If GAAP accountants become aware of procurement-related potential derivative instruments within their agencies, they should contact staff in SCO-FRS for guidance.

FINANCIAL REPORTING OF DERIVATIVE INSTRUMENTS

All GAAP funds and state agencies holding investment derivative instruments or hedging derivative instruments are required to report them in accordance with the provisions of applicable GASB statements regardless of whether they have audited, separately issued financial statements.

Government-wide Statement of Activities, Proprietary, or Fiduciary Funds

a. Investment Derivative Instruments

The State of Wisconsin Investment Board (SWIB) is responsible for reporting investment derivative instruments they manage for various GAAP funds and state agencies. GAAP funds or state agencies managing their own investments are responsible for reporting in relation to those investment derivative instruments (i.e. making the appropriate entries on an accrual basis and developing disclosures). The accounting treatment is generally the same for investments whether they are derivative in nature or not and gains or losses on the fair value of the investments are reported in the period in which they occur. Disclosures are similar, but expanded by GASB 53. Section V - 2 – Investments contains additional information on the reporting of investments.

The following entry should be made on an accrual basis by those agencies managing investments that need to be reported as investment derivative instruments:

Debit/Credit:	Investment derivative instrument (asset) [a]
Debit/Credit	Investment Earnings (operating or non-operating for proprietary funds) [a]

<To record an increase in the fair value of an investment derivative instrument> *Note: This entry is similar to the entry that would be made for non-derivative investments.*

(a) When the fair value of an investment derivative has increased, debit investment derivative instrument (asset) and credit investment earnings. When the fair value has decreased, debit investment earnings and credit investment derivative instrument (asset). The investment derivative instrument may be reported as either an asset or a liability depending on whether the fair value is positive (asset) or negative (liability). When preparing proprietary fund statements, agencies should determine whether the earnings are operating or non-operating and report accordingly.

b. Hedging Derivative Instruments

Effective Hedges

All GAAP funds reporting hedging derivative instruments determined to be effective for current fiscal year reporting should prepare an entry to report deferred inflows and outflows on the Statement of Net Position or equivalent statement.

The entries that should be made to defer gains or losses for hedging derivative instruments (i.e. effective hedges) are as follows:

Debit:	Derivative asset (liability)	xxx [b]	
Credit:	Deferred Inflow/Outflow of Resources*		xxx [b]

<To record an increase in the fair value of a hedging derivative instrument>

Debit:	Deferred Inflow/Outflow of Resources*	xxx [b]	
Credit:	Derivative asset (liability)		xxx [b]

<To record a decrease in the fair value of a hedging derivative instrument>

(b) The entry for the second and subsequent years should be the change in fair value between the current and prior reporting period. If a derivative has a positive fair value, it is reported as an asset. If the fair value drops to a negative amount, the derivative is reported as a liability.

* Deferred Inflows of Resources are reported in the same section of the Statement of Net Position as liabilities. However, should Deferred Inflows become negative (i.e. have a debit balance), the account reported would be Deferred Outflow of Resources which is reported in the same section of the Statement of Net Position as assets. However, deferred inflows and outflows are not considered liabilities or assets, respectively.

Termination of a Hedge or Ineffective Hedges

If a hedge becomes ineffective or if there is a terminating event, related balances of deferred inflows/outflows previously reported in the Statement of Net Position or equivalent must be eliminated. This is done via an adjustment to investment income on the Statement of Activities or equivalent statement.

The entry to make if a hedge becomes ineffective or if there is a terminating event is as follows:

Debit/Credit:	Deferred Inflow/Outflow of Resources	xxx [c]	
Debit/Credit:	Investment Income		xxx [c]

<To record the termination of a hedging derivative instrument>

(c) When a hedge is terminated or deemed to be ineffective, the derivative instrument is treated as an investment derivative instrument and changes in fair value should be treated as investment gains/losses and reported in the statement of activities or equivalent statement. Previously reported deferred inflows/outflows are "emptied out". The amount reported as a deferred inflow/outflow is dependent upon whether a net investment gain or loss was reported.

There are three situations where the elimination of deferred inflows/outflows related to a hedge would not be treated as an adjustment to investment income:

- Commodities contracts: If the termination is the anticipated purchase of commodities, the elimination of the related deferred inflows/outflows would be treated as an adjustment to the purchase price of the commodities;

- Refundings: If the termination event is a refunding, the elimination of the related deferred inflows/outflows would be treated as an adjustment to the net carrying value of the refunded (old) debt; and

- Financial instruments that are not re-exposed to risk: If 1) the expected transaction results in a financial instrument and 2) there is no re-exposure to risk, the elimination of the related deferred inflows/outflows should be treated in a manner consistent with the hedged item. For example, if a government enters into an interest-rate lock in anticipation of issuing fixed-rate debt, any remaining deferred amount at issuance would be amortized over the life of the debt as an adjustment to interest expense.

DERIVATIVE DISCLOSURES

All GAAP funds and agencies reporting derivative instruments are required to provide the applicable footnote disclosures in accordance with GASB 53. SWIB is responsible for providing appropriate disclosure information related to derivative investments instruments they manage for state agencies. GAAP accountants with funds reporting debt with an associated derivative are responsible for working with the Capital Finance Office to obtain applicable disclosure information. For additional information, see **Exhibit 1** –in the policy section of Section V-44.

GASB Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* is effective starting for the FY 2023 ACFR. GASB 94 superseded GASB Statement 60 *Accounting for and Financial Reporting for Service Concession Arrangements* in an effort to provide uniform guidance and align the accounting and financial reporting for contracts such as Service Concession Arrangements (SCA) with leases under GASB 87. GASB 94 also defines Public-Private and Public-Public Partnerships (PPPs) which do not meet the definition of a SCA, PPPs which may be leases under GASB 87, and Availability Payment Arrangements (APA). For ACFR reporting purposes, this standard will likely apply only in rare circumstances.

Public-Private and Public-Public Partnerships

A Public-Private and Public-Public Partnership (PPP) is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

A PPP is a Service Concession Arrangement (SCA) if <u>all</u> of the following criteria are met (note that SCA's were defined in GASB Statement No. 60 and superseded by GASB Statement No. 94):

- The transferor (the State) conveys to the operator (other government or private vendor) the right and obligation to provide public services through the use and operation of a capital asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
- The operator collects and is compensated by fees from third parties (e.g., the general public).
- The State determines or has the ability to modify or approve what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
- The State is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

Examples of PPP's that meet the definition of a SCA used in GASB 94 include:

- A state DOT enters into an agreement with an authority to operate a state-owned tollway with a carrying amount of $1.0 billion. The state gives up the right to receive toll revenues from the tollway for 75 years in exchange for an upfront payment of $3 billion.

- A state DOT enters into an agreement with an authority to design, build and operate a tunnel for 40 years. The tunnel cost $4 billion to construct and has an acquisition value of $4.5 billion at the time it is placed into operation. The state maintains possession of the tunnel and reports it as a $4.5 billion asset.

Example of a PPP that **does not** meet the definition of a SCA used in GASB 94:

- A state DOT enters into an agreement with an authority to design, build and for 30 years operate a bridge. In return for transfer of ownership of the bridge at the end of 30 years, the state conveys to the authority the right to operate the bridge and to set, collect and retain toll revenues. The bridge costs $1.2 billion to construct and has an estimated carrying value of $300 million at the end of the agreement. The state reports a $300 million receivable related to estimated carrying value at the end of the agreement. Because the authority has the ability to set the rates, this agreement does not meet the definition of an SCA.

A PPP that meets the definition of a lease should account for those contracts under GASB 87 if all of the following apply:

- Existing assets of the State are the only underlying assets;
- Improvements are not required to be made by the operator to those assets as part of the PPP arrangement; and
- The PPP does not meet the definition of a SCA.

Availability Payment Arrangements

An availability payment arrangement (APA) is an arrangement in which a government procures a capital asset or service by compensating an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. In contrast to a PPP, the other party to an APA is receiving compensation from the government based entirely on the asset's availability and not the actual performance of a public service. In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services. APAs are considered a financing transaction.

Example of an APA used in GASB 94:

- A state DOT enters into an agreement with a corporation to design, build and finance the construction of a bridge. The state pays the corporation $10 million at the start of the project, $10 million the date the bridge is placed into service and $2 million annually for 40 years. The state also pays the corporation $100,000 per month for 40 years to compensate the corporation for collecting the tolls. On the date the bridge is placed into service, the state should recognize a capital asset for the bridge in the amount of $60 million ($10 million at the start, $10 million at the date in service and $40 million present value of future payments). The state should also recognize a liability in the amount of $40 million for the present value of the future annual payments and an expense of $100,000 per month for payments related to toll collection.

Reporting Revenue and Deferred Inflows of Resources and Required Note Disclosures

If a PPP or APA exists, under the provisions of GASB 94, large upfront payments would not be immediately recognized as revenue in the ACFR. Rather, a deferred inflow of resources would be reported and revenue is recognized over the life of the agreement with the operator.

However, certain arrangements, such as outsourced or contracted-out services were intentionally excluded from satisfying the criteria of a service arrangement therefore, the standard does not apply to these items. For example, the State may enter into a service contract with another entity for providing food service activity. The arrangement involves the use of a State-owned facility, there is a revenue sharing arrangement, e.g., the vendor collects fees/money from customers and remits a portion of that revenue to the State. This arrangement is similar to that of an outsourced contract rather than a PPP or APA.

Minimum Thresholds for Identifying Potential PPPs and SCAs

The intent of the GASB is to capture PPPs and APAs where:

- the term of the arrangement is long in duration, e.g., 5-10 years minimum but often for decades;
- any up-front (balloon payments) are significant to the State and those up-front payments were designed to generate a cash flow for the State;
- any installment payments received by the State are significant; and
- an asset or facility owned by the State is considerably improved by an operator and that operator is provided the right to use the asset for exchange for significant consideration.

The standard is applicable to those PPPs and APAs that are **significant**. This includes amount as well as duration. The State Controller's Office shall analyze potential PPPs and APAs on a case-by-case basis and apply professional judgement when determining if a partnership/arrangement shall be reported in the ACFR.

Partnerships/Arrangements may be significant whose:

- term is greater than ten (10) years; <u>and</u>
- total consideration, including balloon or installment payments, is greater than $50.0 million. Consideration could either be received or given up over the term of the contract.

If an agency enters into an agreement meeting those thresholds, they should contact SCO-FRS immediately. SCO-FRS will assist the agency in reviewing the details of the agreement to determine if reporting as a PPP or APA is warranted. Professional judgement will be applied to determine whether the dollar value is large enough and the length of the agreement is long enough to be significant.

These thresholds were established only to identify potential arrangements. Ultimately, only arrangements much larger than $50 million may be reported as a PPP or APA in the ACFR. Specific details of an agreement will be considered in conjunction with financial activity of the State as a whole at that time.

Agencies Most Likely to be Impacted

Only those agencies possessing significant capital assets that could be used in an PPP or APA are generally subject to the provisions of GASB 94. These agencies include, but are not limited to, DOT (infrastructure), DOA (buildings and power plants), and University of Wisconsin (buildings and power plants).

Management at agencies issuing stand-alone GAAP financial statements will be responsible for determining an appropriate materiality level if potential PPPs or APAs exist for their agency. Agencies may contact SCO-FRS staff for guidance in those circumstances.

Attachment A and Attachment B detail flowcharts to assist agencies in determining if a potential PPP or APA exists, respectively.

Attachment A

Flowchart for Identifying Potential Public/Public and Public/Private Partnerships (PPPs) for the ACFR

1) Does your agency have an arrangement to procure a capital asset or service in which your agency/the state compensates an operator for activities such as designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset?	**Yes** ↓	**No** →	Arrangement NOT a PPP under GASB 94
2) Does the operator have the right to operate or use the agency's (transferor's) nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), including infrastructure?	**Yes** ↓	**No** →	Arrangement NOT a PPP under GASB 94
3) Is the contract for a specific period of time (and greater than 10 years)? The PPP term is the period during which an operator has a noncancellable right to use an underlying PPP asset. A noncancellable period is when one party has the right to terminate the PPP without permission from the other party (or if both parties have to agree to extend).	**Yes** ↓	**No** →	Arrangement NOT a PPP under GASB 94
4) Is there an exchange or exchange-like transaction?	**Yes** ↓	**No** →	Arrangement NOT a PPP under GASB 94
5) Is the total consideration significant (greater than $50.0 million, including balloon or installment payments)?	**Yes** ↓	**No** →	Arrangement NOT a PPP under GASB 94
	Arrangement is a PPP under GASB 94		

Resources

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Attachment B

Flowchart for Identifying Potential Availability Payment Arrangements (APAs) for the ACFR

1) Does your agency have an arrangement with an operator (governmental or nongovernmental entity) to provide public services?

2) Are the payments made by your agency based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues?

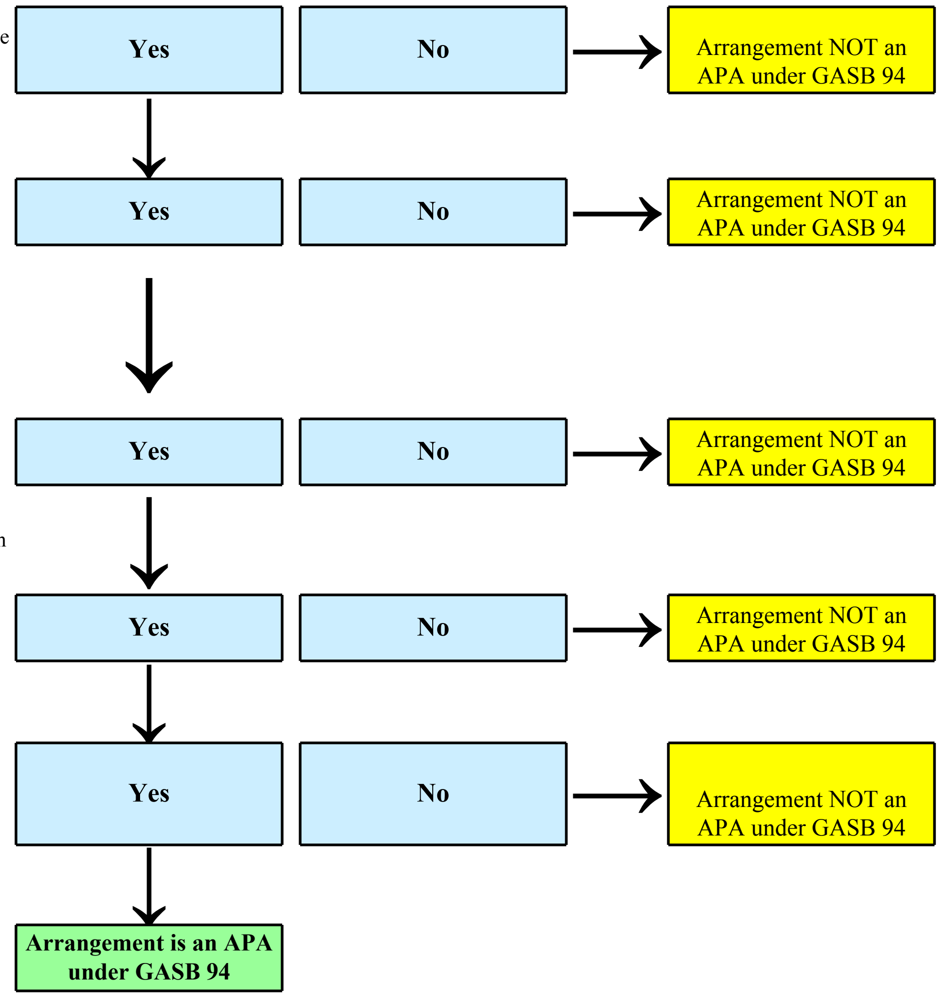
Availability for use may be based on specified criteria such as the physical condition of the asset, construction milestones, or the achievement of certain availability measures. In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services. An APA may be similar to a PPP that includes a variable payment provision; however, in contrast to a PPP, the other party to an APA is receiving compensation from the government based entirely on availability to perform and not the actual performance of a public service.

3) Is the contract for a specific period of time (and greater than 10 years)?

The APA term is the period during which an operator has a noncancellable right to use an underlying APA asset. A noncancellable period is when one party has the right to terminate the APA without permission from the other party (or if both parties have to agree to extend).

4) Is there an exchange or exchange-like transaction?

5) Is the total consideration significant (greater than $50.0 million, including balloon or installment payments)?



Resources

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2022
SUB-SECTION:	45 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements	**REVISION DATE:**	June 30, 2023
SUBJECT:	Procedure	**PAGE:**	1 of 1

Agencies should contact SCO-FRS staff if they have identified contracts that may meet the criteria of a Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangement (APA). Generally, only agencies with significant capital assets for which revenue streams may be created would have potential PPPs or APAs.

For example, DOT interstate highways or University of Wisconsin or DOA power plants or buildings could be subject to a PPP or APA.

Partnerships/Arrangements may be significant whose:

- term is **greater than ten (10) years**; and
- total consideration, including balloon or installment payments, **is greater than $50.0 million**. Consideration could either be received or given up over the term of the contract.

Potential PPPs and APAs shall be considered on a case-by-case basis. SCO-FRS staff will assist agencies in analyzing the details of the arrangement and apply professional judgement when determining if it will be reported in the ACFR.

The existence of PPPs and APAs is expected to be rare and the circumstances unique to each arrangement. Therefore, specific entries and disclosures are not provided here. In the event a PPP or APA exists, SCO-FRS will assist the agency in determining the entries and disclosures to be made as required by GASB 94.

NONEXCHANGE FINANCIAL GUARANTEES

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* is effective beginning with the FY 2014 ACFR. It gives accounting and reporting guidance to governments that extend and receive nonexchange financial guarantees. In extending a nonexchange financial guarantee, a government commits to indemnify another government, non-for-profit organization, private entity, or individual for an obligation if the entity or individual that issued the obligation does not fulfill its payment requirements, without directly receiving equal or approximately equal value in return. Generally, these types of guarantees are extended by governments as part of their mission to assist other governments, nongovernmental entities, or individuals within the government's jurisdiction.

Similarly, governments may receive financial guarantees for obligations they have issued without providing equal or approximately equal value in return. For example, a school district may receive a financial guarantee from a state government for the district's debt service payments on construction bonds it has issued without providing consideration to the state government.

Any agency that believes it has 1) extended a nonexchange financial guarantee to another party that has issued a loan, or 2) issued guaranteed obligations should contact SCO-FRS to determine if the guarantee meets the requirements of GASB Statement No. 70, is material enough to warrant consideration, and what information is required to be reported.

Extending a Guarantee

GASB Statement No. 70 requires a government that extends a nonfinancial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is *more likely than not* that the government will be required to make a payment on the guarantee.

Moral obligations of the State do not fall under the reporting provisions of GASB Statement No. 70 until it becomes "more likely than not" that the State will be required to pay the obligation.

Statutory authority would be needed in order for an agency to extend a financial guarantee. Most state agencies generally do not have statutory authority to extend such financial guarantees.

<u>State Loan Programs</u>: A majority of the State's loan programs consist of the State making loans directly to another entity or person. In the event of a default, the State incurs the loss directly. The State is not guaranteeing a loan that a third-party made to another entity; therefore, the provisions of GASB 70 do not apply.

Extending a Guarantee *(continued)*

Financial statements prepared using the economic resources measurement focus (i.e. proprietary fund, fiduciary fund, and government-wide statements) should record a liability and expense for the estimated future outflows expected to be incurred as a result of the guarantee. Because the guarantee is presumably long-term in nature, the liability will span multiple time periods and should be discounted to present value. Expense classifications should be determined in the same manner as other grants or financial assistance payments.

Financial statements prepared using the current financial resources measurement focus (i.e. governmental funds) should record a liability and expense to the extent that the liability will be liquidated with expendable available financial resources (i.e. the liability has been incurred in the current reporting period and will be paid with available resources). Therefore, agencies with nonexchange financial guarantee liabilities not reported in governmental funds (because the liability will not be paid with current resources) will have to report these long-term liabilities through an additional government-wide journal entry. Expense classifications should be determined in the same manner as other grants or financial assistance payments.

State Obligations that are Guaranteed

GASB Statement No. 70 requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. When released as an obligor, the government should recognize revenue as a result of being relieved of the obligation.

****

SECTION:	V - Policies and Procedures	**EFFECTIVE DATE:**	July 1, 2013
SUB-SECTION:	46 – Nonexchange Financial Guarantees	**REVISION DATE:**	May 8, 2014
SUBJECT:	Procedure	**PAGE:**	1 of 1

Agencies should contact the State Controller's Office – Financial Reporting Section (SCO-FRS) if they have extended a guarantee for another entity's obligations, or if they have obligations that are guaranteed by another entity. FRS staff will help determine if these situations meet the criteria necessary for reporting under GASB Statement No. 70.

Potential nonexchange financial guarantees shall be considered on a case-by-case basis. FRS staff will assist agencies in analyzing the details and materiality of the arrangement and apply professional judgement when determining if an arrangement will be reported.

The existence of nonexchange financial guarantees is expected to be rare and the circumstances unique to each. Therefore, specific entries and disclosures are not provided here. In the event such a guarantee exists, FRS will assist the agency in determining the entries and disclosures to be made as required by GASB 70.

****

BACKGROUND

GASB Concepts Statement No. 4, *Elements of Financial Statements*, describes the seven basic elements of financial statements as assets, liabilities, outflows of resources (expenditures/expenses), inflows of resources (revenues), deferred outflows of resources, deferred inflows of resources and net position. The statement introduces and defines:

- **Deferred outflows of resources** – a consumption of net assets by the government that is applicable to a future reporting. The State has *used* resources – such as cash – but is deferring the recognition of expenditures/expenses until the applicable period arrives. Deferred outflows of resources are presented as a separate section after assets in the Statement of Net Position or Balance Sheet.
- **Deferred inflows of resources** – an acquisition of net assets by the government that is applicable to a future reporting period. The State has *received* an asset – such as cash – but is deferring the recognition of revenue until the applicable period arrives. Deferred inflows of resources are presented as a separate section after liabilities in the Statement of Net Position or Balance Sheet.

Fundamental Concept of Deferred Inflows/Outflows: The terms "deferred inflow of resources" and "deferred outflow of resources" are potentially confusing. Their titles suggest that it is the inflow or outflow that has been deferred or delayed until later. But, as with revenues and expenses, the events associated with inflows and outflows related to deferrals have, in fact, already occurred. <u>The thing that is being deferred is the recognition of those inflows and outflows as revenues and expenses.</u> Recognition of revenues and expenses is deferred until the future period to which the inflows and outflows are related.

Determining what Constitutes a Deferred Inflow of Resources or Deferred Outflow of Resources: Deferred inflows or deferred outflows are to be reported **<u>only</u>** in circumstances as stated in GASB standards. GASB 83 (*Certain Asset Retirement Obligations),* GASB 75 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*), GASB 68 (*Accounting and Financial Reporting for Pensions*), GASB 65 (*Items Previously Reported as Assets/Liabilities*), GASB 94 (*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*) and GASB 53 (*Derivative Instruments*) are the primary standards that designate items that should be reported as deferred inflows or deferred outflows in the ACFR.

Limitation on the Use of the Word "Deferred": GASB 65 prohibits the use of the word "deferred" in circumstances other than for reporting deferred inflows of resources or deferred outflows of resources.

Correlation with Other GASB Standards: Although GASB 65 contains the most comprehensive information pertaining to deferred inflows/outflows, previously issued standards must also be considered. This is particularly true for GASB 33 - *Accounting and Financial Reporting for Nonexchange Transactions*. Because many state agencies report non-exchange transactions, it will be important for accountants to refer to provisions of GASB 33 in conjunction with GASB 65. Because of the inter-relationships between new and previously-issued GASB standards, we include references to multiple GASB standards in this section.

Materiality: Materiality is an important consideration for accountants in GAAP reporting and provides flexibility in determining required work. Accountants are encouraged to contact Justin Kennedy in SCO-FRS if they have questions on materiality.

The information below is organized by the circumstances surrounding when deferred inflows/outflows should be reported.

DEBT ISSUANCE COSTS AND REFUNDINGS (Debt Service, Proprietary and Government-wide Statements)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, first effective in FY 2014, provides requirements related to debt issuance costs (paragraphs 14-15) and debt refundings (paragraphs 5-7).

Debt issuance costs include but are not limited to insurance, financing, and administrative costs, as well as underwriting and registration fees. These costs, except prepaid insurance costs, are to be expensed in the period incurred. The issuance costs should be reported as Other Nonoperating Expenses for proprietary funds and Debt Service – Other Expenses for debt service funds. (Under previous GASB standards, all of these costs were reported as *deferred charges* - an asset on the Statement of Net Position - and then amortized over the life of the debt. GASB 65 changed the reporting.)

Prepaid insurance costs should be reported as a prepaid asset and recognized as an expense over the life of the debt. When these assets are amortized, the expenses should be reported as part of interest expense because insurance is purchased on bonds, in part, to secure investors and achieve a lower interest rate. Hence, the expensing of prepaid insurance reasonably flows into interest/debt service.

Debt refundings may result in a difference between the reacquisition price and the net carrying amount of the old debt. If the reacquisition price is greater than the net carrying amount of the old debt, the result is a deferred outflow of resources. If the reacquisition price is less than the net carrying amount of the old debt, the result is a deferred inflow of resources.

Reacquisition price is the amount required to repay previously issued debt. In a current refunding, it is the principal of the old debt and any call premium. In an advance refunding, it is the amount placed in escrow that will be used to pay the interest, principal, and call premium on the old debt. A premium or discount on the new debt is not considered as part of the reacquisition price; it is a separate item related to and amortized over the life of the new debt.

Net carrying amount is the amount of the old debt due at maturity, adjusted for any unamortized premium or discount on the old debt and for any deferred outflows or inflows of resources associated with a derivative instrument that is an effective hedge of the old debt.

GASB Statement No. 23, *Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, provides guidance and illustrations for calculating reacquisition price and net carrying amount. This information has been used to provide the illustrations below calculating deferred inflows and outflows.

Current Refunding

- State refunds $35 million of outstanding revenue bonds by issuing $35 million of new bonds;
- State pays a 3% call premium ($1.05 million) to holders of the old bonds;
- The unamortized discount on the old bonds equals $250,000.

Reacquisition Price (principal of old debt in current refunding):		
Old bonds outstanding	$35,000,000	
Call premium on old bonds	1,050,000	
		$36,050,000
Net Carrying Amount:		
Old bonds outstanding	$35,000,000	
Unamortized discount	(250,000)	
		$34,750,000
Deferred Outflow of Resources		**$ 1,300,000**

Advance Refunding

- State refunds $12 million of outstanding revenue bonds by issuing $12.5 million of new bonds;
- Issuance costs on the new bond of $400,000 were paid from bond proceeds and the remaining bond proceeds were placed with an escrow agent to pay for the debt service to the call date and the call premium due on that date;
- The unamortized premium on the old bonds equals $250,000.

Reacquisition Price (amount placed in escrow in an advanced refunding):		
Total bond sources	$12,500,000	
Funds used on issuance costs	(400,000)	
		$12,100,000
Net Carrying Amount:		
Old bonds outstanding	$12,000,000	
Unamortized premium	250,000	
		$12,250,000
Deferred Inflow of Resources		**($ 150,000)**

Under GASB 65, the deferred outflows and inflows of resources resulting from a debt refunding are to be recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Prior to FY 2014, differences between the reacquisition prices and net carrying amount in refunding transactions were reported as *deferred charges* (an asset) on the Statement of Net Position and amortized and expensed.

Fund Level vs. Government-wide Statements: The refundings information above is only applicable to governmental and business-type activities on the government-wide statements and for proprietary funds. Because they report on a modified accrual basis, governmental funds should not follow the guidance in the section above. For this reason, governmental funds will *not* report any deferred inflows and outflows associated with debt refundings.

Governmental funds should report expenditures when refunding costs are first incurred and other financing sources when bond proceeds are received. Adjusting entries should be made to establish and amortize account balances on the government-wide statements (e.g. prepaid insurance, long-term debt, deferred inflows and outflows of resources, etc.) for governmental activities.

NONEXCHANGE TRANSACTIONS (Applies to All Fund Types)

Standards contained within GASB 33 and/or GASB 65 determine the treatment of nonexchange transactions.

GASB Statement No. 33 identifies four types of nonexchange transactions:

1. Derived tax revenues result from assessments imposed on exchange transactions. They include sales, income, and assessments on earnings and consumption. These taxes are *not* discussed in GASB Statement No. 65 and the accounting for them remains the same.

2. Imposed nonexchange transactions are assessments on items/circumstances other than exchange transactions. They include fines and property taxes. GASB Statement No. 65, paragraphs 8-9, provides reporting requirements for imposed nonexchange transactions.

3. Government-mandated nonexchange transactions occur when a government provides resources to a government that requires that government to use them for a specific purpose. GASB Statement No. 65, paragraph 10, provides guidance for government-mandated nonexchange transactions.

4. Voluntary nonexchange transactions are entered into willingly by two or more parties. GASB Statement No. 65, paragraph 10, also provides guidance for voluntary nonexchange transactions.

As indicated, government-mandated and voluntary nonexchange transactions are treated in the same manner.

Imposed Nonexchange Transactions (Property Taxes and Fines/Forfeitures)

Deferred inflows of resources should be reported when resources associated with imposed nonexchange transactions are received or reported as a receivable before:

1. The period for which property taxes are levied, or
2. The period when use of the resources is permitted or required.

Property Taxes**:** The State does not have property tax revenue in a traditional sense; however, a few revenue sources are considered imposed taxes because they are like property taxes, including DOT's airport and railroad taxes. It is likely DOT tax collections are recorded in the period levied, therefore deferred inflows of resources will *not* be reported.

Fines/Forfeitures: Per Section V-5 of this GAAP Manual, fines and forfeitures for governmental funds are to be reported on a cash basis because the revenue is not measurable until collected. Time restrictions on fine/forfeitures revenue generally do not exist and would be immaterial. Therefore, deferred inflows of resources will *not* typically be reported for this type of revenue.

Fines and forfeitures are immaterial for proprietary and fiduciary funds, which is consistent with the nature of the funds. Revenue is reported when received. Therefore, deferred inflows of resources will *not* be reported.

Government-Mandated and Voluntary Nonexchange Transactions (Grants and Aids)

Eligibility is a key concept of mandated and voluntary nonexchange transactions. Under GASB Statement No. 33, paragraph 20, eligibility requirements for government-mandated and voluntary non-exchange transactions include one or more of the following:

a. Required characteristic of the recipient. The recipient (and secondary recipient, if applicable) has the characteristics specified by the provider.

b. Time requirements. Time requirements specified by the enabling legislation or provider have been met.

c. Reimbursements. The provider offers resources on a reimbursement (expenditure-driven) basis and the recipient has incurred allowable costs under the program.

d. Contingencies. The provider's offer is contingent upon a specified action of the recipient and that action has occurred (e.g. recipient has raised matching funds).

Resources Received by the State

Resources *received* before eligibility requirements are met (excluding time requirements) should be reported as liabilities by the State. Resources received before time requirements are met, but after all other eligibility requirements are met, should be reported as deferred inflows of resources. Prior to FY 2014, cash received before an eligibility requirement was met would have been reported as Unearned Revenue (a liability). Therefore, agencies should have procedures in place to identify such receipts. Under GASB 65, agencies should add another procedure to identify if they cannot recognize revenue because of a reimbursement requirement (Unearned Revenue) or because only a time requirement remains (Deferred Inflow of Resources). If applicable, agencies should also consider the contingencies requirement but this is generally believed to be an uncommon requirement.

Attachment A presents a flowchart identifying the types of accounts to be used in various situations.

State Resources Provided by the State

State resources include GPR, PR and SEG sources (but exclude federal grant resources (PR-F)). State resources provided before eligibility requirements are met (excluding time requirements) should be reported as prepaid assets by the State. Resources provided to entities before time requirements are met, but after all other eligibility requirements are met, should be reported as deferred outflows of resources by the State.

These types of situations can present themselves when, for example, the State pays local governments before June 30 for items pertaining to the fiscal year beginning July 1.

- If the State's payments are reimbursement-based (that is, the local government/entity must incur expenditures or they are *not* eligible to receive the payments) then the local government has not yet met the eligibility requirements. Therefore, the State should report a prepaid asset.
- If the State's payments are *not* reimbursement-based (that is, all eligibility requirements have been meet), the State should report deferred outflows of resources because the period covered by the cash provided is for the period beginning July 1st. Although the State has made a cash payment, expenditure will not be recognized until the applicable period occurs. An example of this is the lottery gaming credit. See Section V – 22.

Federal Resources Passed Through the State to Local Governments or Other Entities

Sometimes the State provides federally-funded pass-through grants to local governments or other entities. In this situation, the State reports an expenditure for the payment and intergovernmental revenue for the associated reimbursement received from the federal government as required by GASB 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. As expected, there is no impact on the State's fund balance or net position from acting as a pass through agent.

Sometimes the State provides federally-funded pass-through grants to local governments or other entities in advance of the applicable period or prior to meeting eligibility requirements. In those cases, the recipient (local government) would report a deferred inflow of resources or a liability until they meet all eligibility requirements. Further, the federal government would report either a prepaid asset or deferred outflow until all requirements are met. ***Note***: *This theoretically describes the accounting between the local and federal governments. State agencies are* ***not*** *responsible for determining if that reporting actually occurs. State agencies are only responsible for reporting from a State GAAP fund perspective based on available internal records.*

Because two other entities have, in effect, entered into an indirect agreement as provider and subrecipient, the State does not have to report associated assets, deferred outflows of resources, liabilities or deferred inflows of resources that result from timing differences between the local government meeting the eligibility requirements and the receipt of federal resources. That is, the State does *not* have to apply the provisions of GASB 33 and 65 in pass-through situations.

Therefore, the State should *not* report a prepaid asset for the amount passed through to the local government or other entity in advance of the period. Further, the State should *not* report unearned revenue for the intergovernmental revenue received from the federal government pertaining to the pass through payment made before the eligibility requirements were met.

The State expenditures and revenues should be reported in the same fiscal year i.e. they should match for the pass through activity. The State *should* report a receivable and revenue in the event that expenditures were reported in the STAR ACTUALS Ledger for a pass through grant payment, but the associated federal revenue had not yet been received or reported in the same fiscal year.

UNAVAILABLE REVENUE (Governmental Funds and Governmental Activities)

Availability is a term associated with governmental funds only. Under the modified accrual basis of accounting, it is not enough that revenue has been earned and is measurable for it to be recognized as a revenue. Rather, the asset must also be available to finance expenditures of the current period in order to be reported as revenue in governmental funds.

Under GASB 65, para. 30, unavailable revenue should be reported as a deferred inflow of resources. When government-wide entries are prepared to convert to full accrual accounting, these deferred inflows of resources should be eliminated and revenue reported.

Deferred inflows of resources relate to unavailable revenue that *is* earned. In contrast, available revenue (i.e. cash has been received) that is *not* earned should be recorded as a liability. The table below presents the differences:

	Available (Cash)	**Not Available (Receivable)**
Earned (No obligation remains)	Revenue	Deferred Inflow
Unearned (Performance obligation remains)	Unearned Revenue or Tax and Other Deposits *	Not recorded

* The distinction between Unearned Revenue and Tax and Other Deposits depends on what type of performance obligation remains. Unearned Revenue is used when the revenue will be earned by the State based on future performance of the State. Tax and Other Deposits should be used when the revenue will be earned by the State based on the performance/act of the party making the deposit (e.g. outside entity selling an insurance policy and collecting premiums from which a tax is derived).

Attachment A presents a flowchart identifying the types of accounts to be used in various situations.

Agencies that report deferred inflow of resources for unavailable revenue in a governmental fund should eliminate the deferred inflow and recognize revenue when preparing government-wide entries. **Section V-5** Receivables provides illustrative entries.

DERIVATIVE INSTRUMENTS (Proprietary and Fiduciary Funds and Govt-Wide Governmental Activities)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provides for the reporting of deferred outflows and inflows of resources for the changes in fair value of qualified hedging derivatives. Section V, Sub-section 44 of this GAAP Manual identifies what is considered a qualified hedging derivative and provides procedures for agencies to determine if one exists. Most agencies are not impacted by GASB Statement 53. GAAP funds reporting variable rate debt that is hedged with a derivative instrument are most likely to be impacted by this reporting requirement.

PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Proprietary and Fiduciary Funds and Govt-Wide Governmental Activities)

GASB Statements No. 68 and 71 (pensions) and GASB Statement 75 (OPEBs) identify different types of deferred inflows and outflows that participating employers must report, when applicable. The State of Wisconsin is a cost-sharing participating employer in the trusted Wisconsin Retirement System pension plan. The State of Wisconsin is a considered a single employer with multiple participating employers (component units) in both the State Retiree Health Insurance OPEB non-trusted plan, the State Retiree Life Insurance and the Supplemental Health Insurance Conversion Credit

Program OPEB trusted plans. Due to the complex nature of determining deferred inflows/outflows, actuaries must determine the amounts to be reported annually.

When a long-term liability is presented in GAAP-based financial statements, such as for the compensated absences liability, the change in the liability from one year to the next is recorded as an expense. However, a different approach is taken for recognizing expense for the Net Pension Liability (NPL) or Net OPEB Liability (NOL). For those liabilities, GASB standards require a deferred inflow or outflow be reported in certain circumstances. As a result, the changes are not immediately expensed but are amortized over a period of time in a systematic manner.

The table below describes when deferred inflows (DI) or deferred outflows (DO) may be reported as a result of activity in the WRS pension or health, life or supplemental health insurance OPEB plans:

Type of DI or DO	Description of Item
Differences between expected and actual experience	Differences between expected and actual experience in economic and demographic factors are to be deferred and subsequently expensed. The expenses are to be recognized over the average remaining service lives of all employees (active and inactive) in the WRS or OPEB plans, beginning in the current period.
Changes in actuarial assumptions	Changes in actuarial assumptions are to be deferred and subsequently expensed beginning in the current period. The expenses are to be recognized over the average remaining service lives of all employees (active and inactive) in the WRS or OPEB plan, beginning in the current period. An in-depth WRS experience actuarial study is completed once every three years as required by Wisconsin statutes. Therefore, it is not expected that there will be a new balance for this account every year for the pension plan.
Differences between projected and actual investment income	Differences between projected and actual earnings on pension or OPEB plan investments, if any, are to be deferred and subsequently expensed beginning in the current period. The expenses are to be recognized over a *five year period*, beginning in the current period. If the differences between projected and actual earnings create deferred inflows in one year and deferred outflows in the next year, these amounts should be netted and only one balance presented. Thus, the State will never have both deferred inflows and outflows related to differences in projected and actual investment income.
Change in the State's proportionate share	If there is a change in the State's proportion of the NPL or NOL, the net effect of that change on the State's share of the NPL or NOL and the collective deferred balances is to be deferred and subsequently expensed. The expenses are to be recognized over the average remaining service lives of all employees (active and inactive) in the WRS or OPEB plan, beginning in the current period.
Differences between the State's actual and proportionate share of contributions	Differences between the State's actual contributions and the amount of the State's proportionate share of total contributions to the plan are to be deferred and subsequently expensed. The expenses are to be recognized over the average remaining service lives of all employees (active and inactive) in the WRS or OPEB plan, beginning in the current period. The contributions to consider when determining if differences exist only include employer contributions and do not include those made by the employer to separately finance a liability specific to that employer (e.g. an employer's unfunded liability balance). This means that the differences calculated under this paragraph will be minimal for the employers if they always make their required contributions (such as occurs with the WRS) and excessive additional amounts are not expected to be contributed. Because the employers' proportionate share is allocated based on contributions made, the actual contributions should closely match to the required contributions in those circumstances.
Contributions subsequent to the measurement date and before the State's reporting date	Contributions to the WRS or OPEB plans subsequent to the measurement date and before the State's reporting date (e.g. those between 1/1/X1 – 6/30/X1 for the FYX1 ACFR) are to be reported as deferred outflows and subsequently expensed. The expenses are to be recognized in the following year.

Combining Balances

The deferred balances resulting from a change in the State's proportion and those resulting from differences in contributions can be netted together in a single measurement period. The actuarial report will net these balances.

ASSET RETIREMENT OBLIGATIONS (ARO) (Proprietary and Fiduciary Funds and Govt-Wide Governmental Activities)

GASB Statement No. 83, *Certain Asset Retirement Obligations,* requires that when an ARO is recognized, a corresponding deferred outflow of resources must also be recognized. Most agencies will not report ARO's. The UW System is the only agency that has identified AROs. Financial statements submitted by UW System should appropriately reflect deferred outflows of resources for AROs. UW System staff should contact SCO-FRS with questions on reporting the deferred outflows.

OTHER

Public-Private and Public-Public Partnerships and Availability Payment Arrangements – GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, includes a requirement to report deferred inflows of resources in specific cases of large, upfront payments when a public-private and public-public partnership (PPP) or availability payment arrangements (APA) exists. Section V, Sub-section 45 of this GAAP Manual explains that PPPs and APAs are expected to be rare and unique for the State. In the event that an PPP or APA exists, SCO-FRS will assist the agency in determining the entries and disclosures to be made.

Sale of Future Revenues – In a sale of future revenues, the transferor government reports the proceeds as a deferred inflow of resources in both the government-wide and fund financial statements, except for instances wherein recognition as revenue in the period of sale is appropriate as discussed in GASB 48 and 65. Such an event is rare. Accountants should notify SCO-FRS immediately in the event they become aware of a sale of future revenues.

Leases/Sale-Leaseback – GASB 87 requires that the lessor (State) recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. Section V-10 discusses leases in more detail. Under GASB 87, the sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, with the difference between the carrying value of the capital asset sold and net proceeds of the sale reported as a deferred inflow or deferred outflow. Sales-leaseback transactions are rare. Agencies should consult with SCO-FRS if sale/leaseback transactions occur to determine the required entries.

Insurance Activities' Acquisition Costs – Acquisition costs of insurance activities should be recognized as an expense in the period incurred. Historically these costs are immaterial and immediately expensed for most public entity risk pools and insurance programs of the State. The State Life Insurance fund incurs acquisition costs which, prior to FY 2014, were amortized over a forty-year period. Beginning in FY 2014, those costs should be expensed as they are incurred.

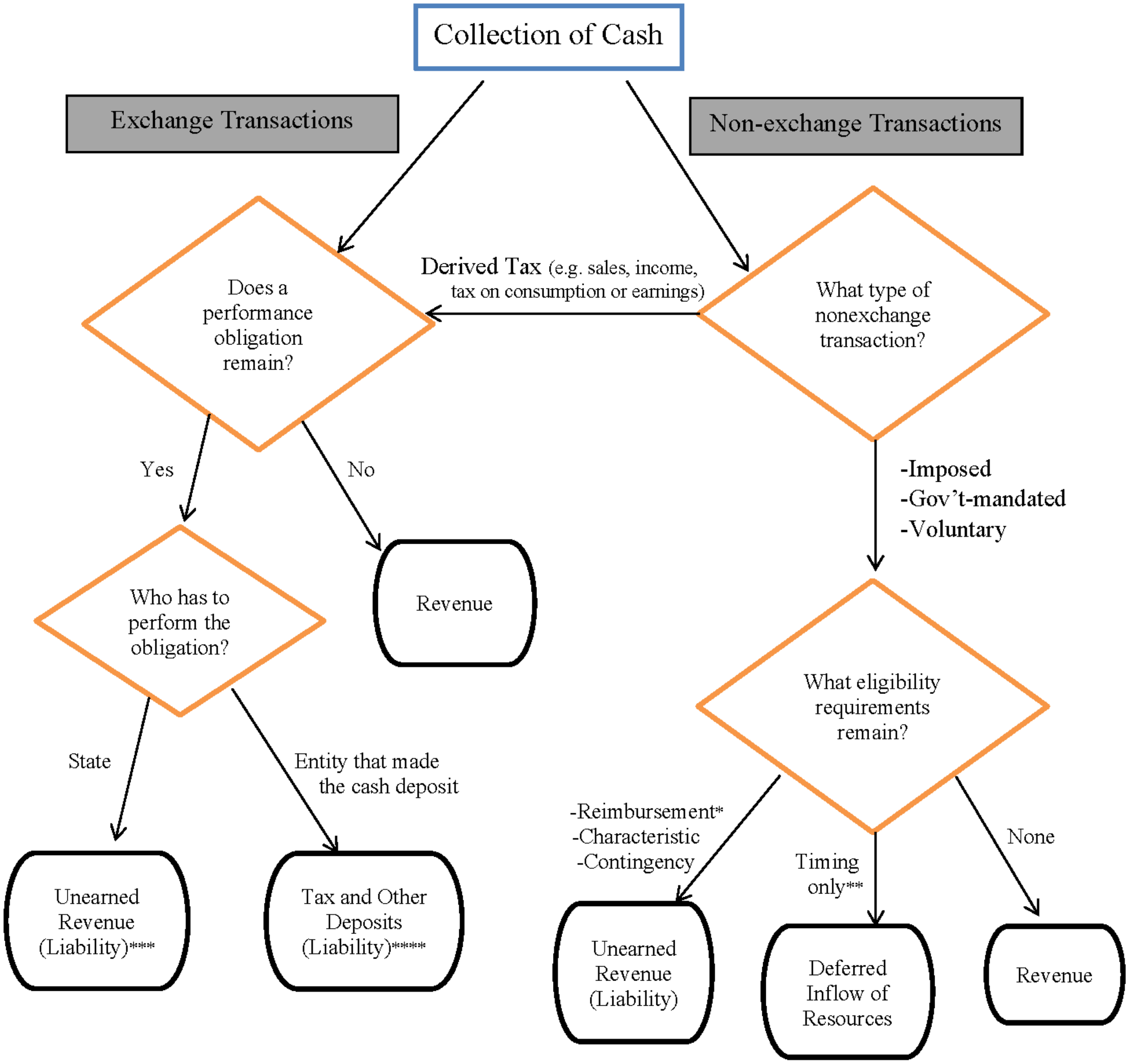
Lending Activities – Paragraphs 21-24 of GASB 65 provides reporting requirements for various fees and costs associated with lending activities including loan origination fees/costs, commitment fees, or fees paid or received related to the purchase of a loan. While some agencies do make loans or engage in loan activity, it is unlikely that activity falls under the reporting requirements of GASB 65. Agencies should contact SCO-FRS for further discussion if they believe they may have such activity.

PRESENTATION AND DISCLOSURE

GASB standards allow governments to present detailed information for deferred inflows of resources and total deferred outflows of resources either in the financial statements or in a note disclosure. The State uses a hybrid approach. Some detailed deferred inflow/ outflow information will be presented in the financial statements eliminating the need for disclosure. Some deferrals will be summarized in the financial statements (e.g. Pension and OPEB's) with required detailed presented in their respective note disclosures. To comply with these reporting requirements, agencies must be able to identify the types of deferred inflows and deferred outflows they are reporting. SCO-FRS will establish entries, forms and mocked up financial statements to assist agencies with this reporting requirement.

Note: Deferred outflows of resources cannot be combined with deferred inflows of resources, unless there is a specific right of offset provision for deferrals related to hedging derivatives. Therefore, agencies should *not* combine deferred outflow of resources with deferred inflow of resources when making entries or completing disclosures. This is similar to the concept that interfund transfers in are *not* combined or netted with interfund transfers out.

Attachment A



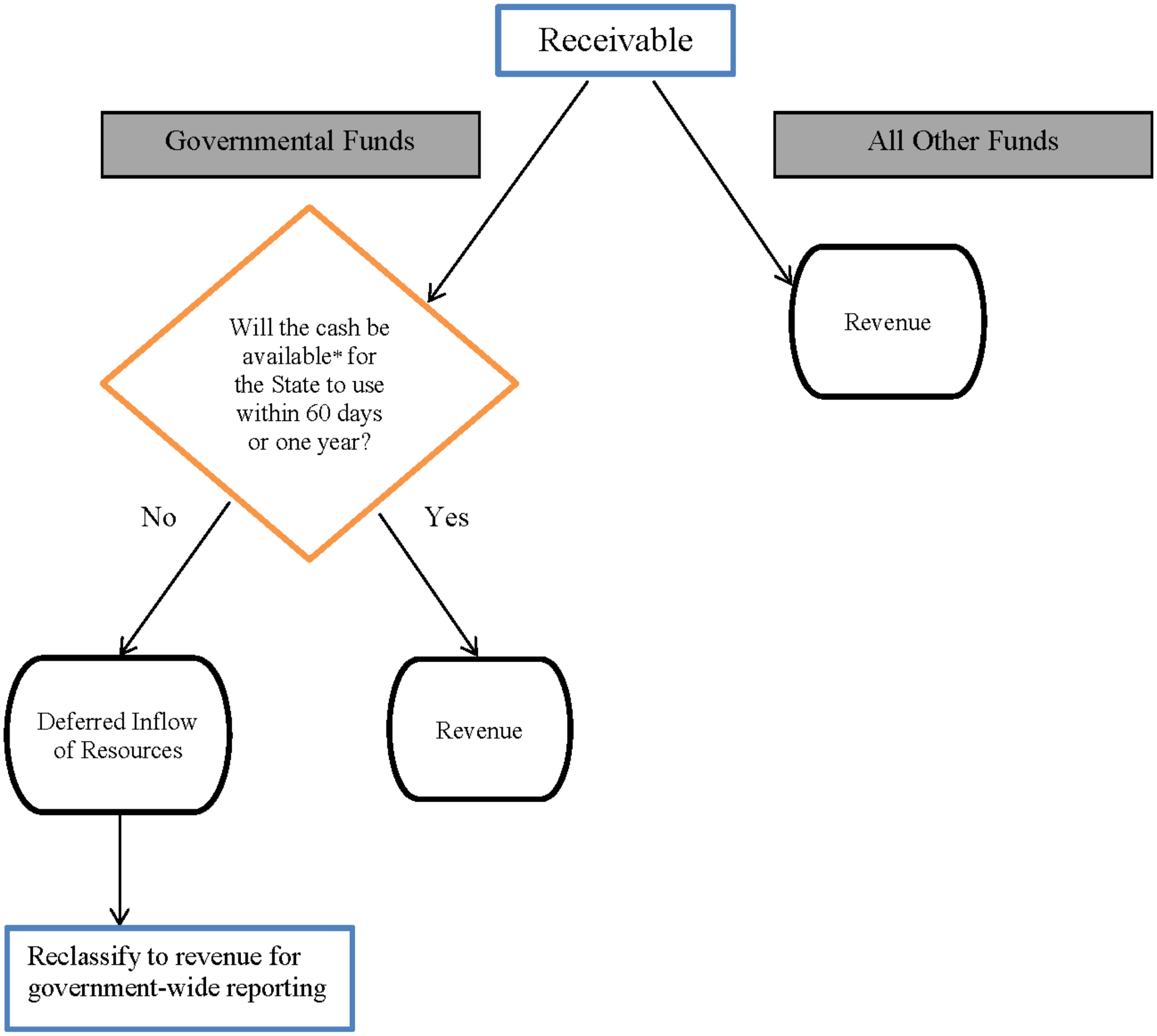
* = Reimbursement Requirement: Most of the State's grants are reimbursement based. When the State has not yet met an eligibility requirement, it is almost always the reimbursement requirement that remains.

** = Timing Requirement: The timing requirement is most likely going to apply to grants, but it could theoretically be applicable to other non-exchange transactions. For example, it could be possible that a fine is collected, but statutes authorizing the fine do not allow the agency to use it until a later time period. This seems unlikely but possible.

*** = Unearned Revenue: Unearned revenue (liability) is reported when the revenue will be earned by the State based on future performance by the State (e.g. providing rent or insurance for a specific time period in the future).

**** = Tax and Other Deposits (liability) are reported when the revenue will be earned by the State based on the performance or act of the party making the deposit. For example, insurance companies prepay a tax, which is based on the estimated number of policies they write. If they have overpaid this tax (in terms of total policies written) at the end of the year, the State will record a Tax and Other Deposit, and it will become revenue of the State when the insurance companies write more policies in the future.

Attachment A



* = The State's policy defines availability based on the type of revenue

- **Tax revenue** – considered available if collected within 60 days of the end of the fiscal year. Entries pertaining to tax revenues should use the 60-day measuring period.
- **Other revenue** – considered available if expected to be collected within one year from the end of the fiscal year. Entries pertaining to revenue other than tax revenue should use a one-year measuring period.

NONEXCHANGE TRANSACTIONS - Applies to All Fund Types (Governmental, Proprietary and Fiduciary)

Imposed Nonexchange Transactions (Property Taxes or Fines and Forfeitures)

Generally, the State is not expected to receive, or record as a receivable, any resources associated with imposed nonexchange transactions before property taxes are levied or before the use of the resources is permitted or required. As such, an entry to report deferred inflow of resources would not be needed for these types of transactions.

Agencies should contact SCO-FRS if they have identified an imposed nonexchange transaction that requires the recording of a deferred inflow of resources. FRS staff will assist in determining if the situation meets the criteria, including materiality, necessary for reporting under applicable GASB standards and provide assistance in recording the appropriate entries.

Government-Mandated and Voluntary Nonexchange Transactions

Many agencies are involved in government-mandated or voluntary nonexchange transactions such as federal or private grants. GASB 65, paragraph 10 applies to those types of transactions and covers a number of circumstances.

Grant Resources **Received** in Advance

- Resources received by the State *before* time requirements are met (but after *all* other eligibility requirements are met) should be reported as a deferred inflow of resources. Because most grants are reimbursement-based, agencies typically do not receive cash during the current fiscal year for a grant period that pertains to the next fiscal year. However, in the event they do, the following entry should be made:

  Debit: Intergovernmental Revenue (*identify and reduce the applicable revenue account*)
  Credit: Deferred Inflow of Resources – Advance Received by State
  < entry to recognize grant resources received before timing requirements >

Note: If agencies receive cash for a reimbursement-based grant *before* the applicable expenditures are made, the receipt should be reported as Unearned Revenue.

State Grant/Aids Resources **Paid** in Advance

- State resources (e.g. GPR, PR or SEG funds) paid by the State to local governments/recipients *before* time requirement are met, but *after* all other eligibility requirements are met, should be reported as a deferred outflow of resources. Therefore, the following entry should be made:

  Debit: Deferred Outflow of Resources – Advance Provided by State
  Credit: Expenditures
  < entry to reduce expenditures for state resources provided to local governments or grant recipients before timing requirements are met >

Note: If agencies were to provide state resources for a reimbursement-based grant *before* the expenditures were made by the local governments/recipient, the payment should be reported as a prepaid asset.

Federal Pass Through Grants

- Sometimes the State provides federally-funded pass-through grants to local governments in advance of the applicable spending period. In this situation, a deferred outflow of resources would *not* be reported pertaining to the payment to the local recipient. Further, if federal intergovernmental revenue had been recorded on STAR, it would *not* be reclassified as a deferred inflow of resources.

Federal Cash Management System

As documented in Section V-18 – Grants and Contributions of this Manual, agencies do not typically have to prepare ACFR entries to recognize revenue and expenses for transactions processed through the Federal Cash Management (FCM) system. The entries that are required in limited circumstances are outlined in that section of this Manual. Those entries do not involve deferred inflows or outflows of resources and are not repeated here.

Other Non-exchange Types of Transactions (e.g. Lottery tax relief)

It is possible that some agencies or GAAP funds may record government-mandated and voluntary nonexhange transactions *not* typically thought of as grants. Like grants, if those resources are provided or received early, it would be necessary to record a deferred outflow of resources or a deferred inflow of resources, respectively. For example, the Lottery fund provides resources to local governments that must be used for property tax relief. Some of the resources provided in March of 20X1 apply to the local government's July-December 20X1 period.

UNAVAILABLE REVENUE - Governmental Funds and Governmental Activities

Unavailable revenue is a concept that applies only to governmental funds reporting on a modified accrual basis. Taxes collected within 60 days of fiscal year end are considered available. Other revenue is considered available if collected within one year of fiscal year end.

Accountants should make the following entry for revenue reported on STAR that has been earned and is measurable but unavailable:

Debit: Revenue (identify type e.g. taxes)
Credit: Deferred Inflow of Resources – (identify type e.g. taxes)
< entry to reclassify unavailable revenue at the fund-level >

If a receivable and revenue has *not* yet been recorded on STAR, the following entry is made:

Debit: Receivable (identify type e.g. taxes)
Credit: Deferred Inflow of Resources – (identify type e.g. taxes)
< entry to accrue unavailable revenue at the fund-level >

Because the concept of revenue availability does not apply to full accrual reporting, the following entry is required for the government-wide statements:

Debit Deferred Inflow of Resources (Unavailable Revenue)
Credit Revenue (agency to designate the type of revenue)
< entry to recognize revenue reported as unavailable at the fund-level >

DERIVATIVE INSTRUMENTS – Proprietary and Fiduciary Funds and Governmental Activities

All GAAP Funds reporting hedging derivatives determined to be effective for the current year should prepare entries to report deferred outflows or inflows of resources on the Statement of Net Position. The required entries and procedures are documented in Section V-44 – Derivatives. Such entries will only apply at the government-wide level and for proprietary and fiduciary funds. It is anticipated that the State will hold few effective hedging derivatives.

DEBT ISSUANCE COSTS AND REFUNDINGS – Debt Service and Proprietary Funds, Governmental Activities

Debt issuance costs include but are not limited to insurance, financing, administrative, underwriting and registration fees. Under GASB 65 these costs, except prepaid insurance costs, are to be expensed in the period incurred.

Prepaid insurance costs are to be reported as a prepaid asset and recognized as an expense over the life of the bond.

Differences between the reacquisition price and the net carrying amount of the old debt in a debt refunding are to be reported as deferred inflows or outflows of resources. The Policy portion of this Section and Section V-13 – Bonds of this Manual provide illustrations and guidance for calculating the reacquisition price, the carrying amount of the new debt, and any associated deferred inflows or outflows.

The entries required to record debt issuance costs and debt refundings for bonds are included in Section V-13 – Bonds in this Manual. GAAP accountants responsible for debt service funds will prepare and submit the required financial statements and note disclosures, as outlined in Section V-13 – Bonds of this Manual to the Financial Reporting Section of the State Controller's Office. The Capital Accounting Unit of the State Controller's Office will provide appropriate extraction entries that include debt issuance costs and refundings to GAAP accountants responsible for preparation of certain enterprise funds. The Department of Administration is responsible for preparing the appropriate entries, statements, and note disclosures for appropriation bonds.

If a fund has two or more refundings and one creates a deferred inflow and the other creates a deferred outflow, based on the guidance from the GASB 2013-14 Comprehensive Implementation Guide, these deferred balances should *not* be netted. Furthermore, from a practical standpoint, netting deferred inflows and outflows would complicate the entries required in future years when the revenue/expense has to be recognized. Therefore, agency accountants will be required to separately track and report the deferred inflows and outflows created for each refunding and amortize costs over the applicable time period.

DEBT ISSUANCE COSTS AND REFUNDINGS *(continued)*

Prior to FY 2014, deferred charges included: the differences between the reacquisition price and net carrying value of old debt, issuance costs, and prepaid insurance costs. Per the requirements of GASB 65, the difference in prices will be reported as deferred outflows or inflows of resources and issuance costs will be expensed immediately. Prepaid insurance will be reported as an asset and expensed over the life of the debt.

PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS– Proprietary and Fiduciary Funds and Governmental Activities

Differences Between Expected and Actual Experience; Change of Actuarial Assumption; Differences Between Projected and Actual Investment Earnings; Change in Proportionate Share and Differences Between Actual and Proportionate Contributions

Based on actuarial information provided by ETF, SCO-FRS will prepare ACFR adjusting entries at the fund and government-wide levels to report the following deferred inflows and outflows for the State:

- Differences between expected and actual experience;
- Change of actuarial assumption;
- Differences between projected and actual investment earnings;
- Change in proportionate share and differences between actual and proportionate contributions

To calculate the amounts needed for financial reporting, SCO-FRS will allocate the net pension and OPEB liabilities, pension and OPEB expenses, and pension and OPEB-related deferred inflows and outflows computed by the actuaries to GAAP funds. The allocation will be based on a percentage of each agency's pension, health insurance and life insurance expenditure per GAAP fund. SCO will prepare the required adjusting entries and include them on the ACFR trial balances in August/September once the information is available. SCO-FRS will also make the government-wide entry for governmental activities. The required adjusting entries will establish the year-end balances and account for the amortization of the balances.

As allowed by para. 52 of GASB 68 and para. 175 of GASB 75, the deferred inflows and outflows created from a change in the State's proportionate share and those created from the difference between the State's actual share and proportionate share of total contributions may be netted together in the same measurement period. However, the balances in one period cannot be netted with the balances in another period. SCO-FRS will net the balances within a measurement period and present them as a single line. Over time, then, funds may present both a deferred inflow and outflow related to changes in proportion share and differences in contributions.

As required by para. 71 of GASB 68 and para. 43 of GASB 75, if the differences between projected and actual investment earnings create deferred outflows in one year and deferred inflows in another year, the balances will be netted and presented as one balance. Therefore, funds will never report both deferred outflows and deferred inflows for investment earnings.

Contributions Subsequent to the Measurement Date but Prior to the Reporting Date

SCO-FRS will determine the contributions subsequent to the measurement date, but prior to the State's reporting date for the net pension liability and OPEB liabilities. Contributions will be identified for expenses during pay periods that materially align with the dates after the measurement date, but prior to the reporting date. Entries will be allocated to the GAAP funds using applicable payroll expense accounts recorded in STAR.

The following reclassification journal entry will be made:

Debit	Deferred Outflow of Resources (Contributions Subsequent to Measurement Date)
Credit	Functional Expenses (for govt-wide entry for governmental activities)
Credit	Personal Services Operating Expenses (for proprietary funds)
Credit	Administrative Expenses (for fiduciary funds)
	< entry to recognize WRS & OPEB contributions subsequent to the measurement date >

The proprietary and fiduciary funds' entries will be made on the ACFR trial balances made available to the GAAP accountants. SCO-FRS will make the government-wide entry centrally for governmental activities.

UW System will be responsible for determining and making the necessary subsequent contribution entries, such as for pension contributions and SHICC OPEB, because the information is not available to SCO-FRS.

ASSET RETIREMENT OBLIGATIONS – Proprietary and Fiduciary Funds and Governmental Activities

In the initial year an ARO is recognized, a corresponding deferred outflow of resources should also be recognized. The deferred outflow of resources should be reduced (expensed) in a systematic and rational manner over a period of time, in one of the following ways:

- either over the entire estimated useful life of the tangible capital asset if the ARO is reported at the beginning of the asset's estimated useful life or
- over the remaining useful life if the ARO is reported after the tangible capital asset has been placed into operation

If a tangible capital asset is permanently abandoned before it is placed into service, no deferred outflow of resources should be recognized. Rather the entire ARO should be expensed in the current year.

Since UW-System is the only agency currently impacted by the ARO reporting requirements, we will not present the required adjusting entries in this manual. UW-System staff should contact SCO-FRS staff for guidance as necessary.

OTHER POTENTIAL DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

Agencies should contact SCO-FRS if they have identified situations other than those discussed above that potentially require the recording of deferred outflows or inflows of resources. FRS staff will help determine if these situations meet the criteria, including materiality, necessary for reporting and provide assistance in recording the appropriate entries.

ASSET RETIREMENT OBLIGATIONS

GASB Statement 83 *Asset Retirement Obligations* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability.

Materiality Threshold of $1.0 Million

The estimated legally enforceable amount to be paid by the State associated with the retirement of a tangible capital asset will be reported as an ARO, if material. The State has established a minimum ARO threshold of $1.0 million per capital asset for purposes of considering whether to report an ARO in the State's ACFR. The types of AROs that are the intended target of GASB 83 would, most likely, be significantly more than $1.0 million (such as decommissioning a nuclear reactor).

Applicability to State-Owned Tangible Capital Assets

Per discussion with GASB staff, ownership of a capital asset does not mean an ARO exists. There must be an outside trigger that is very specific to the capital asset, such as a serious environmental danger, that goes beyond typical asset disposals resulting in legally enforceable costs to the government. GASB 83 is not intended to cover ordinary disposals of the vast majority of capital assets owned by state agencies. Rather, GASB 83 refers to nuclear reactors, wind turbines, sewage treatment plants, and x-ray machines as examples of tangible capital assets for which laws and regulations may require governments to take specific actions to retire such assets.

GASB 83 *excludes* pollution remediation costs which are covered by GASB 49 *Pollution Remediation*. In addition, solid waste landfills are *not* covered by GASB 83. Rather, GASB 18 *Landfill Closure and Postclosure Care Costs* provides guidance on landfill closures.

Recognition and Measurement Criteria

GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Recognition occurs when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

The current value of the State's AROs must be adjusted for the effects of general inflation or deflation at least annually. In addition, all relevant factors should be evaluated at least annually to determine whether the effects of one or more of the factors (e.g. laws or technology) significantly change the estimated asset retirement outlays. An ARO is remeasured only when the result of the evaluations indicates there is a significant change in the estimated outlays.

Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination from operations of a capital asset, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The measurement of an ARO should be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at a reasonable cost, the most likely amount should be used. GASB 83 also requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. The deferred outflow of resources for AROs should be reduced and recognized as an expense in a systematic and rational manner over the estimated useful life of the tangible capital asset.

Disclosure

The nature of the State's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets must be disclosed. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the State is required to disclose that fact and the reasons.

Minority Share

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The State's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility and required disclosures made. Agencies should contact SCO-FRS staff once they become aware of jointly owned assets for further guidance.

Leased Property

GASB 83 also applies to legally enforceable liabilities of a lessor (owner) in connection with the retirement of its leased property if those liabilities meet the definition of an ARO.

Reporting Requirements and Notification to SCO-FRS

The ACFR should reflect asset retirement liabilities in accordance with the GASB recognition criteria and reporting requirements. Individual agencies, with assistance from SCO-FRS staff, should identify those items that meet the recognition criteria. Agencies should inform SCO-FRS if they plan to acquire or construct capital assets that may be subject to GASB 83 requirements *as soon as they are aware of such assets*. Monitoring the acquisition of capital assets or capital projects throughout the fiscal year allows agency GAAP accountants to identify potential AROs.

Due to the legal and technical complexities associated with AROs, failure to notify SCO-FRS well in advance of reporting deadlines may result in ACFR delays. If capital assets subject to AROs are owned by an agency, GAAP accountants should contact knowledgeable individuals within their agency, as necessary, such as engineers, legal counsel, or management to determine whether there are AROs to be reported under the established guidelines.

Agency Identification of Potential Asset Retirement Obligations

Agency GAAP accountants should monitor capital asset acquisitions and capital projects to identify if potential AROs may exist. Because of the technical and legal complexities of reporting AROs, agencies should gather information and obtain required expert guidance, as necessary, well in advance of ACFR reporting due dates to ensure a timely and complete ACFR. Agencies should consult with SCO-FRS for guidance as soon as they become aware of potential AROs. Currently, UW-System is the only agency found to have AROs e.g. nuclear reactor used for education.

Initial Measurement of an ARO

An agency's measurement of an ARO should be based on the best estimate of the current value of outlays expected to be incurred. Current value is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period.

Agency staff possessing applicable knowledge and skill may estimate the current value of expected outlays. If agency staff are not able to determine an amount, agencies may need to contract with an external entity (e.g. engineering or consulting firm specializing in such activities) to estimate the expected outlays.

The best estimate should be determined using all available evidence. This approach requires probability weighting of potential outcomes when sufficient evidence is available or can be obtained at reasonable cost. When probability weighting cannot be accomplished at reasonable cost, the most likely amount in the range of potential outcomes should be used. The determination of that amount should take into consideration all other available evidence that can be obtained at reasonable costs, including the potential for higher or lower costs.

Materiality

The State has established a minimum ARO threshold of $1.0 million per capital asset for purposes of considering whether to report an ARO in the State's ACFR. Agencies should consult with SCO-FRS prior to reporting AROs.

Maintenance of ARO Records

Agencies should develop and implement procedures to maintain ARO-related records to allow for 1) efficient and timely annual reviews; and 2) auditor testing.

Presentation in ACFR Financial Statements

When reporting AROs in financial statements, agencies should submit information in the manner designated by the State Controller's Office to allow for appropriate inclusion in the State's ACFR. For example, deferred outflows of resources specific to AROs will be presented on the face of the Statement of Net Position.

ACFR Entries

Since UW-System is the only agency currently impacted by the ARO reporting requirements, we will not present the required adjusting entries in this manual. UW-System staff should contact SCO-FRS staff for guidance as necessary.

Agency Submission of ARO Note Disclosure

The nature of the State's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets should be submitted to SCO-FRS for inclusion in the ACFR. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, agencies should disclose that fact and the reasons in the submission to SCO-FRS. Annually agencies should update the disclosure with current information and submit it to SCO-FRS.

Because UW-System is the only agency currently known to have AROs, a note disclosure form specific to AROs has not been developed.

Back to start

2024 ACFR Agency Procedures Checklist - Fund Statements

This checklist pertains to the fund level statements only. Please also complete the separate checklist for the government-wide statements.

All applicable policies and procedures set out in the GAAP Conversion Manual were followed in preparing financial statements and/or other information that we are required to furnish for the State's ACFR. The following items, while not all inclusive of areas requiring adjusting entries, were included in our review:

Click the box to choose the correct answer

	Account Activity (with reference to GAAP Manual Section)	**Account Activity** **Appropriate entry made**	**Applies to Agency** **No Entry Needed**	**Does not Apply** **Entry/Info Not Provided**
1.	Cash and Cash Equivalents (Section V - 1)	☐	☐	☐
2.	Inventories (Section V - 3) If your agency reports inventory, please provide cost method used (FIFO, e.g.) ________	☐	☐	☐
3.	Prepaid Items (Section V - 4)	☐	☐	☐
4.	Receivables/Allowance for Uncollectible Accounts (Sections V - 5 & 6)			
	a. Reclassification of receivables	☐	☐	☐
	b. Additional Accounts Receivable	☐	☐	☐
	c. Deferred inflow of resources for revenue not available (Gov't funds only)	☐	☐	☐
5.	Payables (Section V - 8), including			
	a. Reclassification of payables	☐	☐	☐
	b. Additional accounts payable based on voucher review	☐	☐	☐
6.	Installment Purchases (Section V - 15 **SEE UPDATED MASTER LEASE GUIDANCE**)	☐	☐	☐
7.	Contingent Liabilities and Commitments (Section V - 14)	☐	☐	☐
8.	Pollution Remediation (Section V - 42)	☐	☐	☐
9.	Fund Equity (Section V - 16), including (Items *a-e* for governmental funds only)			
	a. Nonspendable for additional inventory, prepaid items, LT receivables	☐	☐	☐
	b. Nonspendable for principal/corpus	☐	☐	☐
	c. Reclassify fund balance for accrual entries (General, 21200 & 27200)	☐	☐	☐
	d. Reclassify fund balance for current year activity (21200 & 27200 only)	☐	☐	☐
	e. Reclassify fund balance for deficit balance (all gov't funds except General Fund)	☐	☐	☐
	f. Accounting Changes and Error Corrections (all funds)	☐	☐	☐
10.	Grants (including federal aid) and Contributions (Section V - 18)			
11a.	Capital Assets (V - 7) **Governmental Funds** (also see Gov-Wide for additional questions)	☐	☐	☐
	Reclass entry was made to reconcile capital outlay expenditures at fund level to capital asset additions in gov-wide entries.			
11b.	Capital Assets (V - 7) Proprietary and Fiduciary Funds ONLY			
	Reclass entry was made to reconcile capital outlay expenditures at fund level to capital asset additions in gov-wide entries Capital assets information in STAR AM is materially correct for the fiscal year?	☐	☐	☐
	Capital assets information in STAR AM is materially correct for the fiscal year?	☐	☐	☐
	Respond yes if the information entered into the AM module is materially correct to record capital assets, accumulated depreciation, and depreciation expense, as well as purchase, retirement and/or adjustments of capital assets for the fiscal year.			
	Were there in-progress capital assets at June 30th for your agency?			
	In-progress capital assets are recorded in the ACFR via an adjusting entry until they are completed and placed into service. At that time, agencies add assets to STAR AM. Important Note: Capital Accounting will report construction in progress capital assets from the Capital Improvement and Building Trust funds for governmental activities via an ACFR entry they provide to SCO-FRS. SCO-FRS will make an entry to report in-progress capital assets for proprietary funds based on the Capital Accounting Construction in Progress report. Agencies should make an entry to report in-progress assets for internal agency projects			
	Did you provide an ACFR adjusting entry for in-progress assets?	☐	☐	☐
	Are other ACFR adjusting entries required to correctly report capital assets?	☐	☐	☐
	If YES, please contact SCO-FRS to discuss if additional entries are warranted under the circumstances. Generally, consideration will be given to making an entry only if the error is at least $1.0 million (with higher thresholds based upon SCO-FRS judgement).			
	In the fiscal year, did your business-type activity transfer an individual capital asset to/from governmental activities with a net book value over $100,000? (RARE)	☐	☐	☐
	If YES, prepare an government-wide entry to reclassify the revenue/expense accounts used on the fund statements to transfer codes for the Government-wide statements.			
11c.	Asset Retirement Obligations (V-48) Proprietary and Fiduciary Funds ONLY	**Yes**	**No**	**N/A**
	Does your agency have a legally enforceable liablity of $1.0 million or more associated with retirement of a tangible capital asset? (RARE; GASB 83 Asset Retirement Obligations)	☐	☐	☐

ACFR Agency Procedures Checklist - Fund Statements (continued)

	Account Activity (with reference to GAAP Manual Section)	Account Activity Appropriate entry made	Applies to Agency No Entry Needed	Does not Apply Entry/Info Not Provided
12.	Grossed up amounts (Section V - 31)			
	a. REIMBURSEMENT transactions that resulted in a significant "grossing up" of revenues and expenditures/expenses on the fund operating statements	☐	☐	☐
	b. Transactions at year-end that resulted in a significant grossing up of receivables/payables on the fund balance sheet.	☐	☐	☐
	c. SUBGRANTS recorded as REVENUES/EXPENDITURES (Entry to be prepared by the agency disbursing the subgrant)	☐	☐	☐
	d. SUBGRANTS recorded as INTERFUND TRANSFERS (Entries to be made by disbursing and receiving agency)	☐	☐	☐
13.	Derivative Instruments (Section V-44) (Note: governmental funds report derivatives at the Gov't-wide level - see GW Checklist Question 10.)	☐	☐	☐
14.	Public-Private and Public-Public Partnerships and Availability Payment Arrangements (Section V-45) (rare) (Note: Proprietary funds report at the fund level. Gov't funds report at the Gov't Wide Level. See Gov't Wide checklist.)	☐	☐	☐
15.	Deferred Inflows and Outflows of Resources (Section V-47) Statements must provide the specific type of deferral provided by SCO-FRS			
	<u>Types of Deferred Outflows of Resources</u>			
	- Advance to recipient by the State	☐	☐	☐
	- Loss on debt refunding *(n/a to gov't funds)*	☐	☐	☐
	- Pension - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Health OPEBs - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Life OPEBs - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Other	☐	☐	☐
	<u>Types of Deferred Inflows of Resources</u>			
	- Advance received by the State	☐	☐	☐
	- Unavailable Revenue *(only applicable to gov't funds)*	☐	☐	☐
	- Increase in fair value of hedging derivative *(n/a to gov't funds)*	☐	☐	☐
	- Gain on debt refunding *(n/a to gov't funds)*	☐	☐	☐
	- Pension - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Health OPEBs - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Life OPEBs - SCO detailed different types (n/a to gov't funds)	☐	☐	☐
	- Other	☐	☐	☐
16.	Nonexchange Financial Guarantees (Section V-46) (RARE)			
	Entry reporting a liability/expenditure/expense for a guarantee made to an external third party (e.g. local gov't) that has defaulted	☐	☐	☐
	Entry reporting an asset/revenue for a guarantee received from another external entity (e.g. federal gov't) because the State has defaulted	☐	☐	☐
17.	Government Combinations/Disposals (Section III-5, P. 9) (RARE) Entry to reflect combination/disposal/merger with a separate legal entity (transactions are NOT with another state agency)	☐	☐	☐
18.	Reversing Entries (Section V - 32) *SCO-FRS makes many of these entries*			
19.	Financial Statements *(required only for individual GAAP funds):*			
	o Balance Sheet	☐	☐	☐
	o Operating Statement	☐	☐	☐
	o Cash Flows Statement *(Enterprise/Internal Service funds only)*	☐	☐	☐
	Stmt of cash flows is consistent with SCO-FRS requirements for separately presented detailed deferred inflows/outflows, net pension, & OPEB asset/liab Non-cash transactions have been reflected in the Cash Flows Statement e.g. mark to market for investments	☐	☐	☐
20.	Agency Analytical Review (V-43)			
	a.) General Fund - explanations for significant changes are provided	☐	☐	☐
	b). Individual GAAP Fund - explanations for significant changes are provided	☐	☐	☐

ACFR Agency Procedures Checklist - Fund Statements (continued)

	Account Activity	Applies to Agency	Does not Apply
Account Activity (with reference to GAAP Manual Section)	**Appropriate entry made**	**No Entry Needed**	**Entry/Info Not Provided**
21. **Other Required Forms/Note Disclosures**			
Deposits and cash reconciliation note disclosure form			
Investments note disclosures forms			
Due to/from Other Funds note disclosure form			
Interfund Transfers Reconciliation form *(also, see #27 below)*			
Intrafund Transfers Reconciliation form *(General Fund only)*			
Capital Assets reconciliation *(All Funds)*			
Installment Purchases disclosure *(proprietary funds only)* *			
Pollution Remediation disclosure (proprietary funds only) (Section V - 42) *			
Accounting Changes and Error Corrections form (Section V - 33)			
Subsequent Events Checklist (Section V - 36)			
Commitment form (construction and other commitments)			
Disclosure of derivative instruments (proprietary & fiduciary funds) *			

	YES	NO
22. Are you aware of any related party transactions (Section III - 5)?		
23. Are you aware of any joint ventures (Section III - 5)?		
24. Are you aware of any material violations of finance-related legal and contractual provisions? (Section V - 14)		
25. Are you aware of any potential component units associated with your agency in addition to those listed in Section III - 5 "Reporting Entity" of the Manual?		
26. Did your agency/fund record interfund transfers out greater than $100,000 that were (1) non-routine in nature, or (2) inconsistent with the activities of the fund? If applicable provide info on transfers larger than $100,000 that resulted from **a non-budgetary requirement. Lapses/transfers to other GAAP funds per the budget bill** will be identified via SCO-FRS internal analysis and disclosed as necessary.		
27. Are you aware of any material impaired capital assets administered by your agency? (Section V - 7) If so, contact a member of the Financial Reporting Section.		
28. Are you aware of a split-interest donation/gift agreement for your fund/agency for an amount greater than $1 million. (Section V - 18, Split-Interest Agreements)		
29. Has your agency/fund reported all material leases and SBITAs to SCO-FRS (Section V-10, Leases and SBITAs)		
30. Are you aware of an error correction or a change in accounting principle that does not have an effect on beginning net position, fund balance, or fund net position but that results in a material reclassification of some accounts in the financial statements? **(NEW IN FY 2024)**		

2024 ACFR
Supplement to Agency Procedures Checklist
Submit for Government-wide Financial Statements

Agency #: ________
Activity Type (check one)
Governmental ☐
Business-type ☐

Background: Additional information must be submitted by agencies to facilitate the preparation of the Government-wide Financial Statements as required by GASB Statement 34. The Government-wide Statements are prepared using the economic resources measurement focus and accrual basis of accounting. Please refer to applicable sections of the GAAP Conversion Manual for a discussion of the policies and procedures related to the compilation of this information and the required entries. Required entries should be submitted to SCO-FRS via the government-wide Journal Uploader template which also creates a composite entry. SCO-FRS staff are also available for assistance, if necessary.

GOVERNMENTAL ACTIVITIES include financial activity reported in the General Fund, special revenue funds, capital projects funds, debt service funds, permanent funds, and internal service funds.

BUSINESS-TYPE ACTIVITIES includes financial activity reported in the enterprise funds.

Government-Wide Entries to be Submitted by Agencies

Accountants should consider whether the following entries pertain to their agency.*

Click the box to choose the correct answer

Yes No N/A

1. A. Confirm Capital Assets/Accum Depreciation for Governmental Activities (Section V-7)

Did your agency possess capital assets related to govt'l activities during the fiscal year? ☐ ☐ ☐

Is the information in STAR AM for **capital assets** correct for the fiscal year? ☐ ☐ ☐

Respond yes if the information entered into the AM module is materially correct to record capital assets, accumulated depreciation, and depreciation expense, as well as purchase, retirement and/or adjustment of capital assets in the fiscal year. Note for DOT and Courts: These two agencies do not include all capital asset information in STAR AM. Therefore, these agencies must make the appropriate entries and related note disclosures to reflect accurate capital assets in the ACFR.

Were there in-progress capital assets at June 30th for your agency? ☐ ☐ ☐

In-progress capital assets are recorded in the ACFR via an adjusting entry until they are completed and placed into service. At that time, agencies add assets to

Did you provide a ACFR adjusting entry for in-progress assets? ☐ ☐ ☐

Are other ACFR adjusting entries required to correctly report capital assets? ☐ ☐ ☐

If YES, please contact SCO-FRS to discuss if additional entries are warranted under the circumstances. Generally, consideration will be given to making an entry only if the error is at least $1.0 million (with higher thresholds based upon SCO-FRS judgement). **Note for DOT**: DOT may have special entries they should make to accurately report infrastructure and in-progress assets. SCO-FRS will establish materiality for DOT separately to appropriately consider the value of their capital assets.

B. Report Capital Assets Transfers between Governmental and Business-type Activities.

In the fiscal year, did your business-type activity transfer an *individual* capital asset to/from governmental activities with a net book value greater than $100,000? ☐ ☐ ☐

If **YES,** prepare an government-wide entry to reclassify the revenue/expense accounts used on the fund statements to transfer codes for the Government-wide statements.

C. Asset Retirement Obligations (V-48)

Does your agency have a legally enforceable liability of $1.0 million or more associated with the retirement of a tangible capital asset? (RARE) ☐ ☐ ☐

If YES, please contact SCO-FRS to discuss the need for ACFR entries.

2. Report Long-Term Receivables of Governmental Activities (Section V-5)

Did your agency possess long-term receivables at fiscal year-end that had not been recognized as revenue in the fund financial statements during the fiscal year? ☐ ☐ ☐

*If **YES**, prepare a government-wide entry to recognize additional revenue for that unavailable revenue.*

* Note: Internal Service funds are classified as proprietary funds and consequently use full *accrual* accounting for fund reporting purposes. However, at the government-wide level these funds are reported with the governmental activities. Because of these special circumstances, Internal Service funds need only respond to Questions #16, #17 pertaining to MD&A, and possibly #1B if transfers of capital assets to other funds has occured.

(Continued)

Additional Government-Wide Entries to be Submitted by Agencies (Continued)

Yes No N/A

3. **Refine Revenue and Expense Account Classifications for Governmental Activities or Business-type Activities** on the Government-wide Statement of Activities (Section IV-4) ☐ ☐ ☐

Revenue and expenses have been classified on the Statement of Activities as discussed in Section IV - 4 - Trial Balances of the State GAAP Manual. In some cases, these classifications may need to be adjusted.

a-1. Were transactions recorded in the STAR ACTUALS ledger whose coding would result in an incorrect classification on the Statement of Activities? ☐ ☐ ☐

a-2. Per GASB 34, Grants and Contributions (i.e., intergovernmental revenues, gifts, donations) must be split between the categories "capital", "operating" and non-program specific" for the Statement of Activities.

For ***Governmental Activities*** the assignment of revenues is based on (1) the revenue codes used for recording transactions on STAR and (2) revenue accounts used in the GAAP adjusting entries.

For ***Business-type Activities***, the assignment of revenues is based on the revenue accounts used in the enterprise fund financial statements. The following grant and contribution-related revenue accounts will roll up to "Operating Grants and Contributions" on the Statement of Activities: (1) Operating Grants and (2) Gifts (UW). The following revenue account will roll up to "Capital Grants and Contributions" reported on the Statement of Activities: (1) Capital Contributions.

For ***Governmental Activities*** - During the fiscal year, did your agency receive program-specific capital grants or donations restricted for the purchase or construction of capital assets that were *not* coded to revenue code 4599000 (Fed Aid - Acquire Capital Assets) or 5899000 (Gifts for Construction/Purchase of Capital Assets)? ☐ ☐ ☐

For ***Governmental and Business-type Activities***: Did your agency receive any grants or contributions that were **not** restricted to a specific program? ☐ ☐ ☐

If you answered ***YES*** *to the questions in a-1 or a-2, prepare an government-wide entry to reclassify transactions on the Statement of Activities.*

b-1. For Governmental and Business-type Activities, does your agency serve as the custodian of collection items, such as works of art, historical treasures, or similar assets? ☐ ☐ ☐

b-2. If you answered YES to Question b-1, did your agency receive any donated collection items during the fiscal year that were added to noncapitalized collections? ☐ ☐ ☐

If **YES** prepare an government-wide entry to report revenues and expenses on the Statement of Activities. Debit Functional expenditures and Credit Operating Grant Contribution Revenue

4. **Report Deferred Inflows and Outflows of Resources (Section V-47)**
Did your agency incur deferred inflows or outflows of resources that were not reported at the fund level? ☐ ☐ ☐

Governmental funds do not report deferred inflows/outflows for increases/decreases in fair value of hedging derivatives or for gains/losses on debt refundings, so agencies need to make government-wide entries to account for them. Governmental funds also do not report deferred inflows/outflows related to pensions, rather FRS will record those adjusting entries.

If ***YES,*** *prepare an entry to establish these balance sheet elements. See Section V-44 for the derivative entries and V-13 for the bond entries.*

Did you provide an appropriate level of detail identifying the type of deferral? ☐ ☐

You must use a detailed ACFR account code so required note disclosures may be prepared.

5. **Report Nonexchange Financial Guarantees (Section V-46)**

For ***Governmental Activities*** - Did your agency make a payment, or is it more likely than not, that a payment will be made on behalf of another entity for which the State made a nonexchange financial guarantee? ☐ ☐

Most agencies are not expected to have the statutory authority to enter into such guarantees. ***Governmental funds*** *would have reported a liability for such a guarantee only to the extent that it would be paid with current financial resources (i.e. within the next year). A government-wide entry is also needed to recognize the noncurrent portion of the liability.* ***Proprietary funds*** *would have already reported a liability for such a guarantee so government-wide entries are not needed.*

If ***YES,*** *prepare an entry to establish a liability and record an expenditure for the amount of the non-current portion of the liability. Also provide note disclosure information.*

For ***Governmental Activities*** - Did your agency issue obligations guaranteed by another party in a nonexchange transaction AND become released from such obligations during the fiscal year? ☐ ☐

If ***YES,*** *prepare an entry to recognize revenue as a result of being relieved of the obligation. Also, provide note disclosure information.*

Proprietary funds *would have already recorded the revenue when relieved of the obligation.*

Additional Entries to be Submitted by Agencies (Continued)

Yes No N/A

6. **Eliminate "grossed up" amounts of either Governmental Activities or Enterprise Funds** and report subgrants within the function incurring expenses (**Section V-31**)

GASB 34 requires that eliminations be made on the financial statements to minimize the "doubling-up" effect of internal activities. Further, program revenues, including subgrants, are to be reported within the function incurring the expenses (i.e. match revenues to expenses).

Charges for Goods and Services - Impact on Statement of Activities:

a. Did your agency process PROGRAM REVENUE ** transactions on-system (as a result of charges for goods and services) that resulted in a significant grossing up of revenues and expenses reported for your function on the Statement of Activities? ☐ ☐

*If **YES** prepare a government-wide entry to eliminate grossed-up amounts to eliminate the double reporting of revenue.*

Subgrants - Impact on Statement of Activities: ***

b. Did your agency process any subgrant transactions recorded as transfers *within* a GAAP fund that resulted in program revenues (e.g. federal grants) being reported on the Statement of Activities in the function that directly received the monies from the external source rather than the function that ultimately incurred the expenses? ☐ ☐

*If **YES** prepare a government-wide entry to report the revenue in the correct function.*

** Refer to flowchart on "Policy" Page 4 Section V-31 of the GAAP Manual for difference between PROG REV and REIMBURSEMENTS.

*** Refer to flowchart in Attachment B of "Procedure" Section V-18 of the GAAP Manual to determine when adjustments are needed.

7. **Identify Potential Special Items of either Governmental Activities or Business-type Activities.**

"Special Items" are reported separately on the Statement of Activities and consist of significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Prior to making an entry to report a Special Item, GAAP accountants should consult with staff in the SCO-FRS.

Did your agency have any significant transactions during the fiscal year that could be identified as a "Special Item" on the Statement of Activities? ☐ ☐

*If **YES** prepare a government-wide entry to reclassify the transaction on the Statement of Activities.*

8. **Report Pollution Remediation Obligations of Governmental Activities. (Section V-42)**

Is your agency financially responsible for cleaning up any polluted sites that are estimated to individually cost $1.0 million or more to clean up? ☐ ☐

If ***YES,*** *prepare a government-wide entry to record pollution remediation obligations for governmental funds* and *complete the Pollution Remediation note disclosure form **(N33).***

9. **Identify and Report Derivative Instruments of Governmental Activities Section (V-44)**

Investment or hedging derivative instruments must be reported in accordance with the applicable GASB standards. SWIB is responsible for reporting investment derivative instruments they manage for various GAAP funds and state agencies. However, GAAP funds or state agencies reporting investments not managed by SWIB must identify if associated derivatives exist for GAAP reporting purposes. Further, GAAP accountants are responsible for identifying and reporting other derivative instruments, such as those associated with State debt.

Does your agency/fund possess investment derivative instruments that are not managed by SWIB? ☐ ☐ ☐

Does your agency/fund possess derivative instruments related to debt obligations or has your agency entered into contractual arrangements that could be categorized as derivative instruments under the provisions of GASB 53? ☐ ☐

If ***YES,*** *(a) prepare a government-wide entry to record derivative instruments and current year results for governmental funds based on entries found in **Section V-44** ; and (b) provide applicable note disclosure information* **.**

10. **Identify and Report Public-Private and Public-Public Partnerships and Availability Payment Arrangements of Governmental Activities Section (V-45)**

Only those agencies possessing significant capital assets that could be used in a PPP and APA are subject to the provisions of GASB 94. These agencies include, but are not limited to, DOT (infrastructure), DOA (buildings and power plants), and University of Wisconsin (buildings and power plants). PPPs will occur rarely, if at all.

Did your agency enter into an PPP or APA that needs to be reported in the ACFR? ☐ ☐ ☐

If ***YES,*** *(a) prepare a government-wide entry to record PPPs or APAs for governmental funds and (b) provide applicable note disclosure information as discussed with the FRS.*

Additional Information to be Submitted by Agencies

Yes No N/A

11. **For DOT and COURTS Only** **Information Relating to Capital Assets/Accumulated Depreciation for Governmental Activities (Section V-7)**

Did your agency possess capital assets related to governmental activities? ☐ ☐

*If YES, complete the Capital Assets note disclosure form (**N14 & N15**).*

For all but two agencies, SCO-FRS will obtain capital asset disclosure information directly from STAR AM plus consider the impact of additional capital asset entries, if any, submitted by agencies. However, because DOT and the COURTS track some or all of their capital assets external to STAR AM, they need to submit the note disclosure form. UW-System will submit required capital asset disclosure information in their financial statements.

12. **Provide Additional Information Relating to Installment Purchases of Governmental Activities (Section V-15).**

Did your agency have installment purchases related to governmental activities at fiscal year end? ☐ ☐

*If YES, complete the "Installment Purchase" note disclosure form **(N19).***

SCO-FRS will prepare the installment purchases entry for the government-wide statements based on information provided by agencies. Governmental agencies should still prepare the fund level entry for the initial year of an installment purchase, however.

13. **Provide Description of Significant Changes in Account Balances (from the Previous to the Current Year Reported by Your Agency for Governmental Activities or Business-type Activities (Section V-40)**

GASB 34 requires that the MD&A include an analysis of the government's overall financial position and results of operations for the year to assist in assessing whether financial position has improved or deteriorated. It should include reasons for the significant changes from the prior year, and important economic factors that significantly affected operating results. MD&A must also include an analysis of balances and transactions of individual funds that addresses the reasons for significant changes in fund balance/equity, and a discussion of any restrictions, commitments, or other limitations that significantly affect the availability of fund resources for future use.

a. Were there any significant changes in *STAR ACTUALS ledger* account balances* between years which impacted assets, liabilities, revenues, or expenditures/expenses related to your agency's activities, that may have to be disclosed in the MD&A? ☐ ☐

* A list of significant changes between the current and prior year will be sent to the affected agencies along with a request for information on the nature of the changes. The response should take into consideration the items noted on this list. If you do not receive a request from SCO-FRS, you may check "no" to Question 16a.

*If you answered YES to Question 15-a, describe** the reason for the significant increase or decrease on the "Analysis of Major Changes in Account Balances form (N31).*

b. If you answered **YES** to Question 15-a, did you prepare any ACFR off-system adjusting entries that would have impacted these accounts identified as having significant changes? ☐ ☐ ☐

If YES indicate the ACFR adjusting entries reference numbers: # ______________________

c. Were there any off-system adjusting entries that resulted in significant changes in account balances from the previous year to the current year? ☐ ☐

*If you answered YES to Question 16-c, describe** the reason for the increase or decrease on the "Analysis of Major Changes in Account Balances" form **(N31).***

** These descriptions should provide sufficient information necessary to fully explain the reason for the change in account balance. They typically should be two to five sentences in length and should be written in a format that is publication-ready.

c. For any of the individual funds in which your agency has activity, are you aware of any restrictions, commitments***, or other limitations that would significantly affect the availability of fund resources for future use? ☐ ☐

*** Exclude any commitments already communicated to SCO-FRS as required in **V-14 Litigation, Contingencies and Commitments** section of the GAAP Manual.

If **YES**, describe*** the restrictions, commitments or other limitations on the "Analysis of Major Changes in Account Balances" form **(N31).**

14. **Provide Description of Currently Known Facts, Decisions or Conditions to be Discussed in the MD&A for Governmental Activities or Business-type Activities.**

A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (Net Assets) or results of operations (Revenue, Expenses, and Other Changes in Net Assets) are to be disclosed. Currently known facts is information that management is aware of as of the date of the auditor's report. Examples of items to be discussed in the MD&A are provided in **Section V - 40 of the GAAP Manual**.

Are there any currently known facts, decisions or conditions that may need to be discussed in the MD&A to comply with the requirements?

*If YES, describe the currently known fact, decision or condition on the "Currently Known Facts, Decisions, and Conditions Significantly Impacting the Financial Statements" form **(N32).***

2024 ACFR
Note Disclosure Information
Deposit Analysis/Cash and Cash Equivalents

Agency: ______________________ **Fund:** ______________ **Fund No.** __________

This form is to be completed for any GAAP fund that has custody of deposits or cash and cash equivalents in addition to shares in the State Investment Pool.

See Instructions for Completing this Form on page 3 (or by clicking here).

PART A: DEPOSIT ANALYSIS

			Amount of Bank Balance Collateralized with Securities held by:		Amount of Bank Balance Uncollateralized	
Bank Name	Bank Location	Total Bank Balance at June 30	the Pledging Financial Institution	the Pledging Financial Institution's Trust Department or Agent but not in the State's N	Net Bank Balance	Carrying Amount (Book Balance) at June 30
(A)	(B)	(C)	(D)	(E)	(F)	(G)
		$	$	$	$	
	Totals	$	$	$	$	$

Attach additional pages, if necessary.

PART B: ADDITIONAL INFORMATION FOR GASB 40

Click the box to choose the correct answer

	Yes	No
(A) Does the agency have a separate policy covering deposits in addition to the general policy addressed in Chapter 34 of the Wisconsin State Statutes? If so, please attach a copy of the policy. (This would include a separate policy related to custodial credit risk or foreign credit risk.)	☐	☐
(B) Are any deposits exposed to foreign currency risk? If so, please attach a listing of U.S. dollar balances of such deposits, organized by currency denomination.	☐	☐

2024 ACFR

Note Disclosure Information - Deposit Analysis/Cash and Cash Equivalents Continued (Page 2)

Agency: ____________ **Fund:** ____________ **Fund No.** ____________

PART C: CASH AND CASH EQUIVALENTS RECONCILIATION

(A) **Cash from Beginning Trial Balance for Individual GAAP Funds.** *Leave blank for General Fund and go to Line (B).* $ ________

Less: The authorized amount of on-system bank accounts (includes accounts 1122000, 1123000 1125000, 1128000 1130000, 114000 and 1180000 listed on the GAAP Trial Balance.) (________)

Total Beginning Cash net of bank accounts reported in the STAR ledger: $ ________

(B) **Reallocation of Cash between GAAP funds.** Agencies must submit a cash reconciliation that verifies the reallocation of cash to different GAAP funds nets to zero by completing either the following or providing a separate spreadsheet:

Entry No.	Fund(s) Receiving Cash	Fund(s) Giving Cash	Amount

Change to interfund payables/receivables per Trial Balance worksheets ________

(C) **Deposit Accounts** - From Part A, Total of Column G (Includes Deposits in Transit to banks reported in Part A) ________

Less: Amounts included as a deposit in Part A, Column G for GASB Statement 40 requirements but which are reported (displayed) as investments on the Balance Sheet/Statement of Net Position (e.g., nonnegotiable CD's) (________)

Less: Amounts included as a deposit in Part A, Column G but reported as "Other Assets" on the Bal. Sheet/St of Net Position (________)

Deposit accounts net of deposits reported as investments and other assets ________

(D) **Amounts reported as cash equivalents on the Balance Sheet/Statement of Net Position that are included in the investment footnote** (per GASB 3 requirements e.g. money market funds) ________

(E) **Other Cash on Hand (e.g., change funds and petty cash)** *Authorized Amount* ________ ________

(F) **Other Adjustments:**

AJE No.		
________	Timing differences related to payments for DOAS receivables (GSBs+ manual invoices)	________
________	"US Bank" deposits not reflected by SCO Cash Management on STAR	________
________	Deposits on hand/in transit (to State's bank account whose bank balance is not yet reported on STAR	________
________	Cash with custodian reported in balance sheet account 1180000 (not included in the investment footnote)	________
________	Rounding variances	________
________	Other (Identify) Other Cash Adjustments	________

Total Other ________

(G) **Total Cash and Cash Equivalents** $ ________

Note: Total cash reported here should be the same amount reflected on the Balance Sheet/Statement of Net Position of individual GAAP funds. For the General Fund, total cash should equal cash and cash equivalents on the composite entry + other cash accounts on STAR that are listed in (C) and (E) above.

Prepared By: ____________

2024
Due from Other Funds/ Due to Other Funds

Background/Instructions: GASB Codification 2300.104(p) requires disclosure of interfund receivables and payables. To assist in preparation of this note disclosure, please prepare this form for each GAAP fund reported by your agency.

Part A of this form reports amounts recorded as "Due from Other Funds" and "Due to Other Funds" through off-system reclassification and accrual entries that agencies prepare during the GAAP conversion process. For "Due from Other Funds", indicate in Column 1, by amount, the GAAP fund that will be reporting the corresponding liability. For "Due to Other Funds", indicate in Column 2, the GAAP fund that will be reporting the corresponding receivable.

Part B of the form reports amounts reconciled by SCO staff. The amount reconciled by SCO-FRS (B-1, if any) will be populated. The amount to report in B-2 will be provided by SCO-Capital Accounting to impacted GAAP funds.

Totals: For the General Fund, the total of Column 1 should equal the amount reported as "Due from Other Funds" on the Composite Entry plus the amount reported on the Trial Balance Worksheet. Similarly, the total of Column 2 should equal the amount reported as "Due to Other Funds" in the Composite Entry plus the amount reported on the Trial Balance Worksheet. For all other GAAP funds, the totals of Columns 1 and 2 should equal the amount reported for "Due From Other Funds" and "Due to Other Funds", respectively, on the financial statements.

Part A - GAAP Reclassifications/Accruals

	Column 1 **Due from Other Funds**	*Column 2* **Due to Other Funds**
	If increasing DFOF, the amount should be positive (debit). If decreasing DFOF, the amount should be negative (credit)	If increasing DTOF, the amount should be negative (credit). If decreasing DTOF, the amount should be positive (debit)
GAAP Fund Name and Number		
General Fund 10000 (Identify by agency):		
Select Business Unit	$	$
Governmental Funds:		
Select Governmental Fund		

Proprietary Funds:

Select Proprietary Fund	$	$

Fiduciary Funds:

Select Fiduciary Fund	$	$
SUBTOTALS		

Part B - DTOF/DFOF Already Reconciled Transactions

Section B reports amounts reported in the Due From Other Funds/Due to Other Funds that may have already been reconciled by the SCO Financial Reporting Section.

DOR Operations Form will show reconciled amounts

B Amounts reconciled by FRS, if any. SCO-FRS will email a prepopulated form to agencies when info is available in August.	$	$	
TOTALS	**$ -**	**$ -**	(a)

(a) For the General Fund, these amounts must agree with those found on the Trial Balance Worksheet plus the agency's composite entry. For other funds, these amounts should equal the amounts reported in the fund's financial statements.

* *Financial activity not reported in STAR ACTUALS ledger*

2024

Special Reconciliation Due from Other Funds/Due to Other Funds
for DOA-BFM Billings

Note: Agencies reporting more than one GAAP fund need only complete one of these special reconciliations.

DIRECTIONS: To ensure that interfund receivables and payables relating to DOA billings, please list the amounts of the invoices included in "Due To Other Funds" for each of your agency's GAAP funds. The total amount of outstanding invoices per the DOA-BFM Receivables Report provided by SCO-FRS should be considered correct unless reconciling items exist. Completion of this form allows GAAP accountants to confirm they have properly accounted for the total amount of the "Due to Other Funds" related to outstanding invoices.

DOA-related invoice entries are subject to a materiality threshold. Only agencies/funds that have ***at least $100,000 of outstanding DOA invoices*** in a GAAP fund will be provided with a detailed report and have to make reclassification entries. In addition, ***only invoices greater than $10,000*** will be included in the report. To ensure a match between the "Due From" and "Due To" accounts, accountants should reclassify only amounts appearing on the Invoice Report provided.

See Background Information below and Section V-8 Payables of the GAAP Manual for more information.

For DOA-BFM Billings

		Amounts Due to Billing Agency included in "Due to Other Funds"
General Fund	$	

SUBTOTAL: Amounts due to DOA GAAP funds for DOA billings included in the "Due To Other Funds" balances reported on the Due To/From Other Funds Form

RECONCILING ITEMS AMOUNT

Please explain reconciling item. (Note: Agencies should not consider timing differences to be a "reconciling item" for GAAP purposes. Because cash in transit between agencies must be reported by the State, and since the DOA GAAP fund "Due from Other Funds" amount will be used as the control figure, the paying agency should report payments in transit as "Cash" and report a corresponding "Due to Other Funds". Any other differences (i.e., differences other than timing differences) must be resolved directly with the billing agency.

TOTAL "DUE TO" REPORTED IN AGENCY GAAP FUNDS $

TOTAL OUTSTANDING INVOICES PER THE REPORT PROVIDED $

Agency Name: ______________________

Agency Number: ______________________

Preparer: ______________________

2024

Reconciliation of Capital Outlay and Capital Assets (All Fund Types) Part 1

Agencies should reconcile between capital outlay expenditures recorded in the ACTUALS ledger to new capital assets added to STAR AM throughout the fiscal year. In addition, agencies that acquire capital assets via the Capital Improvement or Building Trust funds should also be adding that activity to STAR AM as projects are completed during the fiscal year. This worksheet should be used as a tool during the year to identify the nature of errors and potential correcting entries required. Since the reporting process is designed to capture capital asset activity throughout the fiscal year additional ACFR entries, beyond those pushed from STAR AM to the ACFR ledger, should be limited. Entries proposed for the ACFR are subject to SCO-FRS approval.

Starting in FY2024 this form is included in the Capital Assets Pre-populated form. Follow the instructions in that form.

Description of Activity						ACFR Entry No.	Fund No.	Fund No.	ACFR Entry No.
Capital Outlay Expenditures per ACFR Trial Balance (ACTUALS ledger balance)			-						
Capital Assets Acquired During the Fiscal Year through Installment Purchases			-		-			-	
Current Year Expend on Internally Generated Capital Assets Completed in the Fiscal Year			-		-		-	-	
Other (Explain)									
Total Capital Outlay for the Current Year	-		-		-		-	-	
Completed Capital Assets From Capital Improvemnt or Building Trust Fund per CIP Report									
Total Agency New Capital Assets for Fiscal Year that Should Be in AM	-		-		-		-	-	
Asset Additions Reported in STAR AM for the Fiscal Year (Per XXXX)			-						
Less: Assets Donated (Outlay & Revenue recognized only in Gov Wide Stmt of Activities for Gov Funds ONLY)			-		-		-	-	
Less: Capital Assets Acquired from Other State Agencies									
Initial Difference (Positive amount could mean capital assets in AM are understated or capital outlay is overstated; Negative amount may mean capital assets are overstated in AM or capital outlay is understated)	-		-		-		-	-	
Items Resulting in Capital Assets in STAR AM Being Misstated									
Capital Assets NOT Added to STAR AM before Reporting Cutoff (enter as positive)			-		-		-	-	
Capital Assets Incorrectly Reported as Capital Assets in AM (enter as a negative)			-		-		-	-	
Capital Assets in My Fund but Capital Outlay in Fund No. ________ (enter as a negative)	-		-		-		-	-	
Other (Explain)	-		-		-		-	-	
DIFFERENCE (If not $0 move on to next reconciling items)	-		-		-		-	-	
Items Resulting in Capital Outlay Expenditures Being Misstated									
Capital Outlay NOT Reflected as Capital Outlay in ACTUALS Ledger (enter as positive)			-		-		-	-	
Capital Outlay Incorrectly Reported as Capital Outlay in ACTUALS (enter as negative)			-		-		-	-	
Capital Outlay in My Fund but Capital Assets in Fund No. ________ (enter as a negative)			-		-		-	-	
Other (Explain)	-		-		-		-	-	
DIFFERENCE (Should be $0)	-		-		-		-	-	

Reconciling New Capital Assets in STAR AM to the ACFR Note Dislosure Part 2

Total Agency New Capital Assets for Fiscal Year that Should Be in AM	-		-		-		-	-	
Total Capital Asset Additions per the Capital Asset Note Disclosure			-		-		-	-	
Difference	0.00		0.00		0.00		0.00	0.00	

For Governmental Funds Only: Check figure s/b $0 for multiple gov'tl funds reconciling to gov-wide additions 0.00

Potential Entries to Correct Capital Outlay in the ACFR

The entries presented here are not all inclusive for correcting capital outlay expenditures. Other entries may be necessary dependent on the circumstances. Additional entries for reporting capital assets are illustrated in the V-7 of the GAAP Manual. All entries are subject to approval by SCO-FRS staff.

Debit or Credit: X2OUTLY Capital Outlay Expenditures		
Debit or Credit: X****** Expenditures (identify)		
<Reclassify capital outlay expenditures to reconcile to added capital assets for fiscal year.>		
DEBIT: Capital Assets (identify specific account)		
CREDIT: Capital Outlay		
<Report capital assets not included in AM for the fiscal year that were reported as capital outlay expenditures in STAR ACTUALS.>		
Debit: X2OUTLY Capital Outlay Expenditures		
Credit: Capital Contributions		
<Gov-wide entry to report capital outlay and contributed capital asset (revenue) for fiscal year.>		
Debit: X2OUTLY Capital Outlay Expenditures		
CREDIT: Depreciation Expense		
CREDIT: Gain/Loss on Capital Asset		
<Gov-wide entry to correct capital outlay expenditures and depreciation expense for capital assets aquired from other state agency.>		

Net Investment in Capital Assets

	Business-Type Activities $	
Total capital assets (Gross)		From Capital Assets note disclosure form
Right to Use Assets		From Capital Assets note disclosure form
Less: Accumulated depreciation		From Capital Assets note disclosure form
Less: Accumulated amortization		From Capital Assets note disclosure form
Net Capital Assets		

Less:

Outstanding principal of capita
pertaining to the reporting unit
were expended for capital purp ... rom Capital Accounting

Outstanding principal balance c
payable, leases, installment pu ... rom Capital Accounting
Unamortized original issue pre ... rom Capital Accounting
Unamortized balance of origina
capital refunding debt ... rom Capital Accounting
Unamortized balance of capital
capital-related debt and capita
a conduit debt associated arra
or public-public partnership ... rom Capital Accounting
rom Capital Accounting

Starting in FY2023 this form is included in the Capital Assets Pre-populated form. Follow the instructions in that form.

Plus:

Unamortized original issue discounts on outstanding capital debt		From Capital Accounting
Unamortized balance of capital-related deferred outflows of resources, such as from "losses" on refunding of outstanding capital debt		From Capital Accounting

Equals: Net investment in capital assets -

Notes

Explanations (not definitions)

a Capital debt and other capital borrowings: These include General Obligation Bonds and Notes, Revenue Bonds and Certificates of Participation.

b Capital purposes: Construction, development, acquisition or improvement of capital assets of the reporting unit

2024

Fiscal Year

Note Disclosure Information
Installment Purchases
Governmental Funds

The obligation created by an installment purchase of governmental funds will be reported in the government-wide statements. The following schedule must be completed for the governmental funds (General Fund, special revenue capital projects, debt service and permanent funds) to determine future installment purchases payments. Please note that the amount of the capital ssets acquired through an installment purchase must *also* be included as a capital asset on the capital asset note disclosure.

SEE INSTRUCTIONS FOR INSTALLMENT PURCHASES BELOW OR SECTION V-15 OF THE GAAP MANUAL

Department/Agency: ______________________ (A)

GAAP Fund Name: ______________________ (B)

GAAP Fund Type: Governmental Funds

Prepared by: ______________________ (C)

Future Minimum Payments - Installment Purchases

Future Fiscal Years		Building Principal	Building Interest	Equipment Principal	Equipment Interest	Total Principal	Total Interest	
-Subsequent Years- First	$					$	$	(D)
Second								(E)
Third								(F)
Fourth								(G)
Fifth								(H)
Sixth thru Tenth Year								(I)
Eleventh thru Fifteenth								(J)
(Insert Additional Lines if Needed)								
Total Minimum Future Payments		Bldg Principal	Bldg Interest	Equip Principal	Equip Interest	Total Principal	Total Interest	(K)
Present Value of Net Minimum Payments	$	PV Bldg Principal		$ PV Equip Principal		$ PV Total Principal		(L)

Please also provide the following information:

The book value of all reported capital assets currently financed through an installment purchase.

		Land and Improvements	Buildings and Improvements	Machinery and Equipment		Total
Gross Capital Assets	$				$	
- Accumulated Depr.	(				)	
= Net Capital Assets	$		$	$	$	

Current Year Interest (the amount of interest paid for the fiscal year ended June 30th) $

For SCO-FRS Use in the Government-wide Entry

Portion of first year's (i.e. subsequent year's) payment attributable to principal $

Portion of first year's (i.e. subsequent year's) payment attributable to interest $

Fiscal Year 2024
Note Disclosure Information
Installment Purchases
Proprietary Funds

The following schedule must be completed for the proprietary funds. Both the asset and liability for installment purchases will be recorded entirely within the proprietary funds. In addition to providing future minimum lease information, agencies must provide the liability at the inception of any new leases.

SEE INSTRUCTIONS FOR INSTALLMENT PURCHASES BELOW OR SECTION V-15 OF THE GAAP MANUAL

Department/Agency: ______________________ (A)

GAAP Fund Name: ______________________ (B)

GAAP Fund Type (Indicate one): Enterprise Fund *or* Internal Service Fund (C)

Prepared by: ______________________ (D)

Future Minimum Lease Payments - Installment Purchases

Future Fiscal Years	**Building Principal**	**Building Interest**	**Equipment Principal**	**Equipment Interest**	**Total Principal**	**Total Interest**	
-Subsequent Years- First	$				$	$	(E)
Second							(F)
Third							(G)
Fourth							(H)
Fifth							(I)
Sixth thru Tenth Year							(J)
Eleventh thru Fifteenth (Insert Additional Lines if Needed)							(K)
Total Minimum Future Payments	Bldg Principal	Bldg Interest	Equip Principal	Equip Interest	Total Principal	Total Interest	(L)
Present Value of Net Minimum Payments	$ NPV Buildings		$ NPV Equipment		$ NPV Total		(M)

Please also provide the following information:

The book value of all reported capital assets currently financed through an installment purchase.

	Land and Improvements	**Buildings and Improvements**	**Machinery and Equipment**	**Total**
Gross Capital Assets				$
- Accumulated Depr.	(		)	
= Net Capital Assets $		$	$	$

New Installment Purchases in the Current Fiscal Year (Needed for the Changes In Long Term Liabilities Note Disclosure)

For all new installment purchases entered into during this fiscal year, please provide the Present Value of Net Minimum Payments (prior to any payments) $

Check the appropriate box:

☐ Government-wide Statements

☐ Fund Statements (with roll-up to Govt-wide)

2024

Note Disclosure Information

Accounting Changes and Error Correction Adjustments - General Fund and/or Government-wide Adjustments

Fund: ______________________________

Agency: ______________________________

To assist in disclosing the effects of adjustments on beginning fund equity and the financial operations of the preceding year, please complete this form for accounting changes and error correction. GASB Statement No.100, Accounting Changes and Error Corrections, an amendment for GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance, prescribes the accounting treatment for the correction of errors and the change in certain accounting principles. Section V-33 of the GAAP Conversion Manual provides additional information.

Note: This form does not take the place of preparing an adjusting entry. The adjusting entry(s) should specifically reference the Accounting Changes and Error Correction Adjustment(s).

* Provide the entry that was missing for last year's ACFR. This is not the entry that will be made this year but what should have been in the prior year.

Note: To ensure proper treatment in the Management Discussion and Analysis (M&DA), agencies must adhere to the accounts used in the financial statements. Agencies should contact SCO-FRS if they have questions about how a fund-level account rolls-up to the government-wide statements.

A. Impact on Prior Year's Operations (attach an additional sheet if needed) :

Accounts affected (Identify specific asset, deferred outflow, liability, deferred inflow, fund balance/net position, revenue or expenditure account)

	Debit	***Credit***
	$ -	$ -
	-	-
	-	-
	-	-
	-	-
	-	-
	-	-
	$ -	**$ -**

B. Please select the reason(s) the change or correction was made, see the Summary of Requirements in the table below for descriptions:

Enter a positive number if the adjustment increases net position/fund balance and a negative if it decreases it

Select $ -

Select $ -

In the box below, provide sufficient information necessary to fully explain the reason for the accounting change or error correction. Typically should be two or three sentences in length and should be written in a format that is publication-ready. (Note: agency descriptions may be modified by SCO-FRS for consistency purposes, etc.)

C. Effect on Beginning of Year Fund Balance (General) or Net Position (Govt-wide) $ -

Agency: ______________________________

Prepared by: ______________________________

GASB 100 Summary of Requirements:

	Change in Accounting Principle	Change in Accounting Estimate	Change to or within the Financial Reporting Entity	Error Correction
Example	GASB 87 or GASB 96	Change to an allowance for accounts receivable based on collection history	Fund becomes major in current year	Not capitalizing a material capital asset
Description	A change in generally accepted accounting principles or implementation of a new GASB Standard.	A change in the *inputs* into an estimate (data, assumptions, or measurement methodologies), due to new circumstances, different information, or more experience.	1) The addition or removal of (a) component unit or (b) fund (moving continuing operations within primary government); 2) change between blended and discrete presentation; or 3) change between major and nonmajor fund.	Error corrections could be mathematical mistakes, misuse of facts or misapplication of accounting principles.
Accounting	Restate beginning net position or fund balance of the current period for the cumulative effect of the change.	Report prospectively in the period in which change occurs.	Adjust the current period's beginning balances.	Restate beginning net position or fund balance of the current period for the cumulative effect of the change.
Disclosures	Identify the nature and reason for the change, affected line items, and the effects on beginning balances. For new pronouncement, identify the new pronouncement.	Identify the nature of the change, affected line items, and the reason (for a change in measurement methodology).	Identify the nature of and reason for the change (except for major/nonmajor) and the effects on beginning balances.	Identify the nature of the error and the correction made, affected line items, the effects on beginning balances, and the effect on the prior period's change in balance had the error not occurred.

2024 ACFR

Note Disclosure Information

Check the appropriate box:

☐ Government-wide Statements

☐ Fund Statements (with roll-up to Govt-wide)

Accounting Changes and Error Corrections - Individual GAAP Funds and/or Government-wide Adjustments

To assist in disclosing the effects of adjustments on beginning fund equity and the financial operations of the preceding year, please complete this form for prior period adjustments. GASB Statement No.100, Accounting Changes and Error Corrections, an amendment for GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance, prescribes the accounting treatment for the correction of errors and the change in certain accounting principles. Section V-33 of the GAAP Conversion Manual provides additional information on accounting changes and error corrections.

Fund: ______________________ **Agency:** ______________________

A. Impact on Prior Year's Operations (attach an additional sheet if needed):

* Provide the entry that was missing for last year's ACFR. This is not the entry that will be made this year but what should have been in the prior year.

Note: To ensure proper treatment in the Management Discussion and Analysis (M&DA), agencies must adhere to the accounts used in the financial statements. Agencies should contact SCO-FRS if they have questions about how a fund-level account rolls-up to the government-wide statements.

Accounts affected (Identify specific asset, deferred outflow, liability, deferred inflow, fund balance/net position, revenue or expenditure account)	***Debit***	***Credit***
	$ -	$ -
	-	-
	-	-
	-	-
	-	-
	-	-
	$ -	**$ -**

B. Impact on Beginning of Year Fund Balance/Net Postition (Fund Statements):

Fund Balance/Net Position, end of prior fiscal year as reported in prior year ACFR
Enter a positive number if the balance was a credit in the financial statements/Negative if it was a debit **$ -**

C. Please select the reason(s) the change or correction was made, see the Summary of Requirements in the table below for descriptions:

Enter a positive number if the adjustment increases net position/fund balance and a negative if it decreases it

Select **$ -**

Select **$ -**

In the box below, please provide sufficient information necessary to fully explain the reason for the accounting change or error correction. Typically should be two or three sentences in length and should be written in a format that is publication-ready. (Note: agency descriptions may be modified by SCO-FRS for consistency purposes, etc.)

Total change or correction amount $ -

Fund Balance/Net Position, beginning of fiscal year, as adjusted $ -

Agency: ______________________

Prepared by: ______________________

GASB 100 Summary of Requirements:

	Change in Accounting Principle	Change in Accounting Estimate	Change to or within the Financial Reporting Entity	Error Correction
Example	GASB 87 or GASB 96	Change to an allowance for accounts receivable based on collection history	Fund becomes major in current year	Not capitalizing a material capital asset
Description	A change in generally accepted accounting principles or implementation of a new GASB Standard.	A change in the inputs into an estimate (data, assumptions, or measurement methodologies), due to new circumstances, different information, or more experience.	1) The addition or removal of (a) component unit or (b) fund (moving continuing operations within primary government); 2) change between blended and discrete presentation; or 3) change between major and nonmajor fund.	Error corrections could be mathematical mistakes, misuse of facts or misapplication of accounting principles.
Accounting	Restate beginning net position or fund balance of the current period for the cumulative effect of the change.	Report prospectively in the period in which change occurs.	Adjust the current period's beginning balances.	Restate beginning net position or fund balance of the current period for the cumulative effect of the change.
Disclosures	Identify the nature and reason for the change, affected line items, and the effects on beginning balances. For new pronouncement, identify the new pronouncement.	Identify the nature of the change, affected line items, and the reason (for a change in measurement methodology).	Identify the nature of and reason for the change (except for major/nonmajor) and the effects on beginning balances.	Identify the nature of the error and the correction made, affected line items, the effects on beginning balances, and the effect on the prior period's change in balance had the error not occurred.

2024 ACFR
Interfund Transfers Reconciliation

Background/Instructions: The total "Interfund Transfers In," as reported by all funds in the ACFR, should reconcile to the total "Interfund Transfers Out" reported. To assist with this overall reconciliation, please provide the information requested below.Additional information on transfers is available in Section V-30 of the GAAP Manual. SCO-FRS staff have reconciled many interfund transfers already. Agencies are responsible for reconciling the remainder and/or making the entries to eliminate them.

Part A. In order to reconcile the "unreconciled" interfund transfers, please indicate, in Part A of this form, the funds to which or from which the unreconciled transfers were made. When completing Part A, also reflect any adjusting entries* you made to the interfund transfer accounts. For "Interfund Transfers Out" reported by your agency, indicate in Column 1 by amount, the GAAP fund(s) that will be reporting the corresponding "Interfund Transfers In." Similarly, for "Interfund Transfers In" reported by your agency, indicate in Column 2, by amount, the GAAP fund(s) that will be reporting the corresponding "Interfund Transfer Out." SCO-FRS will compare these "unreconciled" interfund transfers by GAAP fund and, in those cases where significant variations still exist, will ask agencies to follow-up on the differences.

Part B. The Financial Reporting Section (FRS) has compiled a list of the transaction documents that make up the interfund transfers reported by your agency. FRS staff have been able to reconcile some of these transfers. In Part B-1 of this form, please enter the totals of the reconciled transfers in and out as reported in the "Reconciled" columns on the Transfers Summary Worksheet SCO-FRS provided to you earlier. In Part B-2 please enter the additional transfers reconciled by SCO-FRS and reported on the Trial Balance Worksheet. In Parts B-3 and B-4, please enter the amounts provided to you, if any. Parts B-3 and B-4 amounts are provided after the Trial Balance Worksheets are sent.

* An adjusting entry reflected in "Part A" that reduces a previously recorded "Part B" reconciled transfer amount may not exceed that reconciled amount.

Department/Agency	*GAAP Fund*

Part A - Transfers to be Reconciled by Agencies

GAAP Fund Name and Number	*Column 1* **Interfund Transfers Out**	*Column 2* **Interfund Transfers In**
	If increasing Transfers Out, the amount should be positive (debit). If decreasing Transfers Out, the amount should be negative (credit).	If increasing Transfers In, the amount should be negative (credit). If decreasing Transfers In, the amount should be positive (debit).
General Fund 10000 (Identify by agency):		
Select Business Unit		
Governmental:		
Select Governmental Fund		
Enterprise Funds:		
Select Proprietary Fund		

* *Financial activity not reported on STAR*

Part A - Transfers to be Reconciled by Agencies (Continued)

GAAP Fund Name and Number	*Column 1* **Interfund Transfers Out**	*Column2* **Interfund Transfers In**
	If increasing Transfers Out, the amount should be positive (debit). If decreasing Transfers Out, the amount should be negative (credit).	If increasing Transfers In, the amount should be negative (credit). If decreasing Transfers In, the amount should be positive (debit).
Fiduciary:		
Select Fiduciary Fund		
Part A - Transfers Reconciled by Agencies (sum of the amounts recorded above)		

These amounts must equal the "Unreconciled" amounts reported on the *Transfer Summary Worksheet provided by SCO-FRS, net of any ACFR entries prepared by you to adjust interfund transfers.*

Part B - Transfers Reconciled by the Financial Reporting Section

B-1 Amounts equal to the FRS "Reconciled" columns of the Transfer Summary Worksheet.		
B-2 Amounts allocated to Capital Accounting (CA) extracted funds*** based on info provided by CA for:		
Fund 31500		
Fund 36000		
Fund 36300		

** SCO-FRS will provide this information to GAAP funds reporting late transactions, if applicable.

*** GAAP funds with activity extracted from Funds 31500/36000/36300 include: University of Wisconsin System, State Fair Park, Veterans Mortgage Loan Repayment, Veterans Trust, Homes for Veterans, and Facilities Operations and Maintenance. Capital Accounting will provide financial activity reports containing transfer in/out information to GAAP accountants responsible for those funds.

Part C - Totals of Part A & B

For the General Fund the total amounts must equal the transfer amounts reported on the Trial Balance Worksheet, net of the agency composite entry(s) to the interfund transfers accounts. For other funds, these amounts should equal the amounts reported in the fund's financial statements as interfund transfers.

Sum of Parts A and B	$	$

Prepared by: ____________________

* *Financial activity not reported on STAR*

2024 ACFR

Fiscal Year

Intrafund Transfers Reconciliation - General Fund

Background/Instructions: The total "Intrafund Transfers In," as reported by all funds in the ACFR, should reconcile to the total "Intrafund Transfers Out" reported. To assist with this overall reconciliation, please provide the information requested below.Additional information on transfers is available in Section V-30 of the GAAP Manual.

Part A. In order to reconcile the remaining "unreconciled" intrafund transfers, please indicate, in Part A of this form, the agencies to which or from which the unreconciled transfers were made. When completing Part A, also reflect your adjusting entries to the intrafund transfers accounts. For "Intrafund Transfers Out" reported by your agency, indicate in Column 1, by amount, the agency(s) that will be reporting the corresponding "Intrafund Transfers In." Similarly, for "Intrafund Transfers In" reported by your agency, indicate in Column 2, by amount, the agency(s) that will be reporting the corresponding "Intrafund Transfer Out." The Financial Reporting Section will compare these "unreconciled" intrafund transfers by agency and, in those cases where significant variations exist, will notify agencies so they may follow-up on the differences.

Part B. The Financial Reporting Section has compiled a list of the transaction documents that make up the intrafund transfers reported by your agency in the GAAP General Fund. SCO-FRS staff have been able to reconcile some of these transfers. In Part B of this form, please enter the totals of the reconciled transfers in and out. These totals correspond to the amounts reported in the "Reconciled" columns on the Transfers Summary Worksheet.

Department/Agency	***GAAP Fund***

Part A - Transfers to be Reconciled by Agencies

General Fund Agency (Agency #)	*Column 1* **Intrafund Transfers Out**	*Column 2* **Intrafund Transfers In**
	If increasing Transfers Out, the amount should be positive (debit). If decreasing Transfers Out, the amount should be negative (credit).	If increasing Transfers In, the amount should be negative (credit). If decreasing Transfers In, the amount should be positive (debit).
General Fund 100 (Identify by Agency):		
Agriculture, Trade & Consumer Protection (11500)	$	$
Financial Institutions (14400)		
Insurance (14500)		
Public Service Commission (15500)		
Department of Safety and Professional Services (16500)		
State Fair Park Board (19000)		
Wisconsin Economic Development (19200)		
Educational Communications Board (22500)		
Higher Education Aids Board (23500)		
Historical Society (24500)		
Public Instruction (25500)		
Land Information (28900)		
Technical College System Board (29200)		
Environmental Improvement Program (32000)		
Lower Wisconsin Riverway Board (36000)		
Natural Resources (37000)		
Fox River Navigational System Authority (37300)		
Lower Fox River Remediation Authority (37500)		
Tourism (38000)		
Kickapoo Resrv Mgmt Bd. (38500)		
Transportation (39500)		
Department of Corrections (41000)		
Employment Relations Commission (42500)		
Board on Aging and Long-term Care (43200)		
Health Services (43500)		
Children & Families (43300, 43700)		
Board for People with Developmental Disabilities (43800)		
Workforce Development (44500)		
Justice (45500)		
Military Affairs (46500)		
District Attorneys (47500)		

General Fund Agency (Agency #)	*Column 1* **Intrafund Transfers Out**	*Column 2* **Intrafund Transfers In**
	If increasing Transfers Out, the amount should be positive (debit). If decreasing Transfers Out, the amount should be negative (credit).	If increasing Transfers In, the amount should be negative (credit). If decreasing Transfers In, the amount should be positive (debit).
Veterans Affairs (48500)		
Administration (50500)		
Public Lands (50700)		
Elections Commission (51000)		
Ethics Commission (52100)		
Office of the Governor (52500)		
Investment Board (53600)		
Office of the Lt. Governor (54000)		
Office of State Employment Relations (54500)		
Public Defender Board (55000)		
Revenue (56600)		
Secretary of State (57500)		
State Treasurer (58500)		
Circuit Courts (62500)		
Court of Appeals (66000)		
Judicial Commission (66500)		
Judicial Council (67000)		
Senate (76500)		
Assembly (76500)		
Legislative Audit Bureau (76500)		
Legislative Council (76500)		
Legislative Fiscal Bureau (76500)		
Legislative Reference Bureau (76500)		
Legislative Technical Service Bureau (76500)		
Shared Revenue & Tax Relief (83500) - DOR		
Municipal Services (83500, Appn 5xx) - SCO-FRS		
Miscellaneous Appropriations (85500)		
Program Supplements (86500)		
Building Commission (86700)		
Capital Accounting (86700)		
Budget Stabilization (87500)		
Part A - Amount Reconciled by Agency		

These amounts must equal the "Unreconciled" amounts reported on the Transfer Summary Worksheet provided by by SCO-FRS, net of any ACFR entries prepared by the agency to adjust intrafund transfers.

Part B - Transfers Reconciled by the Financial Reporting Section

Part B - Amount Reconciled by SCO-FRS

The amounts entered in this section must equal the "Reconciled" columns of the Intrafund Transfer Summary Worksheet provided by SCO-FRS staff.

PART C - Total Reconciled Amounts

Sum of Reconciled Amounts	$	$

For the General Fund, the total amounts reported must equal the transfer amounts reported on the fund/agency GAAP trial balance reports (i.e. STAR ACTUALS amounts) net of the composite entry you made to the intrafund transfers accounts. Other GAAP funds should not be reporting intrafund transfers, i.e. they should be fully eliminated from the GAAP statements.

Prepared by: ______________________

2024 ACFR

Note Disclosure Information
Commitments

Section 2300.106 (k) of the GASB Codification requires that the Notes to Financial Statements disclose construction and other significant commitments at year end. Refer to Section V - 14 of the of the GAAP Manual for further guidance.

In the space below (or an attached page), please describe commitments that your agency has entered into as of the fiscal year end (include commitments already described on the the subsequent events form).

- **Commitments for Construction Contracts** (other than those administered by the Department of Administration, who will supply required information for such projects.)

Program/Description:
Dollar Amount:

- **Other Commitments** (Describe nature/dollar value of commitment):

Program/Description:
Dollar Amount:

Agency: ____________________

Fund: ____________________

Prepared by: ________

Note Disclosure Information
Subsequent Events

Section 2300.106 (f) of the GASB Codification requires disclosure of significant effects of subsequent events. Please answer the following questions relating to potential subsequent events. Refer to the guidelines in Section V-36 of the "Uniform GAAP Conversion Policies and Procedures Manual" for further guidance. Agencies will have to exercise their best judgement in determining if the underlying cause of an event reported on this form occurred before or after the fiscal year-end. Any "yes" responses should be adequately explained and, in the case of agencies with multiple GAAP funds, the GAAP fund(s) affected should be indicated. Please limit responses to instances of $1.0 million or more.

Click on the box and choose the correct answer

Agency: ______________________________

		YES	**NO**
I.	As of the date you return this form to SCO-FRS are you aware of: a) Any claims against your agency or the programs under its direction which have not been referred to DOA's Bureau of State Risk Management or handled by the State Department of Justice? For example, pollution remediation obligations may have been identified (also see Section V - 42 "Pollution Remediation Obligations" of the Uniform GAAP Conversion Policies and Procedures Manual).	☐	☐
	b) Any unasserted claims that may be asserted in the future to which an unfavorable outcome could result? Describe such claims below or attach additional pages where necessary. Please indicate whether an unfavorable outcome is probable or reasonably possible. If an amount of loss can be reasonably estimated, or a range of loss can be estimated please include those amounts in your explanation. Additional guidance can be found in Section V - 14 "Contingencies" of the "Uniform GAAP Conversion Policies and Procedures Manual".	☐	☐
II.	Are you aware of any event that may have occurred up to and including the date of your response which could have a significant impact on the State even if the State's liability cannot be estimated? If yes, please describe.	☐	☐
III.	Has your agency been a part of any issuance of debt up to and including the date of your response? If yes, please describe the nature of the borrowing.	☐	☐

NOTE: If you become aware of any subsequent event that occurs after you have submitted this form but before the issuance of the ACFR, please inform the Financial Reporting Section.

Subsequent Events

		YES	NO
IV.	Has your agency entered into any financing agreements which require assets to be pledged or otherwise restricted? If yes, please describe.	☐	☐
V.	Has your agency been involved with any early retirement of debt? If yes, please describe	☐	☐
VI.	Has your agency entered into a lease agreement since June 30 of the FY presented up to and including the date of your response? If yes, please describe.	☐	☐
VII.	Are you aware of any outstanding obligations of your agency which will not be met? If yes, please describe.	☐	☐
VIII.	Are you aware of any material amounts of receivables which have become doubtful, delinquent, or uncollectible? If yes, please describe.	☐	☐
IX.	Are you aware of any events which have rendered material amounts of fixed assets obsolete or inoperable? If yes, please describe.	☐	☐
X.	Has your agency been subject to any audits for which there is a possibility of disallowances? If yes, please describe.	☐	☐
XI.	Has your agency made any large or unusual commitments for materials, services or construction? If yes, please describe.	☐	☐

NOTE: If you become aware of any subsequent event that occurs after you have submitted this form but before the issuance of the ACFR, please inform the Financial Reporting Section. ☐ ☐

Signed: ______________________________

2024 ACFR

Analysis of Major Changes in Account Balances to be Discussed in MD&A

Background: The information to be provided in this form primarily relates to activity of the General Fund. Accountants need not provide this information for other governmental GAAP funds unless requested by SCO-FRS staff. In the case of the General Fund, it is unlikely that any change less than $50 or $100 million dollars is going to be significant. Referring to the prior year General Fund statements and MD&A in the ACFR will provide a useful reference on determining what may be significant for the General Fund.

The Governmental Accounting Standards Board requires that the Management Discussion and Analysis (MD&A) provide an analysis of the government's overall financial position and results of operations to assist in assessing whether financial position has improved or deteriorated as a result of the year's operations. This analysis should include reasons for significant changes from the prior year. In addition, important economic factors that significantly affected operating results for the year should be discussed.

The MD&A should also include an analysis of balances and transactions of individual funds that address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

Please describe below (or on an attached sheet):

- o Any signficant changes in your agency's accounts balances and the reasons for these changes, including economic factors. *(Please indicate the fund(s) involved.)*
- o Any restrictions, commitments, or other limitations that will significantly affect the availability of fund resources for future use. *(Please indicate the fund(s) involved.)*

Descriptions provided by agencies should not be "broad" or "general" in scope but should provide sufficient information necessary to fully explain the reason for the change in account balance. They typically should be two or three sentences in length and should be written in a format that is publication-ready. (Note: agency descriptions may be modified by SCO-FRS for consistency purposes, etc.)

Agency: ______________________ -

Agency Contact: ______________________ - **Phone:** - ______________

2024 ACFR

Currently Known Facts, Decisions, or Conditions to be Discussed in MD&A

GASB 34 requires that a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets/position) or results of operations (revenue, expenses, and other changes in nets assets/position) be disclosed in the MD&A. For purposes of MD&A, "currently known facts" are information that management is aware of as of the date of the auditor's report.
Examples of currently know facts, decisions or conditions to be discussed in the MD&A are provided in Sub-section V - 40 of the GAAP Conversion Accounting Manual.

Please describe below (or on an attached sheet) the fact, decision, or condition that should potentially be disclosed in the MD&A.

Agency: ______________________________ -

Agency Contact: ______________________________ - **Phone:** - ______________________________

Note Disclosure Information
Pollution Remediation Obligations

2024 ACFR

Back to start

Agency: ______________ **GAAP Fund Name:** ______________________________

Based on GASB Statement 49, for recognized pollution remediation liabilities and recoveries of pollution remediation outlays, the following disclosures should be made:
a. The nature and source of pollution remediation obligations (location, cause, law requiring clean up if applicable, etc.)
b. The amount of the estimated liability, the methods and assumptions used for the estimate, and the potential for changes due to, for example, price increases or reductions, technology, or
c. Estimated recoveries reducing the liabilities.
Under SCO-FRS guidelines, only polluted sites with estimated cleanup costs $1.0 million or greater need to be recorded and disclosed.
If a pollution remediation liability *cannot* be reasonably estimated but is expected to exceed $1.0 million, a general description of the nature of the remediation activity should be disclosed.
Note: The information provided in this note disclosure should correspond with the entries made at the fund or government-wide level except for those obligations that could not be reasonably estimated. In that case, only a disclosure will be made.

PART 1 - To be completed by Agency GAAP Accountants
Agency-Managed Construction Projects with Pollution Remediation as of June 30:

Estimated Outlay as of June 30	Project Name/Description			Nature & Source of Obligation	Methods, Assumptions & Potential for changes	Estimated Recovery Amount and Source

PART 2 - To be completed by Agency GAAP Accountants
Other Pollution Remediation Obligations as of June 30 (per discussion with legal counsel, management, etc.):

Estimated Outlay as of June 30				Nature & Source of Obligation	Methods, Assumptions & Potential for changes	Estimated Recovery Amount and Source

PART 3 - To be completed by Capital Accounting
DOA Capital Accounting Projects with Pollution Remediation as of June 30:

Estimated Outlay as of June 30	Project Name Description	Project Number:	Project Classification:	Nature & Source of Obligation	Methods, Assumptions & Potential for changes	Estimated Recovery Amount and Source
0	**Total Liability Reported**					

Part 4 - Reconcilation of Pollution Remediation Obligations (to be completed by Agency for use in the ACFR note disclosure):

Beginning Liability		From prior year statements
Payments Made During the Fiscal Year (reductions)		(enter as a negative)
Subtotal	-	calculated amount
Additions to Liability Identified During the Fiscal Year		(enter as a positive unless the estimated remaining amount is less than anticipated in prior year)
End Remediation Obligation	-	calculated amount that should match the ending liability per the gov-wide entry submitted

2024 ACFR
Footnote Disclosure Information -- Investments

Fund Name: ______________________________

Fund Number: ______________________________ **Accountant:** ______________________________

Agency Name: ______________________________ **Date:** ______________________________

PART A: Investments *Reported As Cash Equivalents* on the Statement of Net Position or Balance Sheet:

	(A) Reported Amount (Fair Value)	(B-1) Insured or Held in the State's Name	(B-2) Uninsured, Unregistered Securities Held by the Counterparty **Pick One** if applicable	(C) Valuation Techniques and level of inputs *(some common defaults preselected, change if needed)*	(D) Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
	Gross Amount	**Custodial Credit Risk**		**Fair Value Technique**	**Maturity on Debt Securities** (for Interest Rate Risk) (1)			
U.S. Government & U.S. agency securities	$	$		**Pick One** if applicable	$	$	$	$
State and municipal bonds and notes				**Pick One** if applicable				
Stocks				Market quote on broker statement	N/A (3)	N/A (3)	N/A (3)	N/A (3)
Commercial paper				**Pick One** if applicable				
Corporate notes and bonds				**Pick One** if applicable				
Mortgage loans				**Pick One** if applicable				
Negotiable cert. of deposit (VERY RARE)				Pick One if applicable				
Bankers acceptances				Pick One if applicable				
Repurchase agreements				Pick One if applicable			N/A (3)	N/A (3)
Mortgage-backed securities				**Pick One** if applicable				
Collateralized investment contracts				**Pick One** if applicable				
Money market funds		N/A (2)	N/A (2)	Mutual Fd. Net Asset Val. (NAV)				
Exchange Traded Funds		N/A (2)	N/A (2)	Mutual Fd. Net Asset Val. (NAV)				
Mutual funds - open-ended		N/A (2)	N/A (2)	Mutual Fd. Net Asset Val. (NAV)				
Mutual funds -- closed-ended				Market quote on broker statement				
Guaranteed investment contracts		N/A (2)	N/A (2)	**Pick One** if applicable				
Forward delivery agreements				**Pick One** if applicable				
Limited partnerships				**Pick One** if applicable	N/A (3)	N/A (3)	N/A (3)	N/A (3)
Real Estate				**Pick One** if applicable	N/A (3)	N/A (3)	N/A (3)	N/A (3)
Other 1 - (Specify ________________)				Market quote on broker statement				
Other 2 - (Specify ________________)				**Pick One** if applicable				
Total Part A	$ 0 (E)	$ 0	$ 0		$ 0	$ 0	$ 0	$ 0

(1) Used to disclose interest rate risk if following the "Segmented time distribution method". If fund investment manager used one of the other four methods prescribed by GASB 40, please contact SCO-FRS.

(2) Not required to be categorized in note disclosure. Per GASB 40, custodial credit risk does not apply to these investment types.

(3) Not applicable - not a debt security. Please review the nature of the other investments to determine whether they are a debt security.

PART B: Investments Reported As Investments on the Statement of Net Position or Balance Sheet:

	Gross Amount: (A) Reported Amount (Fair Value)	Custodial Credit Risk: (B-1) Insured or Held in the State's Name	Custodial Credit Risk: (B-2) Uninsured, Unregistered Securities Held by the Counterparty **Pick One** if applicable	Valuation: (C) Valuation Techniques and level of inputs *(some common defaults preselected, change if needed)*	Maturity on Debt Securities (for Interest Rate Risk) (1): (D) Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
U.S. Government & Agency securities	$	$	$	**Pick One** if applicable	$	$	$	$
U.S. Govt. TIPS (Treas. Inflation Prot. Sec.)				**Pick One** if applicable				
State and municipal bonds and notes				**Pick One** if applicable				
Stocks				Market quote on broker statement	N/A (3)	N/A (3)	N/A (3)	N/A (3)
Commercial paper				**Pick One** if applicable				
Corporate notes and bonds				**Pick One** if applicable				
Mortgage loans				**Pick One** if applicable				
Negotiable cert of deposit (Very Rare)				**Pick One** if applicable				
Bankers acceptances				**Pick One** if applicable				
Repurchase agreements				Pick One if applicable				
Mortgage-backed securities				**Pick One** if applicable				
Collateralized investment contracts				**Pick One** if applicable				
Money market funds		N/A (2)	N/A (2)	Mutual Fd. Net Asset Val. (NAV)				
Exchange Traded Funds		N/A (2)	N/A (2)	Market quote on broker statement				
Mutual funds -- open-ended		N/A (2)	N/A (2)	Mutual Fd. Net Asset Val. (NAV)				
Mutual funds -- closed-ended				Market quote on broker statement				
Guaranteed investment contracts		N/A (2)	N/A (2)	**Pick One** if applicable				
Forward delivery agreements				**Pick One** if applicable				
Limited partnerships				**Pick One** if applicable	N/A (3)	N/A (3)	N/A (3)	N/A (3)
Real Estate				**Pick One** if applicable	N/A (3)	N/A (3)	N/A (3)	N/A (3)
External Investment Pool				**Pick One** if applicable				
Other 1 (Specify __________________):				**Pick One** if applicable				
Other 2 (Specify __________________):				**Pick One** if applicable				
Total Part B	$ 0	$ 0	$ 0		$ 0	$ 0	$ 0	$ 0
	(E)							
Add: Investments included in Cash Deposits Disclosure								
	(F)							
TOTAL	0	$ 0	$ 0		$ 0	$ 0	$ 0	$ 0
	(G)							

(1) Used to disclose interest rate risk if following the "Segmented time distribution method". If fund investment manager used one of the other four methods prescribed by GASB 40, please contact SCO-FRS.

(2) Not required to be categorized in note disclosure. Per GASB 40, custodial credit risk does not apply to these investment types.

(3) Not applicable - not a debt security. Please review the nature of the other investments to determine whether they are a debt security.

Part C. Providing Other Investment Disclosure Information Needed

1. Please go to **Attachment A** "Credit Ratings" to provide information related to investment credit ratings for disclosure in the notes to financial statements.

2A. Did this fund hold investments in foreign investments at year-end? [ ] Click within the box to choose Yes or No. If yes, answer Question 2B. If no, go to Question 3.

2B. Are these investments denominated in a foreign currency? (*Investments in mutual funds that simply hold a percent in foreign investments denominated in US dollars should not be reported.*)

[ ] Choose Yes or No. If yes, please complete **Attachment B** "Foreign Currency Investments". If no, do not complete Attachment B.

3. Please go to **Attachment C** "Concentration of Credit Risk" to help determine whether this fund held investments that potentially are 5% or more of total investments (which suggests a concentration of credit risk).

4. Did this fund have any debt investments (including mutual funds)? [ ] Indicate Yes or No. If yes, complete **Attch. D** "Interest Rate Risk" to determine if highly sensitive to interest rate changes. If no, do not skip Attch D.

5. Please complete **Attachment E** "Investment Policy" to identify any formal policies (such as those found in bond covenants) that governed the investments in this fund, including policies relating to the types of risks covered in GASB 40. Attachment E also asks about Fair Value techniques and inputs to the valuation techniques as required by GASB Statement 72.

Attachment A Investment Disclosure - Credit Ratings by Investment Types

Please provide breakdown of total fair value by credit rating. *(Attach additional pages if necessary.)* ---------------->

---- Use these additional columns if an investment type has investments with more than one rating --

	Total Fair Value (from investment form)	Related Credit Rating Fair Value	S&P	Moodys	Fitch	Unrated	Related Credit Rating Fair Value	S&P	Moodys	Fitch	Unrated	Related Credit Rating Fair Value	S&P	Moodys	Fitch	Unrated
Example:																
Municipal bonds	10,000,000	8,000,000	AAA	Aaa	AAA		2,000,000	AA	Aa	AA						
Corporate notes and bonds	3,000,000	2,500,000	AA	Aa	None		500,000	AA	A	AA						
Repurchase agreements *(in this example, the underlying securities are U.S. Treasuries)*	5,000,000	5,000,000				X										
Investment Type:																
U.S. Government & U.S. agency securities:																
o Investments issued or explicitly guaranteed by the U.S. Government (1)	N/A (1)	N/A (1)					N/A (1)					N/A (1)				
o Investments in U.S. government-sponsored independent organizations which are not issued or explicitly guaranteed by the U.S. Government (1)																
State and municipal bonds and notes																
Stocks	N/A (2)	N/A (2)					N/A (2)					N/A (2)				
Commercial paper																
Corporate notes and bonds																
Mortgage loans																
Negotiable certificates of deposit																
Bankers acceptances																
Repurchase agreements																
Mortgage-backed securities																
Collateralized investment contracts																
Money market funds																
Mutual funds -- open-ended																
Mutual funds -- closed ended																
Guaranteed investment contracts																
Forward delivery agreements																
Limited partnerships	N/A (2)	N/A (2)					N/A (2)					N/A (2)				
Real Estate	N/A (2)	N/A (2)					N/A (2)					N/A (2)				
Exchange Traded Funds	N/A (2)	N/A (2)					N/A (2)					N/A (2)				
Other (Specify):																
External Investment Pool																

(1) Typically N/A. Investments issued or explicitly guaranteed by the U.S. Government (e.g., U.S. Treasuries and Ginnie Mae's) are excluded from this analysis. A breakdown by credit rating is not required for these types of investments. However, a breakdown in credit rating is required for the following: Freddie Mac's, Fannie Mae's, Sallie Mae's, the Federal Farm Credit Banks, and the Federal Home Loan Bank System, which are all government-sponsored independent organizations.

(2) Not Applicable. No need to apply credit ratings to these investments.

Attachment B Investment Disclosure - Foreign Currency

Please provide additional information relating to foreign currency investments. *(Attach additional pages if necessary.)* ---------------->

	Total Fair Value In U.S. Dollars	Foreign Currency Denomination #1	Total Fair Value In U.S. Dollars	Foreign Currency Denomination #2	Total Fair Value In U.S. Dollars	Foreign Currency Denomination #3
Example:						
Corporate notes and bonds	150,000	Polish zloty	50,000	Japanese yen	907,080	Vietnamese dong
Municipal bonds	250,000	French franc	12,300	Costa Rican colon		
Investment Type:						
U.S. Government & U.S. agency securities	$ N/A (1)	$ N/A (1)	$ N/A (1)	$ N/A (1)	$ N/A (1)	$ N/A (1)
Stocks						
Commercial paper						
Corporate notes and bonds						
Mortgage loans						
Negotiable certificates of deposit						
Bankers acceptances						
Repurchase agreements						
Mortgage-backed securities						
Collateralized investment contracts						
Money market funds						
Mutual funds -- open-ended						
Mutual funds -- closed-ended						
Guaranteed investment contracts						
Forward delivery agreements						
Limited partnerships						
Real Estate						
Exchange Traded Funds						
Other (Specify):						

14

(1) Not applicable U.S. government and agency securities are denominated in US dollars

Attachment C Investment Disclosure - Concentration of Credit Risk

Part A. Determine Total Amount of Investments Subject to Concentration of Credit Disclosure Consideration

Required Level of Detail --->

	State Investment Pool	All Funds except Fiduciary	Wisconsin Retirement System	Other Fiduciary
Total Investments reported in Fund *(from Page I2 of Investment Form)*	$	$	$	$
Less Exclusions:	Information to be obtained from SWIB through other documentation		Information to be obtained from SWIB through other documentation	
Investments issued by or explicitly guaranteed by the U.S. government				
Investments in mutual funds and exchange traded funds.				
Investments in money market funds				
External investment pools and other pooled investments				
Other investments for which the underlying security relates to one of the exclusions listed above: *(please identify)*				
Total Investments Requiring Issuer Information *(Fill in Part B)*	$	$ (1)	$	$ (1)

Part B. List Remaining Issuer(s) and Amount(s) of Investments (for investments not excluded, above) *(Attach additional sheets, if needed)*

Name of Issuer (If more than 10 issuers, please submit information electronically (in Excel), if at all possible)	**All Funds except Fiduciary -- Fair Value**	**Other Fiduciary -- Fair Value**
Example:		
XYZ Corporation	$ 450,000	$
City of ABC, Wisconsin	800,000	
	$	$
Total Investments Requiring Issuer Information	$ (1)	$ (1)

(1) The "Total Investments Requiring Issuer Information" in Parts A and B, above, must agree.

I 5

Attachment D Investment Disclosure - Fair Value Highly Sensitive to Interest Rate Changes

GASB 40, Para, 16 requires a government to disclose the terms of debt investments that may cause the fair value of the investments to be *highly sensitive* to interest rate changes. For example, the effects of coupon multipliers, benchmark indexes, reset dates, embedded options, a cap, a floor, or a combination of the two (i.e. a collar) should be considered in determining if an investment is highly sensitive to changes in interest rates.

Did this fund have any investments whose fair value is highly sensitive to interest rate changes?

Click within the box to choose Yes or No. If yes, please provide information describing the terms and the fair values.

Terms to disclose include such information as the following:
- Coupon multipliers
- Benchmark indexes
- Reset dates
- Embedded options.

The following types of investments suggest an investment with fair values that are highly sensitive to interest rate changes, which would require disclosure of terms:
- Asset backed securities, including:
  - --> Fannie Mae's
  - --> Ginnie Mae's
  - --> Freddie Mac's

- Various other investments, including:
  - --> Structured notes
  - --> Step up notes and bonds
  - --> Variable-rate investments with coupon multipliers
  - --> Coupons that vary inversely with a benchmark index.
- Collateralized mortgage obligations (CMOs), depending on the type of tranche held:
  Those typically highly sensitive to interest rate changes:
  - --> Interest-only tranches
  - --> Most principal-only (PO) tranches
  - --> Principal-only (PO) tranches

  Those **not** typically highly sensitive to interest rate changes:
  - --> Certain tranches of collateralized mortgage obligations (CMO's).
    - -- Planned amortization class (PAC) tranches
    - -- Certain target amortization class (TAC) tranches
    - -- Sequential-pay CMO tranches.
- Variable rate investments with a multiplier
- Variable rate investments with a coupon that varies inversely with a benchmark index.

Attachment E Investment Disclosure - Investment Policy

GASB Statement No. 40 requires that a government disclose all of its formal policies relevant to each of the different types of risks (credit, interest rate, foreign currency, etc.), but only for those types of risks faced by the State. Further, GASB 40 requires that if the State does not, in fact, have a policy that covers one or more of the risks, it must disclose that fact.

For each of the policy-related questions listed below, please indicate either "yes" or "no". In addition, for Question 1, please provide a general description of the investment types authorized and the conditions under which your fund can make investment transactions, if applicable. The significant methods and assumptions used to estimate the fair value of land and real estate held as investments should also be discussed in Question 1, if applicable. In the space after question 2, list the custodian or pricing service used for determining fair value, as well as any special valuation technique as well the level of inputs used in applying that technique. For each type of risk identified in Questions 3 through 5, please describe your funds' investment policies related to these risks, if applicable. For further guidance, see attached instrutions and illustrations.

1. **General Investment Policy.** Did this fund have a general policy covering investments? **Select Yes/No**

2. **Investment Valuation Techniques & Inputs.** Does this fund utilize any investment valuation techniques other than the market approach with level one quoted prices from active markets for identical assets? If 'yes', describe below. Also, provide the name of the custodian (banks, brokerages) or pricing agency which has provided the price quotes or account statements relied on for fair value determination purposes. **Select Yes/No**

3. **Credit Risk of Debt Securities Including Concentration of Credit Risk.** Did this fund have a policy covering credit risk of debt securities, including concentration of credit risk? **Select Yes/No**

4. **Interest Rate Risk.** Did this fund have a policy covering interest rate risk? **Select Yes/No**

5. **Foreign Currency Risk.** Did this fund have a policy covering foreign currency risk? **Select Yes/No**

Classified Statement of Net Position - Proprietary Funds

June 30, 2024

Fund Name: -

Assets and Deferred Outflows of Resources

Current Assets:		
Cash and Cash Equivalents	$	
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Veterans Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due from Other Funds		
Due from Component Units		
Interfund Receivables		
Due from Other Governments		
Inventories		
Prepaid Items		
Advances to Other Funds		
Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Other Assets		
Total Current Assets		0.00
Noncurrent Assets:		
Investments		
Receivables (net of allowance for uncollectibles):		
Loans to Local Governments		
Other Loans:		
Student Loans		
Veterans Loans		
Mortgage Loans		
Insurance Policy Loans		
Other Receivables		
Due from Other Governments		
Prepaid Items		
Advances to Other Funds		
Leases Receivable - Component Units		
Restricted and Limited Use Assets:		
Cash and Cash Equivalents		
Net Pension Assets NPA		
OPEB Asset (Life + SHICC)		
Right To Use Assets		
Accumulated Amortization		
Depreciable Capital Assets		
Accumulated Depreciation		
Nondepreciable Capital Assets *(includes Construction in Progress)*		
Other Assets		
Total Noncurrent Assets		0.00
Total Assets		0.00
Deferred OUTFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Pension Subsequent Contributions		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Life OPEB Subsequent Contributions		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
Health OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Subsequent Amounts Paid		
SHICC OPEB Difference in Investment Earnings		
Asset Retirement Obligations		
Advance to Recipient(s) by State (only time requirement remains)		
Loss on Debt Refunding		
Accumulated Decrease in Fair Value of Hedging Derivatives		
Other		
Total Deferred Outflows of Resources		0.00
Total Assets and Deferred Outflows of Resources		0.00

A classified statement of net position for proprietary funds will be created from the STAR CAFR ledger for those accountants uploading ACFR adjusting journals.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.

Agencies may not sum all types of Deferred Inflows of Resources or Deferred Outflow of Resources and present them on one line. Rather, each detailed type of deferred inflow and deferred outflows must be presented separately to allow SCO-FRS to develop related note disclosures.

Similarly, assets and liabilities should not be combined e.g. do not combine NPL, OPEBs and Comp Abs together. They are reported on their own lines in the ACFR.

F3

Classified Statement of Net Position - Proprietary Funds

June 30, 2024

Fund Name: -

Liabilities, Deferred Inflows of Resources, and Fund Equity

Current Liabilities:		
Accounts Payable and Other Accrued Liabilities	$	
Due to Other Funds		
Due to Component Units		
Interfund Payables		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Interest Payable		
Advances from Other Funds		
Advance from Federal Government		
Short Term Notes Payable (Commercial Paper)		
Current Portion of Long-term Liabilities:		
Future Benefits and Loss Liabilities		
Leases/SBITAs		
Installment Contracts Payable		
Compensated Absences COMP ABS		
General Obligation Bonds Payable		
Revenue Bonds and Note Payable		
Total Current Liabilities		0.00
Noncurrent Liabilities:		
Accounts Payable and Other Long-term Liabilities		
Due to Other Governments		
Tax and Other Deposits		
Unearned Revenue		
Advances from Other Funds		
Advance from Federal Government		
Noncurrent Portion of Long-term Liabilities:		
Future Benefits & Loss Liabilities		
Leases/SBITAs		
Installment Contracts Payable		
Compensated Absences COMP ABS		
Net Pension Liability NPL		
Other Postemployment Benefits OPEBs (Health + Life + SHICC)		
Asset Retirement Obligations		
General Obligation Bonds Payable		
Revenue Bonds and Notes Payable		
Total Noncurrent Liabilities		0.00
Total Liabilities		0.00
Deferred INFLOWS of Resources (Must present each line separately):		
Pension Difference in Actual Experience		
Pension Change of Assumptions		
Pension Difference in Investment Earnings		
Pension Change in Proportionate Share		
Life OPEB Difference in Actual Experience		
Life OPEB Change of Assumptions		
Life OPEB Difference in Investment Earnings		
Life OPEB Change in Proportionate Share		
Health OPEB Difference in Actual Experience		
Health OPEB Change of Assumptions		
Health OPEB Change in Proportionate Share		
SHICC OPEB Difference in Actual Experience		
SHICC OPEB Change of Assumptions		
SHICC OPEB Change in Proportionate Share		
SHICC OPEB Difference in Investment Earnings		
Gain on Debt Refunding		
Advance Received by State (only time requirement remains)		
Accumulated Increase in Fair Value of Hedging Derivatives		
Other		
Total Deferred Inflows of Resources		0.00
Net Position:		
Net Investment in Capital Assets		
Restricted for Unemployment Compensation		
Restricted for Environmental Improvement		
Restricted for Expendable Trusts		
Restricted for Nonexpendable Trusts		
Restricted for Net Pension Asset & OPEB		
Restricted for Future Benefits		
Restricted for Other Purposes		
Unrestricted		
Total Net Position		0.00
Total Liabilities and Net Position	$	0.00

F3

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds At June 30, 2024

Fund Name: -

Operating Revenues:		
Charges for Goods and Services	$	
Participant and Employer Contributions		
Investment and Interest Income		
Miscellaneous		
Total Operating Revenues		
Operating Expenses:		
Personal Services		
Supplies and Services		
Lottery Prize Awards		
Depreciation		
Benefit Expense		
Interest Expense		
Other Expenses		
Total Operating Expenses		-
Operating Income (Loss)		-
Nonoperating Revenues (Expenses):		
Operating Grants		
Investment and Interest Income		
Gain (Loss) on Disposal of Capital Assets		
Interest Expense		
Gifts and Donations		
Miscellaneous Revenues		
Other Expenses:		
Property Tax Credits		
Grants Disbursed		
Federal Settlement		
Other		
Total Nonoperating Revenues (Expenses)		-
Income (Loss) Before Contributions and Transfers		-
Capital Contributions		
Additions to Endowments		
Transfers In		
Transfers Out		
Payments to Primary Government		
Net Income before Extraordinary Items		-
Extraordinary Items:		
Gain on Sale of Investment Bonds		
Gain (Loss) from Extinguishment of Debt		
Gain on Casualty Settlement		
Net Change in Net Position		-
Total Net Position, Beginning of Year		
Total Net Position, End of Year	$	-

Operating statements for proprietary funds will be created from the STAR CAFR ledger if agencies use the CAFR journal uploader to upload their adjusting entries.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.

F4

Statement of Cash Flows for Fiscal Year Ended June 30, 2024

Fund Name: -

Cash Flows from Operating Activities:		
Cash Receipts from Customers	$	
Cash Payments to Suppliers for Goods and Services		
Cash Payments to Employees for Services		
Cash Payments for Lottery Prizes		
Cash Payments for Loans Originated		
Collection of Loans		
Interest Income		
Cash Payments for Benefits		
Other Operating Revenues		
Other Operating Expenses		
Other Sources of Cash		
Other Uses of Cash		
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Noncapital Financing Activities:		
Operating Grants Receipts		
Grants Disbursed		
Proceeds from Issuance of Debt		
Repayment of Bonds and Notes		
Escrow Deposit		
Interest Payments		
Property Tax Credit Payments		
Noncapital Gifts and Grants		
Interfund Loans Received *(Lendee - s/b positive)*		
Interfund Loans Repaid *(Lendee - s/b negative)*		
Interfund Borrowings to Other Funds *(Lender - s/b negative)*		
Repayment of Interfund Borrowings *(Lender - s/b positive)*		
Interfund Advances Collected *(Lender - s/b positive)*		
Transfers In		
Transfers Out		
Other Cash Inflows from Noncapital Financing Activities		
Other Cash Outflows from Noncapital Financing Activities		
Net Cash Provided (Used) by Noncapital Financing Activities		-
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Issuance of Debt		
Capital Contributions		
Repayment of Bonds and Notes		
Interest Payments		
Interfund Advances Repaid *(Lendee - s/b negative)*		
Transfers In *(Transfer for acquiring, constructing or improving capital assets)*		
Lease/SBITA Obligations		
Proceeds from Sale of Capital Assets		
Payments for Purchase of Capital Assets		
Other Cash Inflows from Capital Financing Activities		
Other Cash Outflows from Capital Financing Activities		
Net Cash Provided (Used) by Capital and Related Financing Activities		-
Cash Flows from Investing Activities:		
Proceeds from Sale and Maturities of Investment Securities		
Purchase of Investment Securities		
Cash Payments for Loans Originated		
Collection of Loans		
Investment and Interest Receipts		
Net Cash Provided (Used) by Investing Activities		-
Net Increase (Decrease) in Cash and Cash Equivalents		-

The STAR CAFR ledger will not create a statement of cash flows for proprietary funds. Rather, agencies must use their own internal processes to develop that statement.

The accounts the agency uses in the statement of cash flows must be consistent with this presentation used for the State's ACFR.

F5

Statement of Cash Flows for Fiscal Year Ended June 30, 2024

Fund Name:		-		
Net Increase (Decrease) in Cash and Cash Equivalents		-		
Cash and Cash Equivalents, Beginning of Year				
Cash and Cash Equivalents, End of Year	$	-		
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:				
Operating Income (Loss)	$			
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation				
Amortization				
Provision for Uncollectible Accounts				
Operating Income (Investment Income) Classified as Investing Activity				
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity				
Miscellaneous Nonoperating Income (Expense)				
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:				
Decrease (Increase) in Receivables				
Decrease (Increase) in Due from Other Funds				
Decrease (Increase) in Due from Component Units				
Decrease (Increase) in Due from Other Governments				
Decrease (Increase) in Inventories				
Decrease (Increase) in Prepaid Items				
Decrease (Increase) in Net Pension Assets				
Decrease (Increase) in Postemployment Benefit Asset				
Decrease (Increase) in Other Assets				
Decrease (Increase) in Deferred Outflows of Resources				
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities				
Increase (Decrease) in Due to Other Funds				
Increase (Decrease) in Due to Component Units				
Increase (Decrease) in Due to Other Governments				
Increase (Decrease) in Tax and Other Deposits				
Increase (Decrease) in Unearned Revenue				
Increase (Decrease) in Interest Payable				
Increase (Decrease) in Future Benefits and Loss Liabiliti				
Increase (Decrease) in Compensated Absences Liability				
Increase (Decrease) in Postemployment Benefit Liability				
Increase (Decrease) in Asset Retirement Obligation Liability				
Increase (Decrease) in Net Pension Liability				
Increase (Decrease) in Deferred Inflows of Resources				
Total Adjustments		-		
Net Cash Provided by Operating Activities	$	-		
Noncash Investing, Capital and Financing Activities:				
Assets Acquired through Leases/SBITA contracts	$			
Amortization of Premium/Discount				
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds				
Lottery Prize Annuity Investment Assumption				
Lottery Prize Annuity Investment Liability				
Net Change in Unrealized Gains and Losses				
Other				

The accounts the agency uses must be consistent with this presentation used for the State's ACFR.

Agencies must separately present the increase (decrease) in Postemployment Benefits, Net Pension liabilities, and compensated absences liabilities. That is why we have separate lines for those accounts.

Conversely, because only one line is presented for deferred outflows of resources in the SOCF, those amounts should be summarized. Similarly, because only one line is presented for deferred inflows of resources, those amounts should also be summarized. *Note*: Deferred outflows and deferred inflows *must* be broken out into detailed lines shown in the balance sheet.

03/19/24 9:31 AM

Statement of Fiduciary Net Position

(For use by all fiduciary fund types)

June 30, 2024

Fund Name: -

A statement of fiduciary net position for fiduciary funds will be created from the STAR CAFR ledger for those accountants uploading ACFR adjusting journals.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.
Agencies may not sum all types of Deferred Inflows of Resources or Deferred Outflow of Resources and present them on one line. Rather, each detailed type of deferred inflow and deferred outflows must be presented separately to allow SCO-FRS to develop related note disclosures.

Similarly, assets and liabilities should not be combined e.g. do not combine NPL, OPEBs and Comp Abs together. They are reported on their own lines in the ACFR.

Assets		
Cash and Cash Equivalents		0.00
Prepaid Items		0.00
Receivables (net of allowance):		
Loans Receivable		
Due from Other Funds		0.00
Other Receivables		0.00
Due from Other Governments		0.00
Total Receivables		0.00
Investments		0.00
Capital Assets		0.00
Other Assets (includes Net Pension and Net Life OPEB)		0.00
Total Assets		0.00
Deferred Outflows of Resources		
Pension Difference in Actual Experience		0.00
Pension Change of Assumptions		0.00
Pension Difference in Investment Earnings		0.00
Pension Change in Proportionate Share		0.00
Pension Subsequent Contributions		0.00
Health OPEB Difference in Actual Experience		0.00
Health OPEB Change of Assumptions		0.00
Health OPEB Change in Proportionate Share		0.00
Health OPEB Subsequent Contributions		
Life OPEB Difference in Actual Experience		0.00
Life OPEB Change of Assumptions		0.00
Life OPEB Difference in Investment Earnings		0.00
Life OPEB Change in Proportionate Share		0.00
Life OPEB Subsequent Contributions		0.00
Total Deferred Outflows		0.00
Assets & Deferred Outflows		0.00
Liabilities		
Accounts Payable		0.00
Tax & Other Deposits		0.00
Due to Other Funds		0.00
Due to Other Governments		0.00
Interfund Payables		0.00
Unearned Revenues		0.00
Future Benefits and Loss Liability		0.00
Net Pension Liability		0.00
Retiree Health OPEB Liability		0.00
Retiree Life OPEB Liability		0.00
Advances from Other Funds		0.00
Total Liabilities		0.00
Deferred Inflows of Resources		
Pension Difference in Actual Experience		0.00
Pension Change of Assumptions		0.00
Pension Difference in Investment Earnings		0.00
Pension Change in Proportionate Share		0.00
Health OPEB Difference in Actual Experience		0.00
Health OPEB Change of Assumptions		0.00
Health OPEB Change in Proportionate Share		0.00
Life OPEB Difference in Actual Experience		0.00
Life OPEB Change of Assumptions		0.00
Life OPEB Difference in Investment Earnings		0.00
Life OPEB Change in Proportionate Share		0.00
Total Inflows Outflows		0.00
Net Position		
Held in Trust or Custody	F6 $	0.00
Liabilities, Deferred Inflows, & Fund Balances		0.00

03/19/24 9:31 AM

Statement of Changes in Fiduciary Net Position -

(For use by all fiduciary fund types)

For the Year Ended June 30, 2024

Fund Name: -

Fund Type:

Additions		
Contributions:		
Other	$	0
Premiums		0
Federal Subsidy		0
Deposits		0
Investment Income		0
Less:		
Investment Expense		0
Net Investment Income		0
Sales Tax Collections for Other Governments		0
Miscellaneous Income		0
Transfer In		0
Total Additions		0
Deductions		
Distributions		0
Benefit Expense		
Administrative Expense		0
Payments of Sales Tax to Other Governments		0
Transfers Out		0
Total Deductions		0
Net Increase (Decrease)		0
Net Position - Beginning of Year		0
Net Position - End of Year	$	0

A statement of changes in fiduciary net position will be created from the STAR CAFR ledger if agencies use the CAFR journal uploader to upload their adjusting entries.

If SCO-FRS permission is granted to an agency to use a non-standard reporting process, agencies must use the accounts as presented in this file to create their statement.

Starting in FY 2020, the agency fund type ceased to exist and was replaced by the custodial fund type. As a result most agency funds became custodial funds and must now produce an ordinary Statement of Changes in Fiduciary Net

F7

Capital Project-Related Entries Submitted to Capital Accounting Section

FY 2024 ACFR - Entries for Capital Accounting

Note: Please use Form CA 8 for establishing accounts payable entries.

These entries are submitted to Capital Accounting for delegated construction projects i.e. those projects funded with 36000 or 36300 funds that are being managed by an agency rather than the DOA Division of Facilities Development. Because financial information is maintained at the agency, Capital Accounting relies on agency GAAP accountants to provide necessary GAAP entries.

Agency: ______________________ **GAAP Fund:** ______________________

Ref.	Account Description	Debit	Credit

If you need to make an entry for Fund 36000/36300 that is *not* an accrual to accounts payable, please use this form. In addition, please complete Form CA 1a providing certain details of the transactions included in your entry. The details provided are used by Capital Accounting to confirm the GAAP fund involved and other relevant information such as whether a project should be capitalized or expensed. The information is ultimately used in the Construction in Progress Report and the GAAP financial statements.

If agencies choose to provide the detailed transaction information using their own report/file, rather than the CA 1a form, at a minimum, DFD project number, transaction id, transaction agency, and transaction number should be included.

Questions regarding these entries should be directed to the Capital Accounting Section.

2024 ACFR - Entries for Capital Accounting

Fiscal Year

Form 1a

If agencies choose to provide the detailed transaction information using their own report/file rather than this form, at a minimum, DFD project number, transaction id, transaction agency, and transaction number should be included.

Agency: ____________ **GAAP Fund:** __________

Ref.	Account Description	Balance Sheet #	Object Code #	Revenue Source #	DFD Project #	Transaction ID	Transaction Agency	Transaction Number	Debit	Credit
	Totals								0.00	0.00

Questions regarding this information/form should be directed to the Capital Accounting Section.

CA 1a

Capital Project-Related Entries Submitted to Capital Accounting Section

2024 ACFR - Accounts Payable Entries for Capital Accounting

Fiscal Year

These entries are submitted to Capital Accounting for delegated construction projects i.e. those projects funded with 36000 or 36300 funds that are being managed by an agency rather than the DOA Division of Facilities Development. Because financial information is maintained at the agency, Capital Accounting relies on agency GAAP accountants to provide necessary GAAP entries.

Agency: ____________________ **GAAP Fund:** ___________________________________

Ref.	Account Description	Debit	Credit	
	All Funds:			
	Entry 1			
	Expenditures *			R
	Capital Outlay Expenditures * ___			
	Accounts Payable *			
	Due to Other Funds *			
	Due to Other Governments *			
	<To record additional accounts payable for goods and			
	services received by fiscal year-end but charged to the			
	next fiscal year per a review of subsequent			
	months' vouchers.>			
	*** Please provide detail on Form 8a.**			
	Entry 2			
	Accounts Payable *			
	Due to Other Funds			
	<To reclassify payables at fiscal year-end that are due			
	to other GAAP funds.>			
	*** Please provide detail on Form 8a.**			
	Entry 3			
	Accounts Payable *			
	Due to Other Governments			
	<To reclassify amounts due to other governmental			
	units at fiscal year-end.>			
	*** Please provide detail on Form 8a.**			

If you need to make an entry for Fund 36000/36300 that is an accrual to accounts payable, please use this form. In addition, please complete Form CA 8a providing certain details of the transactions included in your entry. The details provided are used by Capital Accounting to confirm the GAAP fund involved and other relevant information such as whether a project should be capitalized or expensed. The information is ultimately used in the Construction in Progress Report and the GAAP financial statements.

If agencies choose to provide the detailed transaction information using their own report/file, rather than the CA 8a form, at a minimum, DFD project number, transaction id, transaction agency, and transaction number should be included.

Questions regarding these entries should be directed to the Capital Accounting Section.

2024 ACFR - Entries for Capital Accounting

Fiscal Year

Form 8a

If agencies choose to provide the detailed transaction information using their own report/file rather than this form, at a minimum, DFD project number, transaction id, transaction agency, and transaction number should be included.

Agency: ____________ **GAAP Fund:** __________

Ref	Transaction ID	Transaction Agency	Transaction Number	DFD Project #	Balance Sheet #	Object Code #	Revenue Source #	Debit	Credit
Totals								**0.00**	**0.00**

Questions regarding this information/form should be directed to the Capital Accounting Section.

CA 8a

Adjusting Entries - Taxes FUND LEVEL			
Below are examples of adjusting entries needed for the most common tax accrual and reclassification entries that DOR develops for inclusion in the GAAP General Fund. Adjusting entries are needed to accrue revenues, expenditures, assets, liabilities or deferred inflows/outflows for activity applicable to the fiscal year ended June 30th that was not recorded in the ACTUALS ledger or was not recorded in the correct fiscal year. Under modified accrual accounting, tax revenues are accrued if collected within 60 days after year end. At times reclassification entries are needed to report using accounts appropriate for State ACFR reporting purposes. Changes in the timing of transactions or the accounts used in the ACTUALS ledger should be considered when determining the required ACFR adjusting entries. DOR should also determine adjusting entries for other funds e.g. Fund 21100 or Fund 24800, and provide them to the responsible GAAP accountants.			
Ref.	**Accounts and Entry Description**	**Debit**	**Credit**
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **withholding** revenue for individual income taxes for August 16 to 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **estimated** tax payments for July 1 to August 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **withholding assessments receivable** for August 16 to August 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **assessments receivable** for July 1st to August 31.		
Indiv	Receivable - Taxes		
Income	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for individual income taxes receivable.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **taxes receivable for prior year collection**s for July 1st to August 31.		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record current and prior year **individual** income tax **refund liability.**		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record unpaid **withholding** individual income tax **refund liability for July 1 to September 30.**		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record individual income tax unpaid **refund liabilities for July 1 to December 31.**		
Indiv	Accounts Payable		
Income	Tax Refunds Payable		
	Reclassify individual income tax **refunds** processed during July/August for fiscal year ended June 30 but coded to Accounts Payable		
Corp	Receivable - Taxes		
Income	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **corporate income taxes receivable.**		
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax revenue accruals** for the period July 1 to August 31.		
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax estimated payments received** for the period July 1 to August 31.		
	T1		

Adjusting Entries - Taxes FUND LEVEL			
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax assessments receivable** for the period July 1 to August 31.		
Corp	Revenue - Taxes		
Income	Tax Refunds Payable		
	To record **corporate income tax refund liability.**		
Corp	Revenue - Taxes		
Income	Unearned Revenue - Taxes		
	To record **corporate income unearned tax liability.**		
Sales	Receivable - Taxes		
& Use	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for sales and use taxes receivable.		
Sales	Receivable - Taxes		
& Use	Revenue - Taxes		
	Record **sales and use tax revenue accruals** for the period August 16 to August 31.		
Sales	Receivable - Taxes		
& Use	Revenue - Taxes		
	Record **sales and use tax revenue assessments receivable** for August 16 to August 31.		
Sales	Revenue - Taxes		
& Use	Tax Refunds Payable		
	To record **sales and use tax refund liability**.		
Wine &	Receivable - Taxes		
Beer	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **wine and beer taxes receivable.**		
Wine &	Receivable - Taxes		
Beer	Revenue - Taxes		
	Record **wine and beer tax revenue accruals** for the period August 1 to August 31.		
Wine &	Revenue - Taxes		
Beer	Tax Refunds Payable		
	To record wine and beer **tax refund liability**.		
Liquor	Receivable - Taxes		
	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **liquor taxes receivable.**		
Liquor	Receivable - Taxes		
	Revenue - Taxes		
	Record **liquor tax revenue accruals** for the period July 1 to August 31.		
Liquor	Revenue - Taxes		
	Tax Refunds Payable		
	To record **liquor tax refund** liability.		
Cigarette	Receivable - Taxes		
Tobacco	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **cigarette and tobacco taxes receivable.**		
Cigarett	Receivable - Taxes		
Tobacco	Revenue - Taxes		
	Accrue **cigarette and tobacco tax revenue** for July 1 to August 31.		
Cigarett	Revenue - Taxes		
Tobacco	Tax Refunds Payable		
	To record **cigarette and tobacco tax refund liability.**		
Public	Revenue - Taxes		
Utility	Unearned Revenue		
	A**ccrue public utility tax revenues as unearned revenue liability** for 50% of the May 10, 2016, 50% of the 11/10/16, 50% of the 5/1/2017 and 100% of the 5/10/2017 gross receipts payments.		
	T1		

Adjusting Entries - Taxes FUND LEVEL			
Real Est	Receivable - Taxes		
Transfer	Revenue - Taxes		
	Accrue **real estate transfer fee tax revenue** for August 1 to August 31.		
Real Est	Revenue - Taxes		
Transfer	Tax Refunds Payable		
	To record **real estate transfer tax refund liability.**		
Real Est	Receivable - Taxes		
Transfer	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for real estate transfer **taxes receivable**.		
Motor	Receivable - Taxes		
Fuel	Revenue - Taxes		
	Accrue motor, aviation and alternative fuel tax revenue for August 1 to August 31 for Fund 21100 Transportation.		
Motor	Revenue - Taxes		
Fuel	Tax Refunds Payable		
	To record **motor, aviation and alternative fuel tax refund liability** for Fund 21100 Transportation.		
Motor	Receivable - Taxes		
Fuel	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **motor, aviation and alternative fuel taxes receivable** for Fund 21100 Transportation.		
EDS	Receivable - Taxes		
	Revenue - Taxes		
	Accrue economic development surcharge tax revenue for July 1 to August 31 for Fund 24800.		
EDS	Revenue - Taxes		
	Tax Refunds Payable		
	Accrue economic development surcharge tax refund liability for fund 24800.		
Gift	Receivable - Taxes		
Inherit	Revenue - Taxes		
	Accrue gift and inheritance tax revenue for July 1 to August 31.		
Gift	Revenue - Taxes		
Inherit	Tax Refunds Payable		
	Accrue gift and inheritance tax refund liability.		
Delinquent	Receivable - Taxes		
Taxes	Revenue - Taxes		
	Accrue delinquent tax revenue accruals for August 1 to August 31 for individual withholding, individual income, corporate income, business tax registration, sales and use taxes, and other tax types as necessary		
County	Tax Refunds Payable		
Sales Tax	Due to Other Governments		
	Reclassify county sales taxes due to county governments.		
GASB 54	Unassigned Fund Balance		
	Restricted Fund Balance		
	Reclassify fund balance in CLR or other appropriations to restricted, as appropriate.		
Tax Refund	Tax Relief and Other General Expenditures		
Credits	Tax Refunds Payable Homestead Tax Credit		
	Tax Refunds Payable Farmland Preservation Tax Credit		
	Tax Refunds Payable Jobs Tax Credit		
	Tax Refunds Payable Business Development Tax Credit		
	Tax Refunds Payable Enterprise Zone Jobs Tax Credit		
	Tax Refunds Payable Veterans and Surviving Spouses Tax Credit		
	Tax Refunds Payable Dairy Manufacturing Investment Tax Credit		
	Tax Refunds Payable Film Production Tax Credit		
	Tax Refunds Payable Right of Repayment Tax Credit		
	Tax Refunds Payable Food Processing Tax Credit		
	Tax Refunds Payable Earned Income Tax Credit		
	Tax Refunds Payable Tax Credit - other programs		
	Accrue tax refunds payable for **refundable tax credit** programs		
Illinois	Tax Relief and Other General Expenditures		
Reciprocity	Due to Other Governments		
	Accrue amounts owed to Illinois for the **Illinois Tax Reciprocity** program		
Property	Tax Relief and Other General Expenditures		
Tax Relief	Due to Other Governments		
	Accrue amounts owed to other governments for the s**chool levy tax credit program** (20.835(3)(b) for 100% of credit applicable to school taxing jurisdictions and 50% of the credit applicable to the other taxing jurisdictions.		
Property	Tax Relief and Other General Expenditures		
Tax Relief	Due to Other Governments		
	Accrue amounts owed to other governments for **First Dollar** (20.835(3)(b)) tax relief program for 100% of credit applicable to school taxing jurisdictions and 50% of the credit applicable to the other taxing jurisdictions.		
Shared Rev	Intergovernmental Expenditures		
	Due to Other Governments		
	Accrue 50% of the municipal and county shared revenue (20.835 1(db)), expenditure restraint (20.835 1(e)), and public utility distributions (20.835 1(dm)) programs.		
	T1		

Reversing Entries - Taxes

Below are examples of reversing entries needed for the most common tax entries. Generally, only accrued revenues and expenditures are reversed the next year. SCO-FRS develops the reversing entries for the prior year DOR tax entries for the General Fund. SCO-FRS records a central entry ensuring beginning equity ties out with prior year ending equity. DOR should develop the reversing entries for other GAAP funds for which they determine entries e.g. Fund 21100 or Fund 24800, and provide them to the responsible GAAP accountants.

Ref.	Accounts and Entry Description	Debit	Credit
1	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry individual income tax withholdings August 16 to August 31.		
2	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry individual income tax estimated payments July 1 thru August 31.		
3	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry(s) for individual income withholding assessment receivables August 16 to August 31.		
4	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year tax revenue accrual.		
5	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry for current and prior year individual income tax refund liability		
6	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry for sales and use tax additional accruals for August 16 to August 31.		
7	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry for sales and use tax assessment accruals for August 16 to August 31		
8	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry to accrue sales and use tax refund liability		
9	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrual for wine and beer tax refund liability August 1 to August 31.		
10	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry accrual for wine and beer tax refund liability.		
11	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry accrual for liquor tax revenue July 1 to August 31		
	T2		

Reversing Entries - Taxes			
12	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry accruing liquor tax refund liability		
13	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrual for cigarette tax revenue.		
14	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year cigarette and tobacco products refund liability.		
15	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year corporate tax accruals for revenues July 1 to August 31.		
16	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued corporate estimated tax revenues for July 1 to August 31.		
17	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued corporate assessments receivable for July 1 to August 31.		
18	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued corporate income tax refund liability.		
19	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year unearned corporate income tax revenues.		
20	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year unearned utility tax revenues.		
21	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued Ad Valorem Tax refunds liability.		
22	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued real estate transfer fee revenue for August 1 to August 31.		
23	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued real estate transfer fee refund liability.		
24	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued motor fuel tax revenues for August 1 to August 31 (Fund 21100 entry).		
	T2		

Reversing Entries - Taxes			
25	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued motor fuel refund liability. (Fund 21100 entry)		
26	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accruals for gift and inheritance tax revenue July 1 to August 31.		
27	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accruals for gift and inheritance tax refund liability.		
28	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued delinquent taxes for July 1 to August 31.		
29	Fund Balance - Unassigned		
	Revenue - Security Deposits		
	Reverse prior year entry.		
30	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued economic development surcharge revenues (Fund 24800 entry).		
31	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued economic development surcharge tax refund liability (Fund 24800 entry).		
32	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse entry which adjusted Treasurer's cash (US Bank) and affected accounts at fiscal year end.		
33	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year entries for refundable tax credit accruals such as Homestead, Earned Income, Jobs, Veterans and Surviving Spouses, etc.		
34	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year entries for Illinois Reciprocity program		
35	Fund Balance - Unassigned		
	Intergovernmental Expenditures		
	Reverse prior year accruals for Shared Revenue Program (Municipal and County aids, expenditure restraint, public utility distribution)		
36	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year accruals for **Property Tax Relief** programs (**School Levy** credit and **First Dollar** credit)		

T2

Adjusting Entries - Taxes GASB34 Government Wide			
Below are examples of adjusting entries needed for the most common tax accrual and reclassification entries that DOR develops for inclusion in the government-wide ACFR statements which uses full accrual accounting that extends beyond the 60-day collection period for fund-level statements. At times reclassification entries are needed to report using accounts appropriate for government-wide governmental activities.			
Ref.	**Accounts and Entry Description**	**Debit**	**Credit**
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **withholding** revenue for individual income taxes for August 16 to 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **estimated** tax payments for July 1 to August 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **withholding assessments receivable** for August 16 to August 31.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **assessments receivable** for July 1st to August 31.		
Indiv	Receivable - Taxes		
Income	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for individual income taxes receivable.		
Indiv	Receivable - Taxes		
Income	Revenue - Taxes		
	Record individual income **taxes receivable for prior year collection**s for July 1st to August 31.		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record current and prior year **individual** income tax **refund liability.**		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record unpaid **withholding** individual income tax **refund liability for July 1 to September 30.**		
Indiv	Revenue - Taxes		
Income	Tax Refunds Payable		
	Record individual income tax unpaid **refund liabilities for July 1 to December 31.**		
Indiv	Accounts Payable		
Income	Tax Refunds Payable		
	Reclassify individual income tax **refunds** processed during July/August for fiscal year ended June 30 but coded to Accounts Payable		
Corp	Receivable - Taxes		
Income	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **corporate income taxes receivable.**		
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax revenue accruals** for the period July 1 to August 31.		
	T3		

Adjusting Entries - Taxes GASB34 Government Wide			
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax estimated payments received** for the period July 1 to August 31.		
Corp	Receivable - Taxes		
Income	Revenue - Taxes		
	Record **corporate income tax assessments receivable** for the period July 1 to August 31.		
Corp	Revenue - Taxes		
Income	Tax Refunds Payable		
	To record **corporate income tax refund liability.**		
Corp	Revenue - Taxes		
Income	Unearned Revenue - Taxes		
	To record **corporate income unearned tax liability.**		
Sales	Receivable - Taxes		
& Use	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for sales and use taxes receivable.		
Sales	Receivable - Taxes		
& Use	Revenue - Taxes		
	Record **sales and use tax revenue accruals** for the period August 16 to August 31.		
Sales	Receivable - Taxes		
& Use	Revenue - Taxes		
	Record **sales and use tax revenue assessments receivable** for August 16 to August 31.		
Sales	Revenue - Taxes		
& Use	Tax Refunds Payable		
	To record **sales and use tax refund liability**.		
Wine &	Receivable - Taxes		
Beer	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **wine and beer taxes receivable.**		
Wine &	Receivable - Taxes		
Beer	Revenue - Taxes		
	Record **wine and beer tax revenue accruals** for the period August 1 to August 31.		
Wine &	Revenue - Taxes		
Beer	Tax Refunds Payable		
	To record wine and beer **tax refund liability**.		
Liquor	Receivable - Taxes		
	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **liquor taxes receivable.**		
Liquor	Receivable - Taxes		
	Revenue - Taxes		
	Record **liquor tax revenue accruals** for the period July 1 to August 31.		
	T3		

Adjusting Entries - Taxes GASB34 Government Wide			
Liquor	Revenue - Taxes		
	Tax Refunds Payable		
	To record **liquor tax refund** liability.		
Cigarette	Receivable - Taxes		
Tobacco	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **cigarette and tobacco taxes receivable.**		
Cigarett	Receivable - Taxes		
Tobacco	Revenue - Taxes		
	Accrue **cigarette and tobacco tax revenue** for July 1 to August 31.		
Cigarett	Revenue - Taxes		
Tobacco	Tax Refunds Payable		
	To record **cigarette and tobacco tax refund liability.**		
Public	Revenue - Taxes		
Utility	Unearned Revenue		
	A**ccrue public utility tax revenues as unearned revenue liability** for 50% of the May 10, 2016, 50% of the 11/10/16, 50% of the 5/1/2017 and 100% of the 5/10/2017 gross receipts payments.		
Real Est	Receivable - Taxes		
Transfer	Revenue - Taxes		
	Accrue **real estate transfer fee tax revenue** for August 1 to August 31.		
Real Est	Revenue - Taxes		
Transfer	Tax Refunds Payable		
	To record **real estate transfer tax refund liability.**		
Real Est	Receivable - Taxes		
Transfer	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for real estate transfer **taxes receivable**.		
Motor	Receivable - Taxes		
Fuel	Revenue - Taxes		
	Accrue motor, aviation and alternative fuel tax revenue for August 1 to August 31 for Fund 21100 Transportation.		
Motor	Revenue - Taxes		
Fuel	Tax Refunds Payable		
	To record **motor, aviation and alternative fuel tax refund liability** for Fund 21100 Transportation.		
Motor	Receivable - Taxes		
Fuel	Receivable - Other		
	Reclassify accounts receivable in the ACTUALS ledger to taxes receivable for **motor, aviation and alternative fuel taxes receivable** for Fund 21100 Transportation.		
EDS	Receivable - Taxes		
	Revenue - Taxes		
	Accrue economic development surcharge tax revenue for July 1 to August 31 for Fund 24800.		
	T3		

Adjusting Entries - Taxes GASB34 Government Wide			
EDS	Revenue - Taxes		
	Tax Refunds Payable		
	Accrue economic development surcharge tax refund liability for fund 24800.		
Gift	Receivable - Taxes		
Inherit	Revenue - Taxes		
	Accrue gift and inheritance tax revenue for July 1 to August 31.		
Gift	Revenue - Taxes		
Inherit	Tax Refunds Payable		
	Accrue gift and inheritance tax refund liability.		
Delinquent	Receivable - Taxes		
Taxes	Revenue - Taxes		
	Accrue delinquent tax revenue accruals for August 1 to August 31 for individual withholding, individual income, corporate income, business tax registration, sales and use taxes, and other tax types as necessary		
County	Tax Refunds Payable		
Sales Tax	Due to Other Governments		
	Reclassify county sales taxes due to county governments.		
GASB 54	Unassigned Fund Balance		
	Restricted Fund Balance		
	Reclassify fund balance in CLR or other appropriations to restricted, as appropriate.		
Tax Refund	Tax Relief and Other General Expenditures		
Credits	Tax Refunds Payable Homestead Tax Credit		
	Tax Refunds Payable Farmland Preservation Tax Credit		
	Tax Refunds Payable Jobs Tax Credit		
	Tax Refunds Payable Business Development Tax Credit		
	Tax Refunds Payable Enterprise Zone Jobs Tax Credit		
	Tax Refunds Payable Veterans and Surviving Spouses Tax Credit		
	Tax Refunds Payable Dairy Manufacturing Investment Tax Credit		
	Tax Refunds Payable Film Production Tax Credit		
	Tax Refunds Payable Right of Repayment Tax Credit		
	Tax Refunds Payable Food Processing Tax Credit		
	Tax Refunds Payable Earned Income Tax Credit		
	Tax Refunds Payable Tax Credit - other programs		
	Accrue tax refunds payable for **refundable tax credit** programs		
Illinois	Tax Relief and Other General Expenditures		
Reciprocity	Due to Other Governments		
	Accrue amounts owed to Illinois for the **Illinois Tax Reciprocity** program		
Property	Tax Relief and Other General Expenditures		
Tax Relief	Due to Other Governments		
	Accrue amounts owed to other governments for the s**chool levy tax credit program** (20.835(3)(b) for 100% of credit applicable to school taxing jurisdictions and 50% of the credit applicable to the other taxing jurisdictions.		
Property	Tax Relief and Other General Expenditures		
Tax Relief	Due to Other Governments		
	Accrue amounts owed to other governments for **First Dollar** (20.835(3)(b)) tax relief program for 100% of credit applicable to school taxing jurisdictions and 50% of the credit applicable to the other taxing jurisdictions.		
Shared Rev	Intergovernmental Expenditures		
	Due to Other Governments		
	Accrue 50% of the municipal and county shared revenue (20.835 1(db)), expenditure restraint (20.835 1(e)), and public utility distributions (20.835 1(dm)) programs.		

T3

Reversing Entries - Government Wide GASB34 Taxes			
Below are examples of reversing entries needed for the most common tax entries for Government-wide reporting. Generally, only accrued revenues and expenditures are reversed the next year. SCO-FRS develops the reversing entries for the prior year DOR tax entries for the government-wide reporting. SCO-FRS records a central entry ensuring beginning equity ties out with prior year ending equity.			
Ref.	**Accounts and Entry Description**	**Debit**	**Credit**
1	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry individual income tax withholdings August 16 to August 31.		
2	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry individual income tax estimated payments July 1 thru August 31.		
3	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry(s) for individual income withholding assessment receivables August 16 to August 31.		
4	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year tax revenue accrual.		
5	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry for current and prior year individual income tax refund liability		
6	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry for sales and use tax additional accruals for August 16 to August 31.		
7	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry for sales and use tax assessment accruals for August 16 to August 31		
8	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry to accrue sales and use tax refund liability		
9	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrual for wine and beer tax refund liability August 1 to August 31.		
10	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry accrual for wine and beer tax refund liability.		
11	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year entry accrual for liquor tax revenue July 1 to August 31		
	T4		

	Reversing Entries - Government Wide GASB34 Taxes		
12	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year entry accruing liquor tax refund liability		
13	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrual for cigarette tax revenue.		
14	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year cigarette and tobacco products refund liability.		
15	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year corporate tax accruals for revenues July 1 to August 31.		
16	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued corporate estimated tax revenues for July 1 to August 31.		
17	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued corporate assessments receivable for July 1 to August 31.		
18	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued corporate income tax refund liability.		
19	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year unearned corporate income tax revenues.		
20	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year unearned utility tax revenues.		
21	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued Ad Valorem Tax refunds liability.		
22	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued real estate transfer fee revenue for August 1 to August 31.		
23	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued real estate transfer fee refund liability.		
24	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued motor fuel tax revenues for August 1 to August 31 (Fund 21100 entry).		
	T4		

Reversing Entries - Government Wide GASB34 Taxes			
25	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued motor fuel refund liability. (Fund 21100 entry)		
26	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accruals for gift and inheritance tax revenue July 1 to August 31.		
27	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accruals for gift and inheritance tax refund liability.		
28	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued delinquent taxes for July 1 to August 31.		
29	Fund Balance - Unassigned		
	Revenue - Security Deposits		
	Reverse prior year entry.		
30	Revenue - Taxes		
	Fund Balance - Unassigned		
	Reverse prior year accrued economic development surcharge revenues (Fund 24800 entry).		
31	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse prior year accrued economic development surcharge tax refund liability (Fund 24800 entry).		
32	Fund Balance - Unassigned		
	Revenue - Taxes		
	Reverse entry which adjusted Treasurer's cash (US Bank) and affected accounts at fiscal year end.		
33	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year entries for refundable tax credit accruals such as Homestead, Earned Income, Jobs, Veterans and Surviving Spouses, etc.		
34	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year entries for Illinois Reciprocity program		
35	Fund Balance - Unassigned		
	Intergovernmental Expenditures		
	Reverse prior year accruals for Shared Revenue Program (Municipal and County aids, expenditure restraint, public utility distribution)		
36	Fund Balance - Unassigned		
	Tax Relief and Other General Expenditures		
	Reverse prior year accruals for **Property Tax Relief** programs (**School Levy** credit and **First Dollar** credit)		

T4