



**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

**Office of the Comptroller**  
Scott B. Manske, Comptroller

**DATE:** January 20, 2014  
**TO:** Members of the Parks Committee  
**FROM:** Scott B. Manske, Comptroller  
**SUBJECT:** War Memorial Corporation's Accounting Methods

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The Committee on Parks, Energy and Environment at its meeting on December 10, 2013 considered File 13-932 and referred the report to the Comptroller to determine if it would be more appropriate for Milwaukee County to receive the War Memorial Center's (WMC) financial reports on an accrual basis rather than a cash basis.

**Explanation of Accrual versus Cash Based Accounting**

There are many different methods of financial accounting, two of which include cash basis or accrual basis. Generally Accepted Accounting Principles generally require that a non-profit entity use accrual basis accounting. When an entity employs the cash method, revenue is recorded when it is received and expenditures are recorded as they are paid. If an entity uses the accrual method, expenditures and revenues are recorded when the relevant event happens regardless of when the funds have been received, or paid. Examples of both methods are contained below.

**Cash Basis Example:** For example, if the WMC receives a deposit in December of 2014 for a rental event in January of 2015, under the cash method that revenue would be recorded upon receipt of the revenue or December of 2014 while the expenses for the rental event would occur in January of 2015 and be recorded in 2015. This is an example, using cash basis accounting, where the revenue and related expenditures end up recorded in different years, as the WMC has a year end of December 31<sup>st</sup>.

**Accrual Basis Example:** Using the accrual method for the above transaction, the deposit received in December would be deferred, until January of 2015 since that is when the event the revenue is generated from is occurring. The expenditures would be recorded in January 2015, similar to the cash basis. This results in the revenue and expenditures being in the same fiscal year.

An additional benefit to using the accrual method of accounting is that it requires an entity to disclose outstanding debt or liabilities of the organization. This would include pension obligations, future health care obligations, outstanding leases, and other liabilities required by

accounting rules. This allows for board members, policymakers and the public to see the financial health of the organization beyond the daily cash balance.

### **WMC Background**

The WMC was established in 1945 with full operations occurring with the opening of their current building in 1957. The WMC has employed a cash method of accounting since its inception and it continues to do so today. The Office of the Comptroller met with the WMC Director and its Director of Finance and Administration and they indicated that their auditors have not raised an objection to their use of the cash method of accounting. They also indicated that in 1996, they met with representatives from Milwaukee County including the Fiscal and Budget Administrator and the Research Director from the County Board who identified how they would like their fiscal reports to appear and at that time, no objection was made to the accounting method they were employing.

The WMC staff expressed multiple concerns with a shift to an accrual method of accounting. First, there is a concern that their Board of Directors is accustomed to seeing a cash basis report and that an accrual based report may be difficult to read. Second they have had to implement some staffing reductions due to the new agreement with the Milwaukee Art Museum (MAM) and expressed concern regarding the ability of existing staff to transition to an accrual method without increasing their hours. In particular, the WMC currently employs a part-time bookkeeper who is not eligible for benefits and the WMC is concerned the transition would result in an increase in hours to enable the individual to qualify for benefits.

The recent agreement with the MAM also results in a shift in the operations of the WMC and one of its main focuses for 2014 is fundraising. The staff at the WMC raised a concern that transition to the accrual method at this time would distract from their need to fundraise and transition to the new structure of the facility.

### **The Comptroller's Recommendation**

The Comptroller strongly recommends the use of the accrual method of accounting to ensure that Milwaukee County has an accurate knowledge of the fiscal health of entities that are funded by Milwaukee County and who are operating facilities owned by Milwaukee County. Given the concerns raised by the WMC, the Comptroller would like the WMC to require their annual financial statement to be prepared on an accrual basis of accounting, beginning with fiscal year 2014. He would allow the WMC to continue to provide regular fiscal updates on a cash basis. He has also requested as soon as possible a listing of all known liabilities of the WMC including but not limited to future health care obligations, pension obligations, leases and loans.

The recommendation of the Comptroller was communicated to the WMC Director who agreed to the changes after conducting a discussion with the chair of the WMC's finance committee.

If you require additional information please do not hesitate to contact me.