



**Office of the Washington State Auditor  
Pat McCarthy**

**Local Government Advisory Committee (LGAC)  
Meeting Agenda  
June 15, 2022  
9:00am – 11:00am  
Virtual Meeting – Microsoft Teams**

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<b>Topics:</b>	<b>Speaker</b>	<b>Time</b>
<b>Welcome and Attendance</b>	<b>Stacie</b>	<b>10 minutes</b>
<b>Approval of Minutes from December 2021</b>	<b>Stacie/LGAC</b>	<b>5 minutes</b>
<b>SAO Executive Update</b>	<b>Pat McCarthy</b>	<b>10 minutes</b>
<b>BARS Updates and Discussion</b>	<b>BARS Team</b>	<b>45 minutes</b>
a. Annual update list – review preliminary items for Dec 22/Jan 23 update		
i. Review drafts of Leases BARS pages		
ii. Review GASB Update, as needed		
b. Annual online filing updates		
i. Schedule 19 – Labor Relations Consultants		
c. Open Discussion - BARS		
<b>SAO Resources</b>	<b>Center</b>	<b>30 minutes</b>
<b>Open Discussion</b>	<b>LGAC</b>	<b>As needed</b>
<b>Meeting Schedule for 2022</b>		
Wednesday, June, 15, 2022, 9:00am-11:00am		Virtual
Wednesday, October, 5, 2022, 9:00am-10:30am		Virtual
Wednesday, December, 7, 2022, 9:00am-11:00am		Virtual



Office of the  
Washington  
State Auditor  
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## What is coming to BARS in 2023

### Both Manuals

- Leases – see project page on SAO website (accounting, reporting, BARS codes, annual filing impacts)
- Budget note – clarify note requirements, clarify biennial budget disclosure requirements
- Conduit Debt – update to notes and clarify when to report liability, including Schedule 09 coding
- CFDA – Catalog of Federal Domestic Assistance changing to ALN – Assistance Listing Number
- Going Concern note – clarify note requirements and header instructions
- Schedule 19 – Labor Relations schedule, removing schedule effective with 12/31/2022 annual filing.
- BARS Coding –
  - Municipal Court 512.50 – splitting to 512.51 – Non-contracted and 512.52 – Contracted
  - Transportation Codes (54X) in Proprietary Funds – red flagging

### GAAP Manual Only

- Clarification of operating/non-operating BARS codes
- Unearned revenue/Unavailable revenue/Deferred Inflow clarifications
- Reporting – RSI Section – breakout section for easier use in online environment
- GFOA Section in BARS update and direct readers to GFOA website for ACFR awards.

### Cash Manual Only

- Pending final review of the 2022 Legislative Session for BARS impacts

### Updates not confirmed for 2023 yet

- Both manuals - Schedule 20 – **Counties Only** – reviewing legislative updates, may move to excel file template
- Both manuals - Clarification to the Equipment Rental and Revolving Fund sections
- Both manuals – Schedule 15, clarify when to recognize expenses
- Cash - Providing more details in Note 1 – Summary of Significant Accounting Principles

**3. ACCOUNTING**



**3.4 Liabilities**  
**3.4.1 Leases and Installment Purchases**

**3.4.1.10 Lease Definition**

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.

**3.4.1.20 Exclusions**

The following items are not considered leases. For lessees that means these would not be reported on the Schedule of Liabilities (Schedule 09) as lease liabilities.

- Short-term leases – One that, at the beginning of the lease, has a maximum possible term of 12 months or less, including any options to extend - e.g. rolling month-to-month leases
- Interfund leases – Leases between departments or funds within the same government
- Lease of intangible assets – This includes mineral rights, patents, software, copyrights, except for the sublease of an intangible right-to-use asset created by the original lease of a tangible underlying asset
- Leases of biological assets – such as timber, living plants, and living animals
- Leases of inventory
- Service concession arrangements
- Assets financed with outstanding conduit debt – unless both the asset and conduit debt are reported by the lessor
- Supply contracts – such as power purchase agreements that do not convey control of the right to use the underlying power generating facility
- Certain regulated leases – such as aviation leases between airports and air carriers

**3.4.1.30 Summary of BARS Codes**

34P.PP	<b>Lessors</b> – For lease payments received if leasing is the primary operation of the fund.
362.00	<b>Lessors</b> – For lease payments received that are not the primary operation of the fund.
591.PP.70	<b>Lessee</b> – Lease/rental payments (ownership of asset is <b>not</b> transferred at the end of the contract)
594.PP.70	<b>Installment purchase payments</b> – Ownership of asset is transferred at the end of the contract

**3.4.1.40 Lessor Accounting**

Lessors only need to report the cash payments received for lease payments on the Schedule 01. Since lessors are receiving payments, there is no liability to report on the Schedule 09. To receipt payments, use either BARS Code 34P.PP or 362.00. If leasing is the primary operation/function of the fund that the payment is being receipted into, then use BARS Code 34P.PP which is a Charge For Services code. The “P” stands for prescribed numbers that are related to the function of the leasing activity. Review the chart of accounts to identify the applicable function and determine the full BARS Code. An example of when to use the 34P.PP code would be a port whose primary operation is leasing buildings.

If leasing is not the primary operation/function of the fund that the payment is being receipted into, then use BARS Code 362.00. An example of when to use BARS Code 362.00 is when a city or county is receipting lease payments into the general fund.

Lessors will use the revenue codes above for both short term and long term leases.

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#### 3.4.1.50 **Lessee Accounting and Reporting**

At the start of the lease, lessees will not report any inflows or outflows on the Schedule 01. Lessees will record actual lease payments made to the lessor on the Schedule 01 using BARS Code 591.PP.70.

If the lease includes additional fees or taxes, only include the portion of the payments related to the right to use the asset in the liability calculation. For example if a copier lease has a separate maintenance fee or a separate per-copy fee, do not include those in the liability calculation. When paying the maintenance and per copy fees do not use BARS Code 591, instead use the regular BARS functional expense codes. However if maintenance fees and taxes are included in the regular lease payments and they are not separated out in the contract, then include the full amount of the payment in the liability calculation.

Short term lease payments should be coded to normal, functional BARS expenditure codes. For example if a government has a short term lease for a copier that is used by the water utility fund, the lease expense would be coded to BARS 534.00.40.

Lessees are also required to include a note disclosure about their lease activity in the Notes to the Financial Statements. See template note at Note X – Leases.

#### 3.4.1.55 **Lessee Schedule 09 Reporting**

Lessees will report a lease liability on the Schedule 09 measured at the total amount of future lease payments. See [Schedule 09 reporting instructions](#).

In the year of implementation, any existing leases should report a beginning balance on the Schedule 09. The beginning balance reported should be the total amount of lease payments that were remaining as of the beginning of the year. In subsequent years, the beginning balance should match the prior year ending balance.

Any leases that are entered into during the year will be reported as an addition on the Schedule 09. The addition will be the total amount of future lease payments.

Reductions are the amount the lease liability is reduced during the year, which is typically the amount of lease payments made.

If the lease liability is remeasured for any of the items listed in Section 3.4.1.70, the change in the lease liability should be reported as either an addition or reduction on the Schedule 09.

#### 3.4.1.60 **Lease Term**

To calculate the total amount of future lease payments for the schedule 09, you need to know how many payments you are expecting to make which depends on the lease term. Here is what should be included in the 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)
- Lease term **excludes** periods for which both the lessee and lessor each have the option to terminate or both parties must agree to extend

Determining whether a lease option is reasonably certain of being exercised or not requires professional judgement and should take into consideration the specific facts and circumstances at your government.

Examples of items to consider in this analysis:

- Is there a history of extending the lease?
- Is the item being leased essential to your government’s operations or services provided to citizens?
- Can the asset be leased from other sources?
- Any other factors relevant to your specific circumstances.

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#### 3.4.1.70 **Remeasuring the Lease Liability**

The lease liability reported on the Schedule 09 must be remeasured (recalculated) if any of the following happen:

- Change in lease term
- Change in likelihood of purchase option
- Change in estimated amounts for payments already included
- Contingency resolved for variable payments.

The lease term might change if you were previously **not** going to exercise an extension option, but then determine you will extend the lease (or vice versa). In that case you should recalculate the lease liability to include the additional payments related to extending the lease term. If you previously determined you were not going to purchase the asset, but later determine that you will purchase the asset, then you should start treating the contract like an installment sale (use BARS codes 594.PP.70 for payments and the installment purchase codes on the schedule 09). Sometimes purchase options require additional amounts to be paid at the end of the contract in order to purchase the asset, those additional amounts should be added to your installment purchase liability on the schedule 09. If you used estimated amounts to calculate your lease liability and those amounts become known, you should recalculate the liability using the known amounts. If your lease payments were variable and later on all of your remaining lease payments become known (no longer variable), then you should recalculate the lease liability using the known amounts.

#### 3.4.1.80 **Installment Purchases (formerly called capital leases)**

Leases that transferred ownership of the asset to the lessee were previously called capital leases. These are now called installment purchases. If a lease has a purchase option or bargain purchase option, you will need to determine whether that option will be exercised or not. If you determine the purchase option will not be exercised, treat the contract like a lease. If you determine that the purchase option will be exercised, treat the contract like a financed purchase.

#### 3.4.1.85 **Installment Purchase Accounting**

You will add a liability to the Schedule 09 (Schedule of Liabilities) for the total amount of future payments, including the cost of any purchase options. At the start of the contract you do not record any inflows or outflows on your Schedule 01. You will record payments made on your Schedule 01 using BARS Code 594.PP.70.

If your government previously determined they would not exercise the purchase option, but then later do exercise it, you should start treating the contract as an installment purchase **at the time the decision is made**. That means you should start coding your remaining lease payments to BARS 594.PP.70. However, you should not go back and change the BARS codes of any of your previous payments.

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## Cash-basis Note X – Leases (Lessees)

A **lessee** (i.e. renter) should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases (leases that have a maximum possible term of less than one year):

To “group” leases, consider logical groupings such as lease type (land, buildings, equipment, etc.), lease term (5-10-25+ years), vendor (if leasing various things from a single vendor), etc.

1. A general description of its leasing arrangements, such as the assets leased, terms of the leases, the amount of the monthly (quarterly/annual) payments, cancellation clauses, significant commitments before the start of the lease, changes in lease term for previously reported leases, etc.

### Examples:

*During the year ended (fiscal year end), the (city/county/district) adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.*

*The (city/county/district) leases land and buildings from the State for \$500 per month under lease agreements that range from 10 to 20 years. The leases began in January of 2015 and will end December of 2035 and include options to cancel after the first 10 years.*

*The (city/county/district) leases vehicles from the County motor pool for \$200 per month under 5-year lease agreements with rotating end dates. In addition, the (city/county/district) pays \$300 per month under a 50-year lease with the State for storage space. This lease can be cancelled by us with 1-year’s notice.*

*The (city/county/district) leases 30 copiers from Office Min for \$500 per month under 3-year lease agreements that can be cancelled with 90-days’ notice and severe penalties.*

2. The total amount paid for leases in the current reporting period and future minimum lease payments for each of the five subsequent years and in five-year increments thereafter.

### Example:

*The total amount paid for leases in 2020 was \$6,000. As of December 31, 2020, the future minimum lease payments are as follows:*

Year ended December 31	Total
2021	\$6,000
2022	\$6,000
2023	\$6,000
2024	\$6,000
2025	\$6,000
2026-2030	\$30,000
2031-2035	\$30,000
2036-2038	\$18,000
Total	\$108,000

3. Include lease liabilities on Schedule 9 – Schedule of Long-term Liabilities.

3. ACCOUNTING

3.4 Liabilities  
3.4.1 Leases

3.4.1.10 **Introduction**

The Governmental Accounting Standards Board (GASB) issued [Statement 87, Leases](#). In addition there are several [Implementation Guides](#) that address lease accounting and reporting:

- Implementation Guide No. 2019-3, *Leases*
- Implementation Guide No. 2020-1, *Implementation Guidance Update—2020*
- Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*

The guidance in section 3.4.1.70 – 3.4.1.74 is specific to lessors and the guidance in section 3.4.1.80 – 3.4.1.86 is specific to lessees. The rest of this section applies to both lessors and lessees.

3.4.1.20 **Definition**

A lease is 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

3.4.1.30 **Exclusions**

The following items should not follow lease accounting and reporting guidance:

- Short-term leases – One that, at the beginning of the lease, has a maximum possible term of 12 months or less, including any options to extend - e.g. rolling month-to-month leases
- Interfund leases – Leases between departments or funds within the same government
- Lease of intangible assets – This includes mineral rights, patents, software, copyrights, except for the sublease of an intangible right-to-use asset created by the original lease of a tangible underlying asset
- Leases of biological assets – such as timber, living plants, and living animals
- Leases of inventory
- Service concession arrangements
- Assets financed with outstanding conduit debt – unless both the asset and conduit debt are reported by the lessor
- Supply contracts – such as power purchase agreements that do not convey control of the right to use the underlying power generating facility
- Certain regulated leases – such as aviation leases between airports and air carriers

3.4.1.40 **Lease Term**

The lease term includes:

- 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)
- Lease term **excludes** periods for which both the lessee and lessor each have the option to terminate or both parties must agree to extend

Determining whether a lease option is reasonably certain of being exercised or not requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- What is the past history of extending the lease or not?
- Is the item being leased essential to your government’s operations or services provided to citizens?
- Do you have other options for where you can lease this asset from?
- Any other factors relevant to your specific circumstances.

3.4.1.45 **Short Term Lease**

A short term lease is one that has a maximum possible term of less than 12 months. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A lease contract has an initial noncancelable term of 6 months with an option for the lessee to extend for another year. The lessee will most likely not exercise that option.

This is **not** a short term lease because the maximum possible term is 18 months. The extension option is included even if it will not be exercised. The lease term for accounting purposes would only be 6 months.

Lessors should recognize revenue and lessees should recognize an expense when lease payments are due based on the payment provisions of the lease contract.

3.4.1.50 **Discount Rate**

The lease payments should be discounted using the rate the lessor charges the lessee. This may be an implicit rate which is discussed in GASB Statement 63, paragraphs 173 – 187. However, the rate cannot be readily determined, then the lessee’s incremental borrowing rate may be used. The incremental borrowing rate is the estimated interest rate that would be charged if the lessee borrowed the lease payment amounts over the lease term. If it is not practicable for the lessor to determine the lessee’s incremental borrowing rate, the lessor may use its own incremental borrowing rate as the discount rate.

The discount rate must be reasonable for the specific lease. For example a 5 year lease and a 20 year lease would likely have different discount rates because a lender would likely charge different rates for borrowing funds over those different time frames.

3.4.1.60 **Remeasurement**

Lessees and lessors are required to remeasure (recalculate) the lease liability or lease receivable in certain circumstances:

	<b>Lessee</b>	<b>Lessor</b>
Change in lease term	X	X
Change in likelihood of residual value guarantee	X	
Change in likelihood of purchase option	X	

Change in estimated amounts for payments already included	X	
Change in interest rate lessor charges	X	X
Contingency resolved for variable payments	X	X

If a lease liability or receivable is remeasured for any of the changes above, the index or rate used for variable payments and the discount rate should also be updated. However, the liability does not need to be remeasured solely for a change in the index or rate used for variable payments or a change in the incremental borrowing rate (if used as the discount rate).

**3.4.1.60 Financed Purchases/Installment Purchases (Previously called Capital Leases)**

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain a termination option, should be reported as a financed purchase by the lessee and a sale of the asset by the lessor.

Accounting for this transaction is similar to other debt issuance and capital purchase transactions.

**3.4.1.70 Lessor Accounting**

At the start of the lease term the lessor will recognize a lease receivable and deferred inflow of resources. The lessor will also continue to recognize the underlying asset as their own capital asset. Lessors also have required note disclosures. See template note at Note X – Leases (Lessors).

**3.4.1.71 Lease Receivable**

The initial lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. The receivable should include the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance
- Any lease incentives payable to the lessee.

As the lessee makes payments, the lessor will recognize a reduction in the lease receivable and interest revenue. The lease receivable must be amortized using the interest method (GASB Implementation Guide No. 2019-3, *Leases*, paragraph 4.49).

**3.4.1.72 Deferred Inflow**

The initial deferred inflow is measured at the amount of the lease receivable plus lease payments received from the lessee at the start of the lease term that relate to a future period (for example receiving the last month’s rent upfront).

The deferred inflow is amortized in a systematic and rationale manner over the lease term. GASB does not specify a required amortization method, so lessors may choose which method they use (for example the interest method or straight-line).

3.4.1.73 Lessor BARS Codes

The lessor records lease revenue and interest revenue. The interest revenue from leases should be recorded to BARS Code 361.4P which is a non-operating revenue code. GASB Implementation Guide 2021-1, Question 4.13 clarified that all interest revenue earned from leases should be reported as non-operating revenue.

The lease revenue should be recorded to BARS Code 34P.PP (Charge for Services code) or 362. In a proprietary fund, use BARS Code 362 for non-operating lease revenue, and 34P.PP for operating lease revenue. In a governmental fund, use BARS Code 362 for leases that are not tied to a specific operation or function or for leases that are infrequent in nature. Lessors will also use these codes for short-term lease revenue.

The “P” stands for prescribed numbers that are related to the function of the leasing activity. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

3.4.1.74 Lessor Example Journal Entries

A County leases equipment to a City in a 60 month lease. The payments are \$1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The County first calculates the present value of the lease to be \$55,791 to record the initial lease journal entry:

Lease receivable	55,791	
Deferred inflow		55,791

The County records the first month’s lease receipt. Since this payment is received at the very start of the lease, the present value is \$1,000 and all of the payment goes towards principal and directly reduces the lease receivable.

Cash	1,000	
Lease receivable		1,000

The County also records the first month’s deferred inflow amortization. This example uses straight line amortization in this example (\$55,791 initial deferred inflow divided by 60 total payments equals monthly amortization of \$930). This will be the exact same journal entry each month since straight line amortization is used.

Deferred inflow	930	
Lease revenue (BARS 34P.PP or 362)		930

The County records the second month’s lease receipt. This time there is interest revenue, because one month of interest has accrued. The interest is calculated by multiplying the balance of the lease receivable from the prior month of \$54,791 (\$55,791 initial lease receivable minus the \$1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the lease receivable.

Cash	1,000	
Lease receivable		863
Interest revenue (BARS 361.4P)		137

**3.4.1.80 Lessee Accounting**

For full accrual reporting (such as the government wide financial statements and proprietary fund statements) at the start of the lease term, the lessee will recognize a lease liability and lease asset.

The lessee will report lease liabilities on the Schedule of Liabilities (Schedule 09). In the year of implementation, any existing leases should report a beginning balance on the Schedule 09. The beginning balance reported should be the amount calculated for the implementation of GASBS No. 87. In subsequent years, the beginning balance should match the prior year ending balance.

Any new leases entered into during the year will be reported as an addition on the Schedule 09. The addition will be the liability calculated to add the lease to your financial statements.

Reductions are the amount the lease liability is reduced during the year, which is typically the principal portion of payments made.

If the lease is remeasured for any of the items in Section 3.4.1.60, the change in the lease liability should be reported as either an addition or reduction on the Schedule 09.

See [Schedule 09 reporting instructions](#).

Lessees also have required note disclosures. See template note at [Note X – Leases \(Lessees\)](#).

**3.4.1.81 Lease Liability – Full accrual**

The lease liability is measured at the present value of payments expected to be made during the lease term. This includes:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
- The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause
- Any lease incentives receivable from the lessor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

As the lessee makes payments, they reduce the lease liability and recognize interest expense. The lease liability must be amortized using the interest method (GASB Statement No. 87, paragraph 24).

**3.4.1.82 Lease Asset – Full accrual**

The lease asset is measured at the initial lease liability plus lease payments made before the start of the lease term, plus any direct ancillary costs necessary to place the lease asset into service, minus any lease incentives received from the lessor before the start of the lease term.

The lease asset should be amortized over the shorter of the lease term or the underlying asset’s useful life. GASB does not specify a required amortization method, so lessors may choose which method they use (for example the interest method or straight-line).

3.4.1.83 Lease Reporting in Governmental Funds

Governmental funds do not report a lease asset or lease liability. Instead the lessee would record a Capital Outlay Expenditure (debit) and an Other Financing Source for leases (credit). As the lessee makes payments, they would record a Debt Service Principal Expenditure (debit), Debt Service Interest Expenditure (debit), and reduce cash (credit).

3.4.1.84 Lessee BARS Codes

In a full accrual fund, the only revenue and expense accounts used are interest expense and amortization expense.

592.PP.80	Recording interest expense payments
501.PP.00	Recording amortization expense on lease asset

In a modified accrual there is no lease asset or lease liability, so some of the accounts used are different.

594.PP.60	Recording the capital outlay expenditure at the start of the lease
391.70.00	Recording the “other financing source” at the start of the lease
591.PP.70	Recording debt principal payments
592.PP.80	Recording interest expense payments

The “P” stands for prescribed numbers that are related to the function of the leasing activity. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

Expenses for short-term leases should be coded to the regular, functional BARS expense/expenditure codes. For example if a government has a short term lease for a copier that is used by the water utility fund, the lease expense would be coded to BARS 534.00.40.

3.4.1.85 Lessee Example Journal Entries – Full Accrual

A County leases equipment to a City in a 60 month lease. The payments are \$1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The City first calculates the present value of the lease to be \$55,791 to record the initial lease journal entry:

Lease asset	55,791	
Lease liability		55,791

The City records the first month’s lease payment. Since this payment is received at the very start of the lease, the present value is \$1,000 and all of the payment goes towards principal and directly reduces the lease liability.

**For June 15, 2022 LGAC Meeting – Discussion item – NOT FOR IMPLEMENTATION USE**

Lease liability	1,000	
Cash		1,000

The City also records the first month's lease asset amortization. This example uses straight line amortization in this example (\$55,791 initial lease asset divided by 60 total payments equals monthly amortization of \$930). This will be the exact same journal entry each month since straight line amortization is used.

Amortization expense (BARS 501.PP.00)	930	
Accumulated amortization – lease asset		930

The City records the second month's lease payment. This time there is interest expense, because one month of interest has accrued. The interest is calculated by multiplying the balance of the lease liability from the prior month of \$54,791 (\$55,791 initial lease receivable minus the \$1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the lease liability.

Lease liability	863	
Interest expense (BARS 592.PP.80)	137	
Cash		1,000

3.4.1.86 Lessee Example Journal Entries – Modified Accrual

A County leases equipment to a City in a 60 month lease. The payments are \$1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The City first calculates the present value of the lease to be \$55,791 to record the initial lease journal entry. Since the modified accrual funds do not record a lease asset or lease liability different accounts are used. However, the amounts calculated for the full accrual journal entries are the exact same that are used for the modified accrual journal entries.

Capital outlay – lease asset (BARS 594.PP.60)	55,791	
Other financing source – lease (BARS 391.70.00)		55,791

The City records the first month's lease payment. Since this payment is received at the very start of the lease, the present value is \$1,000 and all of the payment goes towards principal. Since there is no lease liability to reduce, the payment is recorded as a debt service expenditure.

Debt service expenditure – principal (BARS 591.PP.70)	1,000	
Cash		1,000

There is no lease asset in the modified accrual fund, therefore there is nothing to amortize.

The City records the second month's lease payment. This time there is interest expense, because one month of interest has accrued. The same amounts calculated for the full accrual journal entries are used.

Debt service expenditure – principal (BARS 591.PP.70)	863	
Debt service expenditure – interest (BARS 592.PP.80)	137	
Cash		1,000

3.4.1.90 **Other Topics**

See [GASBS No. 87](#) for guidance on additional lease topics such as:

- Lease incentives
- Contracts combinations
- Lease modifications and terminations
- Subleases
- Sale-leaseback transactions
- Intra-entity leases
- Leases between related parties.

DRAFT



**GAAP Note X – Leases (Lessees)**

Per GASB 87, *Leases*, a **lessee** should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases:

1. 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.
2. The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets (see sample table below).
3. The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets (see sample table below).

Example:

	Beg. Bal.	Increases	Decreases	End. Bal.
Leased Land				
Leased Bldgs.				
Leased Equip.				
Total				
Accum. Depr. Leased Bldgs.				
Accum. Depr. Leased Equip.				
Total				

4. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.
5. 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.
6. 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.

Example:

As of December 31, 2020, the principal and interest requirements to maturity are as follows:

Year ended December 31	Principal	Interest	Total
2021	\$	\$	\$
2022	\$	\$	\$
2023	\$	\$	\$
2024	\$	\$	\$
2025	\$	\$	\$
2026-2030	\$	\$	\$
2031-2035	\$	\$	\$
Total	\$	\$	\$



7. Commitments under leases before the commencement of the lease term
8. The components of any loss associated with an impairment (the impairment loss and any related change in the lease liability, as discussed in paragraph 34).
9. A lessee also should provide relevant disclosures for the following transactions, if applicable:
  - a. Sublease transactions (see paragraph 81)
  - b. Sale-leaseback transactions (see paragraph 85)
  - c. Lease-leaseback transactions (see paragraph 87).
10. A lessee is not required to disclose collateral pledged as a security for a lease (under paragraph 113 of Statement 62) if that collateral is solely the asset underlying the lease.

**Report the principal amount of lease liabilities on Schedule 9 – Schedule of Long-term Liabilities.**

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## GAAP Note X – Leases (Lessors)

Per GASB 87, *Leases*, a **lessor** should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases and certain regulated leases:

1. 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.
2. 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.
3. 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.
4. 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.
5. A lessor also should provide relevant disclosures for the following transactions, if applicable:
  - a. Leases of assets that are investments (see paragraph 41)
  - b. Certain regulated leases (see paragraph 60)
  - c. Sublease transactions (see paragraph 81)
  - d. Sale-leaseback transactions (see paragraph 85)
  - e. Lease-leaseback transactions (see paragraph 87).
6. In addition to the disclosures above, if a lessor's principal ongoing operations consist of leasing assets to other entities, the government should disclose a schedule of future payments that are included in the measurement of the lease receivable, showing principal and interest separately, for each of the five subsequent fiscal years and in five-year increments thereafter.

*Example:*

As of December 31, 2020, future lease receivable principal and interest payments are as follows:

Year ended December 31	Principal	Interest	Total
2021	\$	\$	\$
2022	\$	\$	\$
2023	\$	\$	\$
2024	\$	\$	\$
2025	\$	\$	\$
2026-2030	\$	\$	\$
2031-2035	\$	\$	\$
Total	\$	\$	\$

7. A lessor with one or more regulated leases, as described in paragraphs 42 and 43, should disclose the following about those lease activities (which may be grouped for purposes of disclosure), other than short-term leases:
  - a. A general description of its agreements.
  - b. The extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty.

- c. 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 these agreements, if that amount cannot be determined based on the amounts displayed on the face of the financial statements.
  - d. A schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter.
  - e. The amount of inflows of resources recognized in the reporting period for variable payments not included in expected future minimum payments.
8. The existence, terms, and conditions of options by the lessee to terminate the lease or abate lease payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.

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Office of the  
Washington  
State Auditor  
Pat McCarthy

## GASB UPDATE

June 2022

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for U.S. state and local governments. All statements, exposure drafts and other documents for public comment are available from the GASB website, [www.gasb.org](http://www.gasb.org), free of charge.

Here is a summary of current and upcoming accounting and financial reporting standards.

### GASB Pronouncements Effective for Reporting Year 2021

- **Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period***  
This statement suspends paragraphs 5-22 of GASB 62. Do not capitalize interest cost related to capital assets – expense as incurred. This statement was originally effective for the 2020 reporting year but was postponed by GASB 95.

**GAAP** – Formalizes that interest incurred before construction is complete for a capital asset is **not** capitalizable.

**CASH** – Does not apply since this is in relation to capital assets.

- **Implementation Guide 2019-1**

This guide's objective is to provide guidance that clarifies, explains, or elaborates on GASB Statements. This guide addresses OPEB, Derivative Instruments, Nonexchange Transactions, Impairment and Insurance Recoveries, and other accounting and reporting topics. This guidance was originally effective for the 2020 reporting year, but was postponed by GASB 95.

**GAAP** – Most of the required changes have been implemented in BARS. Please review the new rules for storm cleanup and insurance recoveries, which can be found in the insurance recovery BARS codes.

**CASH** - Most of the required changes have been implemented in BARS. Please review the new rules for storm cleanup and insurance recoveries, which can be found in the insurance recovery BARS codes.

- **Statement No. 98, *The Annual Comprehensive Financial Report***

This statement replaces the term *comprehensive annual financial report* and the related acronym with *annual comprehensive financial report* (ACFR). Effective for years ended after December 15, 2021.

**GAAP** – Most of the required changes have been implemented in BARS.

**CASH** – Does not apply since cash does not prepare ACFRs.

## GASB Pronouncements Effective for Reporting Year 2022

- **Statement No. 87, *Leases***

This statement's scope includes definition of a lease, lease term, short-term leases, subleases, and sale-leasebacks. Guidance related to accounting and reporting for lessee and lessor. An implementation guide is available: **Implementation Guide 2019-3 - *Leases***. The statement and guidance were originally effective for the 2020 reporting year but was postponed by GASB 95.

**GAAP** – Please see the Leases project page for accounting and reporting requirements. Early implementation allowed.

**CASH** - Please see the Leases project page for accounting and reporting requirements. No early implementation allowed.

- **Statement No. 91, *Conduit Debt Obligations***

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement was originally effective for the 2021 reporting year, but was postponed by GASB 95.

**GAAP** - Conduit debt will not be reported unless certain criteria has been met.

**CASH** - Conduit debt will not be reported unless certain criteria has been met.

- **Statement No. 92, *Omnibus 2020***

This statement addresses a mix of implementation issues related to leases, reinsurance recoveries, and derivative instruments (**effective immediately for reporting year 2020**). Other items effective for reporting year 2022 include intra-entity transfers of assets, postemployment benefit arrangements, government acquisitions, etc. This guidance was originally effective for the 2021 reporting year, but was postponed by GASB 95.

**GAAP** – Most of the required changes have been implemented in BARS.

**CASH** - Most of the required changes have been implemented in BARS.

- **Statement No. 93, *Replacement of Interbank Offered Rates***

This statement provides exceptions to derivatives hedge accounting termination provisions and lease modifications solely to replace an interbank offered rate (IBOR). This guidance was originally effective for the 2021 reporting year but was postponed by GASB 95.

**GAAP** – LIBOR has been removed from the hedging derivative section of the BARS manual.

**CASH** – Does not apply to cash due to only apply to hedging derivatives.

- **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans***

This statement supersedes GASB Statement No. 32. IRC section 457 deferred compensation plans that meet the definition of a pension plan should follow the accounting and financial reporting requirements of pension plans.

**GAAP** – Most of the required changes have been implemented in BARS.

**CASH** - Most of the required changes have been implemented in BARS.

- **Statement No. 99, *Omnibus 2022***

This statement addresses a mix of implementation issues related to LIBOR, nonmonetary transaction disclosures, future revenue pledges, and terminology updates to leases, reinsurance recoveries, and derivative instruments (**effective immediately for reporting year 2021**). Other items effective for reporting years after 2022 include clarification issues with leases, PPP, and SBITA, and financial guarantees and derivative instrument requirements..

**GAAP** – Most of the required changes have been implemented in BARS.

**CASH** - Most of the required changes have been implemented in BARS.

#### GASB Pronouncements Effective for Reporting Year 2023

- **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***

This statement establishes the definition of PPP's and APA's and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

**GAAP** – Adds more situations for Service Concession Arrangements to apply and updates the accounting and reporting requirements in these areas.

**CASH** – Does not apply due to the fact that Service Concession Arrangements are not reported in Cash.

- **Statement No. 96, *Subscription Based Information Technology Arrangements***

This statement brings the guidance on the accounting and financial reporting for “SBITA’s” in line with that of GASB 87 - Leases.

**GAAP** – Adds software to the lease standard.

**CASH** – Adds software to the lease standard.

**GAAP** – *For all statements, earlier application is encouraged.*

**CASH** – *Implementation will be at the time of BARS prescription.*

#### **Current GASB Exposure Drafts, Invitations to Comments, etc.**

GASB does not currently have any documents out for public comments. New documents for public comments are posted to <https://www.gasb.org/exposure-documents>.