

WSDOT Experience Accounting for Multifunction Devices Leases

February 2015

Financial Management Advisory Council

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- * WSDOT's Information Technology Division has been actively implementing print management strategies to reduce costs and increase efficiencies.
 - * WSDOT utilizes state contract 07912 to purchase/lease multifunction devices.

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- * Six contractors are listed on contract 07912. All offer both purchase and lease options. Most offer lease options from 2 to 5 years.
 - * WSDOT uses a number of the contractors. Service location is a factor in the decision.
 - * WSDOT chooses to lease many of the devices to spread the cost over the life of the lease.

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- * A lease of a multifunction device for 4 or 5 years meets the criteria for a capital lease because the term is $\geq 75\%$ of the estimated useful life.
 - * WSDOT has leased devices that fall into the category of a capital lease.

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- * The Accounting and Financial Services Division (AFS) of WSDOT has been reviewing the capital lease accounting requirements listed in SAAM 85.72.30.b.
 - * Challenges discovered include:
 - Determining the value of the device for consideration of the whether it meets the capitalization threshold,
 - Recording leased devices in a capital asset management system,
 - Determining how to separate periodic payments into principle and interest portions, and
 - Applying payments to the correct object of expenditure.

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- * While researching the issues around accounting for capital leases AFS became aware of Office of the State Treasurers Lease/Purchase Program.
 - * A review of the program guide on the Treasurer's website reveals rules that must be followed when a lease is considered a 'financing lease.'

- * Office of the State Treasurer guidelines state that leases that satisfies any of the capital lease criteria are to be considered a ‘financing lease.’



Operating Lease or Financing Lease?

Agencies may negotiate operating leases but **NOT FINANCING LEASES.**

FASB #13:
the lease “duck test”



State agencies may enter into operating leases or rental agreements at their discretion. However, managers must be certain that the lease is, in fact, an operating lease. Management intent is **NOT** a determining factor.

Operating leases are distinguished from financing leases according to accounting criteria. Accounting standards for governmental entities are established by the Governmental Accounting Standards Board (GASB) in conjunction with the Financial Accounting Standards Board (FASB) which promulgates accounting standards for corporate entities. FASB Statement No. 13 specifies four criteria to identify a financing lease:

- ✓ Present value of lease payments \geq 90% of fair market value
- ✓ Lease term \geq 75% of useful life
- ✓ Lease includes a bargain purchase option
- ✓ Lease provides for transfer of ownership

If a lease satisfies any **ONE** of the above criteria, it **IS** a financing lease subject to RCW 39.94.

* RCW 39.94.020 states that financing leases are considered financing contracts.

(2) "Financing contract" means any contract entered into by the state for itself or on behalf of an other agency which provides for the use and purchase of real or personal property by the state and provides for payment by the state over a term of more than one year, and which provides that title to the subject property may secure performance of the state or transfer to the state or an other agency by the end of the term, upon exercise of an option, for a nominal amount or for a price determined without reference to fair market value. **Financing contracts include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, or refinancing contracts, but do not include operating or true leases.** For purposes of this chapter, the term "financing contract" does not include any nonrecourse financing contract or other obligation payable only from money or other property received from private sources and not payable from any public money or property. The term "financing contract" includes a "master financing contract."

- * RCW 39.94 states that all financing contracts must be approved by the State Finance Committee.



Authorization

It's not just a good idea,
it's the



State agencies are not required to finance their acquisitions, but if they choose to do so, financing must be obtained through the State Treasurer's Lease/Purchase Program.

RCW 39.94 was passed by the Legislature in 1989. It provides for financing of both real and personal property (real estate and equipment) by state agencies through the use of financing contracts. Financing contracts include lease/purchase agreements or any other interest bearing contract used to finance property. Real estate projects must be specifically approved by the Legislature. These projects are listed in the "Miscellaneous" section of the Capital Budget. For a few agencies, the project authorizations are included in the Transportation Budget.

The most important stipulation of RCW 39.94 is that **ALL FINANCING CONTRACTS MUST BE APPROVED BY THE STATE FINANCE COMMITTEE.** The State Finance Committee is comprised of three elected officials:

State Treasurer, Chair
Governor
Lieutenant Governor.

The Committee approves all securities issued on behalf of the state of Washington. These securities include general obligation bonds and certificates of participation (COPs).

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- * The State Finance Committee approves Certificates of Participation (COPs) to finance equipment purchases.
 - * COP accounting rules are covered under SAAM 85.72.40.

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- * Going forward WSDOT will meet to discuss how best to acquire future multifunction devices within the financing rules, and will determine which current leases need to be accounted for under capital lease accounting rules.