

CERTIFICATE

STATE OF WISCONSIN )  
DIVISION OF SECURITIES )ss.  
DEPARTMENT OF FINANCIAL INSTITUTIONS)

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Patricia D. Struck, Administrator, Division of Securities, Department of Financial Institutions, and custodian of the official records of said agency, do hereby certify that the annexed rules under Ch. 551, Wis. Stats., the Wisconsin Uniform Securities Law, relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities, was duly approved and adopted by this agency on October 15, 1996.

I further certify that said copy has been compared by me with the original on file in this agency and that the same is a true copy thereof, and of the whole of such original.

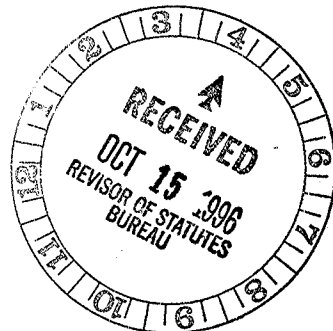
IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Department of Financial Institutions, Division of Securities in the City of Madison, this 15<sup>th</sup> day of October, 1996.

[SEAL]

*u* -

Patricia D. Struck, Administrator  
Division of Securities  
State of Wisconsin

forms/certl frm



FINAL ORDER OF THE  
DIVISION OF SECURITIES  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
STATE OF WISCONSIN  
ADOPTING RULES

To create SEC 2.01(1)(c)5. and SEC 2.01(1)(d)5., Wis. Adm. Code, relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities.

Analysis Prepared by the Division of Securities:

Statutory Authority: ss. 551.63(1) and (2) and 551.22(1)(a), Stats.

Statute Interpreted: s. 551.22(1)(a), Stats.

These permanent rules in final form have been developed to be in place upon the expiration of identical emergency rules that were issued by Order of the Wisconsin Commissioner of Securities Office on June 18, 1996, and became effective on July 1, 1996 following publication in the official state newspaper and the required filings with the Secretary of State and the Revisor of Statutes Bureau. The permanent rules, as do the emergency rules, adopt an alternative accounting guideline for the preparation of financial statements for certain governmental issuers of securities (principally Wisconsin public school districts and Wisconsin vocational school districts) utilizing the securities registration exemption in s. 551.22(1)(a), Stats., for purposes of offering and selling their debt securities to public investors in Wisconsin. The alternative guideline created in SEC 2.01(1)(c)5., Wis. Adm. Code, allows an exception to the "full-GAAP" (generally accepted accounting principles) financial statement requirement where the issuer's financial statements are full-GAAP except that the auditor's opinion is qualified with respect to the recognition of property tax revenue (which results from an interpretation by the staff of the Governmental Accounting Standards Board).

See the Statement Explaining Need for Proposed Rules in Section (a) of the attached Report for a more comprehensive discussion.

The rule created in s. SEC 2.01(1)(c)5. designates as a permitted alternative accounting guideline for purposes of use of the registration exemption in s. 551.22(1)(a), Stats., GAAP, but where the auditor's opinion is qualified with respect to the recognition of property tax revenue. The rule created in s. SEC 2.01(1)(d)5. provides that the auditor's opinion with respect to the financial statements of an issuer covered by the rule in SEC 2.01(1)(c)5. must contain language corresponding to the qualification language in SEC 2.01(1)(c)5.

**Text of Rules**

**SECTION 1. SEC 2.01(1)(c)5. is created to read:**

SEC 2.01(1)(c)5. The issuer's annual general purpose financial statements are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified with respect to the recognition of property tax revenue.

**SECTION 2. SEC 2.01(1)(d)5. is created to read:**

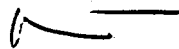
SEC 2.01(1)(d)5. With respect to par. (c)5., the financial statements are prepared in accordance with generally accepted accounting principles, except that the auditor's opinion is qualified with respect to the recognition of property tax revenue, or equivalent language.

\* \* \* \* \*

Pursuant to the provisions of s. 227.22(2)(intro.), Stats., the rules contained in this Order shall take effect on the first day of the month commencing after the date of their publication in the Wisconsin Administrative Register.

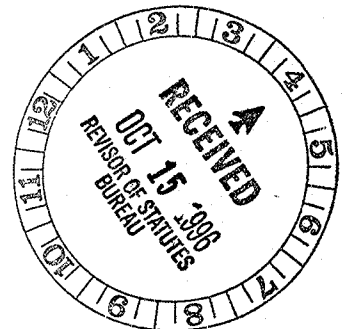
DATED at Madison, Wisconsin this 15<sup>th</sup> day of October, 1996.

[SEAL]



\_\_\_\_\_  
PATRICIA D. STRUCK  
Administrator  
Division of Securities

sec201c5.fin



REPORT PREPARED BY THE  
DIVISION OF SECURITIES  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
RELATING TO FINAL FORM OF NEW  
RULES OF THE DIVISION OF SECURITIES

(a) Statement Explaining Need for Proposed Rules

These permanent rules in final form have been developed to be in place upon the expiration of identical emergency rules that were issued by Order of the Wisconsin Commissioner of Securities Office on June 18, 1996, and became effective on July 1, 1996 following publication in the official state newspaper and the required filings with the Secretary of State and the Revisor of Statutes Bureau. The permanent rules, as do the emergency rules, adopt an alternative accounting guideline for the preparation of financial statements for certain governmental issuers of securities (principally Wisconsin public school districts and Wisconsin vocational school districts) utilizing the securities registration exemption in s. 551.22(1)(a), Stats., for purposes of offering and selling their debt securities to public investors in Wisconsin. The alternative guideline created in SEC 2.01(1)(c)5., Wis. Adm. Code, allows an exception to the "full-GAAP" financial statement requirement where the issuer's financial statements are full-GAAP except that the auditor's opinion is qualified with respect to the recognition of property tax revenue (which results from an interpretation by the staff of the Governmental Accounting Standards Board). Wisconsin public school and vocational school district securities issuers having "full-GAAP" financial statements have previously to date been able to sell their debt securities in reliance on automatic use of the registration exemption in s. 551.22(1)(a), Stats., (without the need for any exemption filing with this Division). Under the new alternative accounting guidelines (which still require "full-GAAP" financials, but allow the auditor's opinion to be qualified with respect to the recognition of property tax revenue item) those governmental securities issuers impacted by the GASB staff interpretation--which in absence of the alternative accounting guidelines in the new rules would have to make filings under Ch. 551--will continue to be able to rely on "automatic" use of the registration exemption of 551.22(1)(a), Stats., without the need for any filing with this Division.

The emergency rules adopting the alternative accounting guideline were developed in consultation with representatives of municipal/governmental securities issuers, bond attorneys and public accounting groups who recently informed the Administrator that interpretations by the Governmental Accounting Standards Board ("GASB") through its staff with respect to accounting treatment for property tax recognition may cause many Wisconsin public school districts and vocational school districts to have the audit opinions for their financial statements qualified with respect to the deferral of taxes. The existence of a

qualified auditor's opinion would preclude use of the s. 551.22(1)(a), Stats., registration exemption on a self-executing basis for offers and sales of a school district's debt securities to the public.

The specific accounting issue involves interpretation of the current accounting standard for property tax recognition established by the National Council on Governmental Accounting ("NCGA") Interpretation 3 "Revenue Recognition--Property Taxes." The accounting interpretation issue is presented as a result of the interplay of the following two factors: (1) most public school and vocational school districts operate on (and their financial statements are prepared on) a July 1 to June 30 fiscal year; (2) the Wisconsin Statutes authorize the various Wisconsin local units of government to allow the payment of property taxes (which provide the funding for payment of public school and vocational school district debts and obligations) to be made in installments on January 1 and July 31 of a given year (for example 1996) relating to taxes levied (in the 1996 example given) for a school district's fiscal year extending from July 1, 1995 to June 30, 1996.

Because the July 31 date for payment of the second property tax installment is after the June 30 fiscal year for the school districts, the staff of the GASB in communications with representatives of Wisconsin accounting organizations and school district associations on the issue, set forth the GASB staff's view that the July 31 tax installment revenues may not be recognized for purposes for fiscal years ending the preceding June 30. As a result, auditors for Wisconsin public school districts and vocational school districts would need to show in such school districts' financial statements, deferred revenue for the July 31 installment property taxes. Despite requests for reconsideration, the GASB staff has not changed its position.

Such GASB staff interpretation has resulted in property tax revenue and fund balance amounts as shown in most Wisconsin school districts' audit reports being different from that required to be shown in such districts' Annual Reports and budget documents, thus causing confusion as to what a particular district's financial position actually is. The State of Wisconsin Department of Public Instruction believes that the GASB staff interpretation, in the context of the Wisconsin statutes governing the timing of property tax levies and payments, does not result in appropriate school district revenue and fund balance financial statement presentations.

As a consequence, Wisconsin public school and vocational school districts may be requesting that their external auditors prepare their district's audited financials without showing deferred revenue for uncollected property taxes--which may result in the auditor issuing a qualified opinion. The issuance of such a qualified audit opinion would preclude use of the s. 551.22(1)(a), Stats., registration exemption on a self-executing basis for offers and sales in Wisconsin of the school district's debt securities to the public.

Therefore, in similar fashion to emergency rule-making action taken by the agency in 1982 and 1994, and for the purpose of alleviating disruption that would occur to the near-term borrowing/bonding plans of governmental school district issuers that regularly claim "automatic" exemption status under s. 551.22(1)(a), Stats., for the offer and sale in Wisconsin of their debt securities, the Division of Securities, in consultation with representatives of school district issuers, bond attorneys and accounting groups, is adopting these rules designating an alternative-to-full-GAAP financial statement provision to deal with this accounting issue to enable school district issuers to continue to use the exemption in s. 551.22(1)(a), Stats., on a self-executing basis. Also, this rule-making action is warranted because there is no investor protection securities regulatory purpose served by requiring such school district issuers to make a filing with this agency (for a bond offering they otherwise would make without a filing) solely because of the existence of a one-sentence qualification contained in the auditor's opinion for the issuer's financial statements.

The rule created in s. SEC 2.01(1)(c)5. designates as a permitted alternative accounting guideline for purposes of use of the registration exemption in s. 551.22(1)(a), Stats., GAAP, but where the auditor's opinion is qualified with respect to the recognition of property tax revenue. The rule created in s. SEC 2.01(1)(d)5. provides that the auditor's opinion with respect to the financial statements of issuer covered by the rule in SEC 2.01(1)(c)5. must contain language corresponding to the qualification language in SEC 2.01(1)(c)5.

(b) Explanation of Modifications Made as a Result of Public Comment Letters and Hearing Testimony

-- No modifications made to text of rules or Analysis.

(c) List of Persons Appearing or Registering at Public Hearing Conducted By the Administrator of the Division of Securities, Patricia D. Struck, as Hearing Officer, and Comment Letters Received

Persons Appearing or Registering at Public Hearing:

- Randall E. Schumann, General Counsel of the Division of Securities, made an appearance on behalf of the agency's staff to submit documents and information for the record, and to be available both to ask questions and to respond to questions regarding hearing testimony.
- Nicholas C. A. Alioto, Director of Business Affairs, School District of Florence County; Chairperson, Accounting Committee, Wisconsin Association of School Business Officials.
- James E. McIntosh, Director, School Financial Services, State of Wisconsin, Department of Public Instruction.
- Senn Brown, Chairperson, Wisconsin Association of School Boards.
- Kenneth Mischle, Manitowoc, Wisconsin School District.

Comment Letters Received:

- Written version of hearing testimony presented September 4, 1996, together with attachments and exhibits, by Nicholas Alioto, Director of Business Affairs for the Florence County, Wisconsin School District, and Chairperson, Accounting Committee, Wisconsin Association of School Business Officials.
- Comment letter dated September 4, 1996 from James E. McIntosh, Director, School Financial Services, State of Wisconsin, Department of Public Instruction.

(d) Response to Legislative Council/ Rules Clearinghouse Report Recommendations

Adoption of Rules Clearinghouse Comments In Whole:

- Consistent with the Rules Clearinghouse comment in par. (a) under

"Form, Style and Placement in Administrative Code," a period is added after "5" whenever subd. 5. is referred to in the rule, such as SEC 2.01(1)(c)5.

- Consistent with the Rules Clearinghouse comment in par. (b) under "Form, Style and Placement in Administrative Code," the ANALYSIS precedes the text of the rules.
  - Consistent with Rules Clearinghouse comment in par. (c) under "Form, Style and Placement in Administrative Code," references to the Wisconsin Statutes in the Order are designated "Stats." rather than "Wis. Stats."
- (e) No final regulatory flexibility analysis is included because the rules relate solely to municipal/governmental securities issuers and do not impact small businesses.



ORIGINAL  UPDATED  
 CORRECTED  SUPPLEMENTAL

FISCAL ESTIMATE  
DOA-2048 NR10941

**SUBJECT**  
SEC 2.01(1)(c)5 and (1)(d)5 designating alternative accounting guidelines

**Fiscal Effect**

STATE:  No State Fiscal Effect

Check columns below only if bill creates a direct appropriation or affects a state employee appropriation.

- Increase Existing Appropriation
- Decrease Existing Appropriation
- Create New Appropriation
- Increase Existing Revenues
- Decrease Existing Revenues

Increase Costs - May be required to Absorb Within Agency's Budget  Yes  No

Decrease Costs

LOCAL:  No local government costs

- 1.  Increase Costs
  - Permissive  Mandatory
- 2.  Decrease Costs
  - Permissive  Mandatory
- 3.  Increase Revenues
  - Permissive  Mandatory
- 4.  Decrease Revenues
  - Permissive  Mandatory

5. Types of Local Governmental Units Affected:

- Towns  Villages  Cities
- Counties  Others \_\_\_\_\_
- School Districts  WTCS Districts

**Fund Sources Affected**

GPR  FED  PRO  PRS  SEG  SEG-S

**Affects Ch. 20 Appropriations**

**Assumptions Used in Arriving at Fiscal Estimate**

These rules adopt an alternative accounting guideline for the preparation of financial statements for certain governmental issuers of securities (principally Wisconsin public school districts and vocational school districts) utilizing the securities registration exemption in s. 551.22(1)(a), Wis. Stats., for purposes of offering and selling their debt securities to public investors in Wisconsin. The alternative guidelines allow an exception to the "full-GAAP" financial statement requirement for use of the exemption where the issuer's financial statements are full-GAAP except that the auditor's opinion is qualified with respect to the recognition of property tax revenue (which is necessary to resolve a problem caused by an interpretation by the staff of the Governmental Accounting Standards Board that the payment of property tax installments after a July 1 date may not be recognized as revenue for financial statement reporting purposes for a fiscal year ending June 30).

The rule adoptions will not have any agency fiscal effect because those Wisconsin public school district and vocational school district governmental securities issuers having "full-GAAP" financial statements have previously to date sold their debt securities in reliance on automatic use of the registration exemption in s. 551.22(1)(a), Wis. Stats. (without the need for any registration or exemption filings involving fees with this Office). Under the alternative accounting guidelines, those Wisconsin governmental securities issuers impacted by the GASB staff interpretation--and who in the absence of the alternative accounting guidelines in the new rules would have to make filings under Ch.551--will continue to be able to rely on "automatic" use of the registration exemption of 551.22(1)(a) without the need for any filings (involving fees) with this Office.

**Long-Range Fiscal Implications**

None

**Approved/Prepared by: (Name & Phone No.)**

WI Commissioner of Securities  
Randall E. Schumann

**Authorized Signature/Telephone No.**

Ofc \_\_\_\_\_  
Patricia D. Struck

**Date**

6-25-96

General Counsel/266-3414

Commissioner/266-3432

**FISCAL ESTIMATE WORKSHEET**

1995 Session

Detailed Estimate of Annual Fiscal Effect  
DOA-2247 (R10/94)

ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

LRB or Bill No./Adm. Rule No.    Amendment No.

Subject SEC 2.01(1)(c)5 and (1)(d)5 designating alternative accounting guidelines

**I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):**

**II. Annualized Costs:**

Annualized Fiscal Impact on State funds from:

Increased Costs

Decreased Costs

**A. State Costs by Category**

State Operations - Salaries and Fringes

\$

\$

-

(FTE Position Changes)

( 0 FTE)

(- 0 FTE)

State Operations - Other Costs

-

Local Assistance

-

Aids to Individuals or Organizations

-

**TOTAL State Costs by Category**

\$ 0

\$ - 0

**B. State Costs by Source of Funds**

Increased Costs

Decreased Costs

GPR

\$

\$

-

FED

-

PRO/PRS

0

- 0

SEG/SEG-S

-

**III. State Revenues -**

Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)

Increased Rev.

Decreased Rev.

GPR Taxes

\$

\$

-

GPR Earned

-

FED

-

PRO/PRS

0

- 0

SEG/SEG-S

-

**TOTAL State Revenues**

\$ 0

\$ - 0

**NET ANNUALIZED FISCAL IMPACT**

STATE

LOCAL

NET CHANGE IN COSTS

\$ 0

\$ 0

NET CHANGE IN REVENUES

\$ 0

\$ 0

Agency Prepared by: (Name & Phone No.)

Authorized Signature/Telephone No.

Date

WI Commissioner of Securities Ofc  
Randall E. Schumann, General Counsel  
266-3414

Patricia D. Struck, Commissioner  
266-3432

6-25-96

WISCONSIN LEGISLATIVE COUNCIL STAFF



**RULES CLEARINGHOUSE**

**Ronaki Sklansky**  
Director  
(608) 266-1946



**David J. Stute, Director**  
Legislative Council Staff  
(608) 266-1304

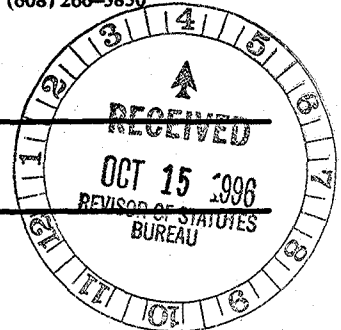
**Richard Sweet**  
Assistant Director  
(608) 266-2982

One E. Main St., Ste. 401  
P.O. Box 2536  
Madison, WI 53701-2536  
FAX: (608) 266-3830

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**CLEARINGHOUSE REPORT TO AGENCY**

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[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

**CLEARINGHOUSE RULE 96-128**

AN ORDER to create SEC 2.01 (1) (c) 5. and (d) 5., relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities.

Submitted by **DEPARTMENT OF FINANCIAL INSTITUTIONS**

08-01-96 RECEIVED BY LEGISLATIVE COUNCIL.

08-29-96 REPORT SENT TO AGENCY.

RNS:DLS:kjf:jt

# WISCONSIN LEGISLATIVE COUNCIL STAFF

## RULES CLEARINGHOUSE

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## CLEARINGHOUSE RULE 96-128

### Comments

**[NOTE: All citations to "Manual" in the comments below are to the Administrative Rules Procedures Manual, prepared by the Revisor of Statutes Bureau and the Legislative Council Staff, dated October 1994.]**

#### 2. Form, Style and Placement in Administrative Code

- a. There should be a period after "5" wherever subd. 5. is referred to in the rule, e.g., "SEC 2.01 (1) (c) 5. is created to read:" and "par. (c) 5."
- b. The analysis should precede the text of the rule. [See s. 1.02, Manual.]
- c. References to the statutes should be followed by "Stats." rather than "Wis. Stats."



State of Wisconsin  
Department of Financial Institutions

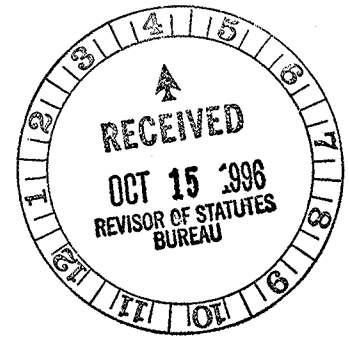
Tommy G. Thompson, Governor

Richard L. Dean, Secretary

October 15, 1996

Office of the Secretary of State  
30 West Mifflin Street  
Madison, WI 53703

✓ Revisor of Statutes Bureau  
131 West Wilson Street, Suite 800  
Madison, WI 53703-3233



Re: Filing of Certified Copies of Final Order  
Adopting Rules/Clearinghouse Rule 96-128

Gentlemen and Mesdames:

Pursuant to the requirements of ss. 227.20 and 227.21, Wis. Stats., a certified copy is herewith filed with each of your offices of the above-referenced Final Order Adopting Rules in the form prescribed by sec. 227.14, Wis. Stats. The Final Order Adopting Rules was signed and issued by this agency on October 15, 1996.

Also attached is a copy of the Report prepared by this agency relating to the final rules, together with a copy of a Fiscal Estimate relating to the rules, and a copy of the Wisconsin Legislative Council Rules Clearinghouse Report.

If you have any questions, please call me at 266-3414.

Very truly yours,

Randall E. Schumann  
General Counsel

RES:jdc

enclosures

cc: Patricia D. Struck, Administrator  
Division of Securities