



## 85.72

# Long-Term Obligations

### 85.72.10

July 1, 2008

### About long-term obligations

Depending on the nature of the obligation, long-term obligations of the state are accounted for in one of two ways. Long-term obligations related to, and expected to be paid from, proprietary and trust fund type accounts are accounted for in those accounts (fund long-term obligations). All other long-term obligations (general long-term obligations) are accounted for in the General Long-term Obligations Subsidiary Account (Account 999). Subsection 75.40.20 of this manual describes the various long-term obligation general ledger codes.

#### 85.72.10.a

**Fund Long-Term Obligations** - Fund long-term obligations are directly related to and payable from **proprietary and trust fund type accounts**. They generally are not expected to be paid in the next year.

Enterprise fund long-term obligations are reported in the proprietary fund statement of net assets as well as in the business-type activities column of the government-wide statement of net assets. Internal service fund long-term obligations are reported in the internal service funds column in the proprietary fund statement of net assets as well as in the governmental activities column in the government-wide statement of net assets. Trust fund long-term obligations are reported in the statement of fiduciary net assets.

#### 85.72.10.b

**General Long-Term Obligations** - All long-term indebtedness of the state which is not classified as a fund obligation should be accounted for as a general long-term obligation. General long-term obligations are liabilities that will not be paid by expending available resources as of the end of the current fiscal year.

General long-term obligations are not reported in governmental funds, but are reported in the governmental activities column in the government-wide statement of net assets.

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**85.72.15**

July 1, 2008

**State Finance Committee approval**

The State Finance Committee (established under chapter 43.33 RCW) is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as chairman. The Office of the State Treasurer provides administrative support to the State Finance Committee.

**Bonds**

By law, the State Finance Committee is delegated authority to supervise and control the issuance of all state bonds. Bonds are authorized by the legislature for the purpose of providing funds to finance the projects described and authorized by the legislature in the capital, transportation, and/or operating appropriations bills. By statutory provisions, certain higher education institutions have authority to issue revenue bonds.

**Financing Contracts**

RCW 39.94.010 requires that all financing contracts of the state for the acquisition of real and personal property, which provide for payments over a term of more than one year, be subject to approval by the State Finance Committee. RCW 28B.10.022 requires that similar financing contracts of the regional universities, the Evergreen State college and the state board for community and technical colleges, as well as some of the financing contracts of state colleges, be subject to approval by the State Finance Committee. RCW 28B.10.022 also allows the board of regents of a state university to enter into certain financing contracts on their own. However, except for financing contracts for research facilities or equipment described under chapter 28B.140 RCW, the board of regents must notify the State Finance Committee at least sixty days prior to entering into such contracts.

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**85.72.20**

June 1, 2004

**Bonds payable**

85.72.20.a

Amounts owed from the issuance of long-term debt under a formal legal procedure and secured either by the pledge of specific revenues or by the full faith and credit of the state are recorded as Bonds Payable. Bond issues for the state of Washington include:

- **General Obligation Bonds** - Statewide bond issues that are secured by an unconditional pledge of the full faith and credit and taxing power of the state.

- **Zero-Coupon General Obligation Bonds** – These bonds are also secured by an unconditional pledge of the full faith and credit and taxing power of the state. They are sold at a deep discount without coupons and accrete to full value at maturity.
- **Revenue Bonds** – These bond issues are secured by specific sources of revenue and do not involve a pledge of the full faith and credit of the state. Revenue bonds are payable from identified sources of revenue which are generally derived from the assets acquired or constructed with the bond proceeds.
- **Refunding Bonds** – When advantageous and permitted by statute and bond covenants, the State Finance Committee can authorize current or advance refundings of outstanding bonds. Refunding bonds are issued to retire bonds already outstanding.

85.72.20.b

When issued, the bonds discussed above specify principal repayments as:

- **Term Bonds** – Bonds for which the entire principal matures on one date.
- **Serial Bonds** – Bonds for which the principal is repaid in periodic installments over the life of the issue.

85.72.20.c

**Bond Accounting** – Bonds are accounted for in one of two ways depending on whether they are classified as fund obligations or general long-term obligations.

- **Fund Bond Debt** – Bond obligations related to and intended to be paid from proprietary and trust fund type accounts are recorded in such accounts. Refer to Subsection 85.85.30 of this manual for illustrative entries for issuance and servicing of fund bond debt. If material, bond discounts, issue costs, and premiums are deferred (using GL Codes 1910 “Unamortized Discount on Bonds Sold,” 1920 “Unamortized Bond Issue Costs,” and 5910 “Unamortized Premiums on Bonds Sold” respectively) and amortized over the life of the bonds.

- **General Obligation Bond Debt** - When bonds are issued that are not fund obligations, the liability for the par amount of the bonds issued is recorded in Account 999 “General Long-Term Obligations Subsidiary Account.” In addition, the account receiving the proceeds records the par amount of the bonds using Revenue Source Code 0860 “Bonds Issued” or 0864 “Taxable Bonds Issued.” Original issue premiums and discounts are recorded to Revenue Source Code 0863 “Original Issue Premium (Discount).” Issuance costs, including underwriters’ discounts, are recorded as expenditures/expenses using appropriate object codes such as C and E. The debt service activity, which includes redeeming the bonds and/or making interest payments, is recorded in a debt service fund type account. Refer to Subsection 85.85.35 of this manual for illustrative entries for issuance and servicing of general obligation bonded debt.

85.72.20.d

**Refunding Bonds** - When advantageous and permitted by statute or bond covenants, the state refunds outstanding bonds. Refunding occurs when new debt is issued to provide resources to satisfy the debt service requirements of an outstanding bond issue. In a current refunding, outstanding bonds are called or mature within 90 days of the issuance of the refunding bonds.

In an advance refunding, the net proceeds of the refunding issue are used to purchase U.S. Government securities, which are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds until the bonds are called or mature. The refunded bonds are considered to be defeased. Neither the liability for the refunded bonds nor the securities held in the irrevocable trusts are reflected in the state’s financial accounting records.

General bonded debt is refunded using a debt service fund type account. The refunding proceeds are recorded with Revenue Source Code 0859 “Proceeds of Refunding Bonds” and the payment to the escrow agent is recorded with Revenue Source Code 0855 “Payments to Refunded Bond Escrow Agents.” Original issue premiums and discounts are recorded to Revenue Source Code 0858 “Original Issue Premium (Discount) – Refunding Bonds.” Issuance costs, including underwriter’s discount, are recorded to Revenue Source Code 0857 “Underwriters Discount/Costs of Issuance – Refunding Bonds.” The refunded debt (old bond) is removed from and the refunding debt (new bond) is recorded in Account 999 “General Long-Term Obligations Subsidiary Account.”

When bonded debt of a proprietary or trust fund type account is refunded, the refunded debt (old bond) is removed from, and the refunding debt (new bond) is recorded in, the applicable account. If material, the difference between the cost of refunding the old bonds (the outstanding principal of the old bonds plus any associated costs) and the proceeds of the refunding bonds (new bonds) is deferred and amortized over the remaining life of the old bonds or the life of the refunding bonds, whichever is shorter.

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**85.72.30**  
July 1, 2006

**Lease-purchase agreements payable**

## 85.72.30.a

A lease may be classified as an **operating lease** or a **capital lease**.

An **operating lease** is defined as a rental of an asset with a term of more than one year where the payments are chargeable as rental or lease expenditures. Most operating leases contain clauses indicating that continuation of the lease is subject to funding by the Legislature. Historically, these leases have been renewed in the normal course of business. Therefore, they are treated as noncancelable for financial reporting purposes.

A **capital lease** is a lease that transfers substantially all the benefits and risks inherent in the ownership of the property to the state.

A capital lease must meet one or more of the following criteria:

- By the end of the lease term, ownership of the leased property is transferred to the state.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated useful life of the leased property.
- The lease qualifies as a capital lease if, at the inception of the lease, the present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased property, including any profit thereof) is 90 percent or more of the fair value of the leased property.

**It is the state's policy to record capital lease obligations only for those capital leases where the net present value of the future minimum lease payments is \$10,000 or more.** Capital lease obligations which fall below the \$10,000 limit are treated like operating leases.

State lease agreements typically contain a fiscal funding clause, or cancellation clause, which permits the state to terminate the agreement on a biennial basis if funds are not appropriated to continue the next biennium's lease payments. Generally, the likelihood of cancellation is remote.

Leases which contain a cancellation clause must be evaluated to determine if the possibility of cancellation is remote, and if so, and if they also meet at least one of the criteria of a capital lease, then the leases should be classified as capital leases.

Refer also to Subsection 85.72.40 for Certificates of Participation.

85.72.30.b

### **Lease Accounting**

1. **Operating Lease** - Accounting for an operating lease consists of recording rental payments as a normal operating expenditure/expense to Subobject ED "Rentals and Leases - Land and Buildings" or Subobject EH "Rentals and Leases - Furnishings and Equipment" on a periodic basis.
2. **Capital Lease** - Accounting for a capital lease consists of:
  - Recording the capital lease at its inception,
  - Updating the capital asset inventory system,
  - Separating periodic payments into principal and interest portions, and
  - Applying payments to the correct object of expenditure.

When a capital lease represents the acquisition or construction of a general capital asset, the acquisition or construction of the general capital asset is recorded as an expenditure in GL Code 6514 "Capital Asset Acquisitions by Lease-Purchase Agreements or Certificates of Participation" and the lease proceeds are recorded in GL Code 3221 "Other Financing Sources," Revenue Source Code 0809 "Capital Lease Acquisitions," consistent with the provisions of NCGA Statement 5. In addition, the capital asset acquired should be recorded in Account 997 "General Capital Assets Subsidiary Account" and the lease obligation should be recorded in Account 999 "General Long-Term Obligations Subsidiary Account." Refer to Subsections 85.60.70 and 30.20.30 for further information on capital leases.

Periodic lease payments represent debt service expenditures in governmental fund type accounts. Subobject PA is charged for the annual amount paid that is applicable to the principal portion of the lease liability and Subobject PB is charged for the interest portion of the payment. The lease liability recorded in the General Long-Term Obligations Subsidiary Account (Account 999) is reduced by the amount of principal payments. Agencies should review the balance in GL 5272 at the end of each fiscal year and reclassify to short-term (GL 5172 "Lease-Purchase Agreements Payable") that portion of the lease liability that is due to be paid in the next year.

Periodic payments represent a combination of debt service and a reduction of a liability in proprietary and trust fund type accounts. If the capital lease liability was recorded in GL 5172/5272, then GL Code 5172 is debited for the amount paid that is applicable to the principal portion of the lease-purchase liability and Subobject PB is debited for the interest portion of the payment.

Normally the monthly billing will separate the interest portion from principal, but if not separately stated, interest must be computed by the agency using the current market interest rate the lessee would be charged at the inception of the lease to borrow the funds necessary to purchase the asset.

Payment is normally made from an operating account unless specific requirements dictate use of a debt service fund type account. Refer to Subsection 85.85.40 for illustrative entries.

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**85.72.40**

July 1, 2008

**Certificates of Participation**
**85.72.40.a**

In order to increase the efficiency and cost effectiveness of lease-purchase activity, the State established a master lease/purchase program administered through the Office of the State Treasurer (OST). This program uses Certificates of Participation (COPs) as a financing mechanism. Contact the Office of State Treasurer for further information on the COP program. Refer to Subsections 85.60.80, 85.85.45 and 85.85.50 for information on COP accounting.

There are two types of COPs as follows:

- Equipment Acquisition Program - Under this program, a capital asset (equipment) is generally acquired with a single transaction.
- Real Estate Program - Under this program, an asset (real estate) is purchased, constructed or renovated. The purchase, construction, or renovation activity may take place over a period of time and may involve multiple transactions. If the purchase/construction/renovation period is lengthy and debt service on the COP is required during the construction/renovation phase, interest may be capitalized in enterprise and trust funds.

85.72.40.b Generally, COPs are payable from annual appropriations by the Legislature. If the possibility that the Legislature will fail to appropriate repayment is deemed remote, then a liability for the COP is recorded.

85.72.40.c When governmental fund type accounts purchase equipment or real estate through COPs, the transaction is not an allotment charge. It is the payment of the COP principal that is the allotment charge. The COP liability is recorded in Account 999 "General Long-Term Obligations Subsidiary Account." When the asset acquired meets the state's capitalization policy, it is recorded in Account 997 "General Capital Assets Subsidiary Account."

For acquisition of equipment or real estate through COPs by proprietary and trust fund type accounts, the COP liability is recorded in the acquiring account. Assets acquired meeting the state's capitalization policy are also recorded in the acquiring account.

Refer to Subsections 85.85.45 and 85.85.50 for illustrative entries for equipment and real estate projects financed through COPs.

85.72.40.d For real estate acquisition/construction/renovation projects financed through COPs (excluding higher education), the COP proceeds are to be deposited into and expended out of a construction account. The liability is recorded in the General Long-Term Obligations Subsidiary Account (Account 999) and the real estate acquisition or construction capitalized in Account 997 "General Capital Assets Subsidiary Account." OST accounts for COP sale and repayment activity in Account 739 "Certificate of Participation and Other Financing - State." Refer to Subsection 85.85.50 for illustrative entries for real estate projects financed through COPs.



85.72.40.e Typically, COPs have semi-annual debt service payments. In governmental fund type accounts, Subobject PD is charged for the amount paid that is applicable to the principal and Subobject PE is charged for the interest portion of the payment. In proprietary and trust fund type accounts, GL Code 5173 "Certificates of Participation Payable" is charged for the amount paid that is applicable to the principal portion of the COPs and Subobject PE is to be charged for the interest portion of the payment.

Budgeted proprietary fund type accounts require an additional entry to record an allotment charge for the portion of the payment applicable to the principal. This additional entry involves a debit to GL Code 6510 "Cash Expenditures/Expense" Subobject PD "Principal COP Lease-Purchase Agreements," and a credit to GL Code 6525 "Expense Adjustments/ Eliminations (GAAP)" Subobject PD. Refer to Subsections 85.85.45 and 85.85.50 for illustrative entries.

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## **85.72.50**

July 1, 2009

## **Vacation leave payable**

85.72.50.a

### **General**

A liability accrues as employees accumulate vacation leave in that, at termination, employees become entitled to a cash payment for all eligible accumulated vacation leave. Additionally, a liability accrues to the state for certain payroll related costs (e.g., the employer's portion of social security and Medicare taxes). Governmental fund type accounts accumulate this liability in Account 999 "General Long-Term Obligations Subsidiary Account." Proprietary and trust fund type accounts record vacation leave payable as a fund liability.

85.72.50.b

### **Establishing the Liability**

85.72.50.b.(1)

As a part of the year-end closing process, a determination is made of the dollar value of accumulated vacation leave due employees on June 30 using current salary levels. One of two methods is to be employed in this computation:

- Determine the accumulated vacation leave liability on an employee-by-employee basis by multiplying the hours accumulated by the respective employee's current hourly rate; or

- Multiply the total accumulated vacation leave hours by the average hourly rate of all employees. (This option is to be used only by those agencies not having an automated system capable of making the calculation on an individual employee basis.)

85.72.50.b.(2) Once the dollar value of the vacation leave due employees is determined the employer portion of associated payroll related costs (i.e., social security and Medicare taxes) is calculated. The sum of the amount payable to employees and the employer share of the related payroll taxes represents Accrued Vacation Leave Payable.

85.72.50.c **Recording Vacation Leave Expense/Liability**

85.72.50.c.(1) Adjustments are made at the close of the fiscal year to record the increases (vacation leave earned) and decreases (vacation leave used) in the vacation leave liability. **Increases are to be recorded separately from decreases** to allow for proper financial reporting, as required by GASB Statement 34. Agencies with multiple proprietary accounts or a combination of governmental and proprietary accounts need to allocate the vacation leave liability to **each** proprietary account and a single total for **all** governmental fund type accounts. This allocation may be estimated when leave records are not maintained by account.

85.72.50.c.(2) In proprietary and trust fund type accounts, increases in vacation leave liability are recorded as a fund liability through a debit to GL Code 6525 "Expense Adjustments/Eliminations (GAAP)" (using expenditure authority and program codes as appropriate) and a credit to GL Code 5125 and/or 5225 "Accrued Vacation Leave Payable," as deemed appropriate. Decreases in vacation leave liability are recorded by a debit to GL Code 5125 and/or 5225 and a credit to GL Code 6525 with applicable expenditure authority and program codes.

85.72.50.c.(3) For governmental fund type accounts, increases in vacation leave liability are recorded in Account 999 "General Long-Term Obligations Subsidiary Account" as a debit to GL Code 1820 "Amount to be Provided for Retirement of Long-Term Obligations" and a credit to the GL Code 5125 and/or 5225, as deemed appropriate. Decreases in the vacation leave liability are recorded as a debit to GL Code 5125 and/or 5225 and a credit to GL Code 1820.

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**85.72.60**

June 1, 2004

**Sick leave payable**

## 85.72.60.a

**General**

A liability for sick leave accrues as the benefits are earned to the extent that it is probable that the employer will compensate the employee for the leave conditioned on the employee's retirement. Paid time off for sick leave which is contingent on an illness is not subject to accrual because it is dependent on a future event that is beyond the control of the employer. To the extent that sick leave will be paid upon retirement, agencies are to estimate and record this liability.

The liability for sick leave includes the dollar value of the estimated amount to be paid in cash to employees upon retirement, and the employer portion of the associated payroll related costs (i.e., social security and Medicare taxes). Pension is not paid on sick leave buy-out.

## 85.72.60.b

**Establishing the Liability**

## 85.72.60.b.(1)

The dollar value of sick leave that will be paid to employees upon retirement is calculated using current salary levels and an estimate of the likelihood that employees with accumulated sick leave balances, as of year end, will remain in state service until they are eligible for retirement at which time they will be able to cash out their sick leave. One of the following two methods is to be used in this computation. Once a method is selected, it is to be applied consistently.

- **Method 1** - This method employs an actuarially determined factor of the probability that current employees will remain in state service until they are eligible for retirement. This method is an option where the dollar value of sick leave is readily available or can be calculated by multiplying the total sick leave hours accumulated by the average hourly pay rate of the employees.

The dollar value of sick leave accumulated as of year-end is divided by four (since the state's buy-out policy is one day for every four accumulated) and then multiplied by the actuarially determined factor representing the probability that leave will be cashed out. This factor will be available annually from OFM Accounting Division.

- **Method 2** - This method is based on the assumption that future sick leave buy-out will be consistent with recent years, that the average employee who will eventually cash out sick leave will work 30 years, and that there is a bell-shaped distribution of the employee population such that the mean time to retirement is 15 years. This method would be an option where the dollar value of accumulated sick leave hours is not readily available.

Compute an average of the sick leave buy-out (Subobject AS) for the most recent three years. Multiply the average by 15 years.

85.72.60.b.(2) Multiply the estimated sick leave that will be paid to by the employer's share of Social Security and Medicare taxes. The sum of the amount to be paid to employees and the employer payroll taxes represents Accrued Sick Leave Payable.

85.72.60.c      **Recording Sick Leave Expense/Liability**

85.72.60.c.(1) Once the estimate of sick leave payable as of year-end has been calculated, it is compared with the current balance in GL Codes 5127 and/or 5227 "Accrued Sick Leave Payable," as appropriate. Adjustments are made to record the increases (sick leave earned) and decreases (sick leave used) in the sick leave liability. **Increases are to be recorded separately from decreases** to allow for proper financial reporting, as required by GASB Statement 34. Agencies with multiple proprietary accounts or a combination of governmental and proprietary accounts need to allocate the sick leave liability to **each** proprietary account and a single total for **all** governmental accounts. This allocation may be estimated when leave records are not kept by account.

85.72.60.c.(2) In proprietary and trust fund type accounts, increases in sick leave payable are recorded as a fund liability through a debit to GL Code 6525 "Expense Adjustments/Eliminations (GAAP)" (using expenditure authority and program codes as appropriate) and a credit to GL Code 5127 and/or 5227 "Accrued Sick Leave Payable," as deemed appropriate. Decreases in sick leave liability are recorded as a debit to GL Code 5127 and/or 5227 with an offsetting credit to GL Code 6525 with applicable expenditure authority and program codes.

85.72.60.c.(3) For governmental fund type accounts, increases in sick leave liability are recorded in Account 999 "General Long-Term Obligations Subsidiary Account" as a debit to GL Code 1820 "Amount to be Provided for Retirement of Long-Term Obligations" and a credit to GL Code 5127 and/or 5227, as deemed appropriate. Decreases in the sick leave liability are recorded as a debit to GL Code 5127 and/or 5227 and a credit to GL Code 1820.

**85.72.65**

July 1, 2009

**Compensatory time payable**

85.72.65.a

**General**

A liability accrues as certain employees accumulate compensatory time in that employees become entitled to a cash payment for all eligible accumulated compensatory time at intervals prescribed by regulation, collective bargaining agreement, or agency policy, as applicable. Additionally, a liability accrues to the state for certain payroll related payments (e.g., the employer's portion of pension benefit and social security and Medicare taxes). Governmental fund type accounts accumulate this liability in Account 999 "General Long-Term Obligations Subsidiary Account." Proprietary and trust fund type accounts record vacation leave payable as a fund liability.

85.72.65.b

**Establishing the Liability**

85.72.65.b.(1)

As a part of the year-end closing process, a determination is made of the dollar value of accumulated compensatory time due employees on June 30 using current salary levels. One of two methods is to be employed in this computation:

- Determine the accumulated compensatory time liability on an employee-by-employee basis by multiplying the hours worked at time-and-one-half by the respective employee's current hourly rate; or
- Multiply the total accumulated compensatory time hours worked at time-and-one-half by an average hourly rate. (This option is to be used only by those agencies not having an automated system capable of making the calculation on an individual employee basis.)

85.72.65.b.(2)

Once the dollar value of the compensatory time due employees is determined the employer portion of associated payroll related costs (i.e., pension and social security and Medicare taxes) is calculated. The sum of the amount payable to employees and the employer share of the related payroll taxes and benefits represents Accrued Compensatory Time Payable.

85.72.65.c

**Recording Compensatory Time Expense/Liability**

85.72.65.c.(1)

Adjustments are made at the close of the fiscal year to record the increases (compensatory time earned) and decreases (compensatory time used) in the compensatory time liability. **Increases are to be recorded separately from decreases** to allow for proper financial reporting, as required by

GASB Statement 34. Agencies with multiple proprietary accounts or a combination of governmental and proprietary accounts need to allocate the compensatory time liability to **each** proprietary account and a single total for **all** governmental accounts. This allocation may be estimated when compensatory time records are not kept by account.

85.72.65.c.(2) In proprietary and trust fund type accounts, increases in compensatory time liability are recorded as a fund liability through a debit to GL Code 6525 "Expense Adjustments/Eliminations (GAAP)" (using expenditure authority and program codes as appropriate) and a credit to GL Code 5128 and/or 5228 "Accrued Compensatory Time Payable," as deemed appropriate. Decreases in compensatory time liability are recorded by a debit to GL Code 5128 and/or 5228 and a credit to GL Code 6525 with applicable expenditure authority and program codes.

85.72.65.c.(3) For governmental fund type accounts, changes in the compensatory time liability are to be reflected in the governmental account if the liability is to be liquidated within 12 months, or in Account 999 "General Long-Term Obligations Subsidiary Account" if the intent is to liquidate it after one year. Increases in compensatory time liability are recorded as a credit to GL Code 5128 and/or 5228, and a debit to expenditures in the governmental account or a debit to GL Code 1820 "Amount to be Provided for Retirement of Long-Term Obligations" in Account 999, as appropriate. Decreases in the compensatory time liability are recorded as a debit to GL Code 5128 and/or 5228 and a credit to expenditures in the governmental account or a credit to GL Code 1820 in Account 999, as appropriate.

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**85.72.70**  
July 1, 2006

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**Termination benefits**

A liability accrues for termination benefits provided to state employees. Additionally, a liability accrues to the state for certain payroll related costs (e.g., the employer's portion of pension benefit and social security and Medicare taxes). Unemployment compensation or effects of a termination benefit on the agency's obligations for pension or other postemployment benefits are not considered termination benefits.

In governmental fund type accounts, termination benefits are recorded as an expenditure and fund liability. In proprietary and trust fund type accounts, termination benefits are recorded as an expense and fund liability.

Contact your OFM Accounting Consultant for further guidance on recording termination benefits.