



85.72 Long-Term Obligations

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85.72.10 About long-term obligations

June 1, 2013

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 fiduciary 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 fiduciary fund type accounts**. They generally are not expected to be paid in the next year.



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Enterprise fund long-term obligations are reported in the proprietary fund statement of net position as well as in the business-type activities column of the government-wide statement of net position.

Internal service fund long-term obligations are reported in the internal service funds column in the proprietary fund statement of net position as well as in the governmental activities column in the government-wide statement of net position.

Fiduciary fund long-term obligations are reported in the statement of fiduciary net position.

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 position.

85.72.15 State Finance Committee approval

July 1, 2008

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 chair. 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.



85.72.20 Bonds payable

June 1, 2013

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 do not involve a pledge of the full faith and credit of the state. The University of Washington issues general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. Other revenue bonds, including those issued by other colleges and universities, 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 general obligation bonds. Refunding bonds are issued to retire bonds already outstanding. Colleges and universities may also issue refunding bonds to refund their outstanding revenue bonds.

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 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 deemed material, original issue discounts (OID) and original issue premiums (OIP) are recorded using GL Codes 1910 “Unamortized Discount on Bonds Sold,” and 5910 “Unamortized Premiums on Bonds Sold” respectively and



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amortized over the life of the bonds using GL Code 6512 "Amortization Expense" Subobject WB "Amortization." Issuance costs, including underwriters' discounts, are recorded as expenses using GL Code 6510 "Cash Expenditures/Expenses" and appropriate object codes such as C or E or Subobject PC "Other Debt Costs." If the OIP or OID is deemed immaterial, they should be recorded in the same manner as the other issuance costs.

- **General 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 - Bonds" or 0862 "Original Issue Discount - Bonds." Issuance costs, including underwriters' discounts, are recorded as expenditures using appropriate object codes such as C or E or Subobject PC "Other Debt Costs." The debt service activity, which includes redeeming the bonds and 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 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.

An economic gain or loss arises because of a refunding. The economic gain or loss is computed by determining the difference between the present value of cash flow requirements of the refunded debt and the present value of cash flow requirements of the refunding debt. The economic gain or loss is disclosed in the notes to the financial statements in the state's Annual Comprehensive Financial Report (ACFR).

There are two types of refunding:

- **Current Refunding** - To qualify as a current refunding, the refunded debt must all mature or be redeemed within 90 days from the date of issuance of the refunding debt.
- **Advance Refunding** - 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.

In **governmental funds**, bonded debt is refunded using a debt service fund type account but the accounting varies depending on whether it is a current refunding or an advance refunding.

In a current bond refunding, the refunding (new bond) proceeds are recorded with Revenue Source Code 0859 "Proceeds of Refunding Bonds". The payment to the escrow agent is recorded as an expenditure, subobject PA "Principal" and/or PB "Interest." Original issue premiums are recorded to Revenue Source



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Code 0858 “Original Issue Premium– Refunding Bonds.” Original issue discounts are recorded to Revenue Source Code 0856 “Original Issue Discount – Refunding Bonds.” Issuance costs, including underwriter’s discount, are recorded to Revenue Source Code 0857 “Underwriters Discount/Costs of Issuance – Refunding Bonds.”

In an advance refunding, the refunding (new bond) proceeds are recorded with Revenue Source Code 0859 “Proceeds of Refunding Bonds.” The payment to the escrow agent is recorded with Revenue Source Code 0855 “Payments to Refunded Bond Escrow Agents.” Original issue premiums are recorded to Revenue Source Code 0858 “Original Issue Premium - Refunding Bonds.” Original issue discounts are recorded to Revenue Source Code 0856 “Original Issue 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.”

In a **proprietary fund type account**, when bonded debt is refunded (either a current or advance refunding), 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 (1) the book value of the refunded (old) debt and (2) the amount required to retire the debt is deferred. The deferred amount is recorded in GL Code 5268 “Deferred Inflow on Bond Refundings” (credit amount) or GL 1972 “Deferred Outflow on Bond Refunding” (debit amount). The deferred amount is amortized as an adjustment to interest expense over the remaining life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

The book value of the refunded debt includes its maturity value, and any related unamortized premium or discount (GL Codes 5910 “Unamortized Premiums on Bonds Sold,” and 1910 “Unamortized Discounts on Bonds Sold”).

85.72.25 Right-to-use lease and subscription liabilities

July 1, 2022

85.72.25.a

A lease is a contract that conveys control of the right to use another entity’s capital asset, as specified in the contract, for a specific period of time in an exchange or exchange-like transaction. A lease liability and intangible right-to-use lease asset must be recorded for leases that meet the state’s capitalization policy. See [Subsection 30.20.20](#).

A subscription-based information technology arrangement (SBITA) is a contract that conveys control of the right to use another party’s IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. A subscription liability and intangible subscription asset must be recorded for SBITAs that meet the state’s capitalization policy. See [Subsection 30.20.20](#).



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85.72.25.b Valuing the Lease or Subscription Liability

At commencement of the lease/subscription term, the lease/subscription liability should be recorded at the present value of payments expected to be made during the lease/subscription term. Refer to [Subsection 30.20.35.b](#) and [30.20.45.d](#) for a complete list of payments to be included. The future payments should be discounted using the interest rate stated in the contract. If the rate is not specifically stated in the contract, then the current interest rate the state would be charged to borrow the funds necessary to purchase the asset should be used.

85.72.25.c Lease and SBITA Accounting

Accounting for right-to-use lease agreements and SBITAs consists of:

1. Recording the lease/subscription asset and lease/subscription liability at the commencement of the contract term,
2. Updating DebtBook,
3. Separating periodic payments into principal and interest portions using the contract's amortization schedule,
4. Applying payments to the correct object of expenditure, and
5. Amortizing the lease/subscription asset.

85.72.25.c.(1)

Governmental Fund Type Accounts. In governmental fund type accounts, the entry for a leased asset acquisition at commencement of the lease term is recorded by debiting GL Code 6514 "Capital Asset Acquisitions by Other Financing Sources" with Subobject JS "Intangible Lease and Subscription Asset Capital Outlay," and crediting GL Code 3221 "Other Financing Sources" with Revenue Source Code 0810 "Right-to-Use Lease and Subscription Asset Acquisition."

In addition, corresponding entries are made in (a) Account 997 "General Capital Assets Subsidiary Account" by debiting GL Code Series 26XX "Intangible Right-To-Use Capital Assets" and crediting GL Code 9850 "Investment in General Capital Assets," and (b) Account 999 "General Long-Term Obligations Subsidiary Account" to record the related lease or subscription liability.

Periodic payments represent debt service expenditures in governmental fund type accounts. Agencies should record payments to the lessor/vendor as an expenditure/expense using the subobject and sub-subobject that most accurately represents the payment. For example, Subobject/Sub-subobject ED/D010 "Rentals and Leases – Land and Buildings/Buildings Long Term" or EY/Y040 "Software Licenses, Maintenance, and Subscription-Based Computing Services/Software as a Service (SaaS).

By fiscal year-end, an entry must be recorded to reclassify the amount paid that is applicable to principal and interest on the lease/subscription liability by debiting GL 6525 "Expense Adjustments/Eliminations (GAAP)" with the subobject and sub-subobjects related to the principal and interest and crediting GL 6525 "Expense Adjustments/Eliminations (GAAP)" with the subobject and sub-subobjects used when the payments were made to the vendor/lessor.

The principal portion of the lease/subscription liability should be charged to Subobject/Sub-subobject ED/D200 "Rentals and Leases – Land and Buildings/Lease Principal," EH/H200 "Rentals and Leases –



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Furnishings and Equipment/Lease Principal,” or EY/Y200 "Software Licenses, Maintenance, and Subscription-Based Computing Services/SBITA Principal." The interest portion of the payment is charged to Subobject/Sub-subobject ED/D201 “Rentals and Leases – Land and Buildings/Lease Interest,” EH/H201 “Rentals and Leases – Furnishings and Equipment/Lease Interest,” or EY/Y201 "Software Licenses, Maintenance, and Subscription-Based Computing Services/SBITA Interest."

The lease/subscription liability recorded in Account 999 “General Long-Term Obligations Subsidiary Account” is reduced by the amount of the principal payments. At the end of each fiscal year, the balance in GL Code 5274 “Right-to-Use Lease Liability” related to the principal due in the next fiscal year should be reclassified to short term GL Code 5174 "Right-to-Use Lease Liability" and the balance in GL Code 5275 "Subscription IT Liability" related to the principal due in the next fiscal year should be reclassified to short term GL Code 5175 "Subscription IT Liability."

Refer to [Subsection 85.85.37.a](#) for illustrative entries.

85.72.25.c.(2)

Proprietary and Fiduciary Fund Type Accounts. In proprietary and fiduciary fund type accounts, a lease liability (GL Codes 5174/5274) or subscription liability (GL Codes 5175/5275) and an intangible right-to-use capital asset (26XX series) should be recorded in the fund at the commencement of the lease/subscription term.

Agencies should record payments to the lessor/vendor as an expenditure/expense using the subobject and sub-subobject that most accurately represents the payment. For example, Subobject/Sub-subobject ED/D010 “Rentals and Leases – Land and Buildings/Buildings Long Term” or EY/Y040 "Software Licenses, Maintenance, and Subscription-Based Computing Services/Software as a Service (SaaS).

By fiscal year-end, an entry must be recorded to reclassify the amount paid that is applicable to principal and interest on the lease/subscription liability by debiting GL Code 5174 “Right-to-use Lease Liability” or GL Code 5175 "Subscription IT Liability" for the portion of the payment related to principal and debiting GL 6525 "Expense Adjustments/Eliminations (GAAP)" with Subobject/Sub-subobject ED/D201 “Rentals and Leases – Land and Buildings/Lease Interest,” EH/H201 “Rentals and Leases – Furnishings and Equipment/Lease Interest,” or EY/Y201 "Software Licenses, Maintenance, and Subscription-Based Computing Services/SBITA Interest for the portion of the payment related to interest and crediting GL 6525 "Expense Adjustments/Eliminations (GAAP)" with the subobject and sub-subobjects used when the payments were made to the vendor/lessor.

In nonbudgeted proprietary and fiduciary fund type accounts, the liability is reduced and the interest expense is recorded as the periodic payments are made. The portion of the payment related to principal is recorded by debiting GL Code 5174 “Right-to-use Lease Liability” or GL Code 5175 "Subscription IT Liability." The portion of the payment related to interest is recorded by debiting GL Code 6510 “Cash Expenditures/Expense” with Subobject/Sub-subobject ED/D201 “Rentals and Leases – Land and Buildings/Lease Interest,” EH/H201 “Rentals and Leases – Furnishings and Equipment/Lease Interest,” or EY/Y201 "Software Licenses, Maintenance, and Subscription-Based Computing Services/SBITA interest."

Refer to [Subsection 85.85.37.b](#) for illustrative entries.



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85.72.25.d

Variable payments based on future performance of the agency or usage of the underlying asset should not be included in the measurement of the liability. Rather, those variable payments should be recognized as an expenditure/expense in the period in which the obligation for those payments is incurred.

Variable lease payments are to be recorded by debiting GL Code 6510 "Cash Expenditures/Expenses" with Subobject/Sub-subobject ED/D202 "Rentals and Leases – Land and Buildings/Variable Lease Payments," EH/H202 "Rentals and Leases – Furnishings and Equipment/Variable Lease Payments," or EY/Y202 "Software Licenses, Maintenance, and Subscription-Based Computing Services/Variable SBITA Payments."

85.72.25.e

Leases or SBITAs that are short-term or that do not meet the state's capitalization threshold (refer to [Subsection 30.20.20](#)) should be recorded as an expenditure/expense as the payments are made. Lease payments are to be recorded by debiting GL Code 6510 "Cash Expenditures/Expenses" with Subobject ED "Rentals and Leases - Land and Buildings" or EH "Rentals and Leases - Furnishings and Equipment." SBITA payments are to be recorded by debiting GL Code 6510 "Cash Expenditures/Expenses" with Subobject EY "Software Licenses, Maintenance, and Subscription-Based Computing Services."

85.72.30 Lease liability for lease-to-own agreements

July 1, 2021

85.72.30.a

Lease-to-own agreements where the ownership of the underlying asset transfers to the state by the end of the contract and does not contain termination options should be recorded as a financed purchase. The liability should initially be recorded at the net present value of the future minimum lease payments at the inception of the lease. Refer to [Subsections 30.20.40](#) and [85.60.70](#).

Accounting for a lease-to-own agreement consists of:

1. Recording the capital asset and lease-to-own agreements payable at its inception,
2. Updating the capital asset inventory system,
3. Separating periodic payments into principal and interest portions, and
4. Applying payments to the correct object of expenditure.

85.72.30.b

Governmental Fund Type Accounts. At the commencement of the lease term, the acquisition of the capital asset is recorded as an expenditure in GL Code 6514 "Capital Asset Acquisitions by Other Financing Sources" with an appropriate subobject within Object J "Capital Outlays" and the lease proceeds are recorded in GL Code 3221 "Other Financing Sources," Revenue Source Code 0809 "Lease-to-Own Acquisition."



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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 [30.20.40](#) for further information.

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-to-own agreements payable 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.

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.

Agencies should review the balance in GL Code 5272 at the end of each fiscal year and reclassify as short term (GL Code 5172 "Lease-to-Own Agreements Payable") that portion of the lease liability that is due to be paid in the next fiscal year.

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.

85.72.30.c

Proprietary and Fiduciary Fund Type Accounts. The entry for a lease-to-own asset acquisition is recorded in the acquiring account by debiting GL Code Series 2XXX "Capital Assets" and crediting GL Code 5172/5272 "Lease-to-Own Agreements Payable." Refer to [Subsection 85.65.62.b](#) for illustrative entries. [Subsection 85.85.40.b](#) shows detailed illustrations for recording lease liabilities and subsequent payments on leases.

Periodic payments represent a combination of debt service and a reduction of a liability in proprietary and fiduciary fund type accounts. If the lease-to-own liability was recorded in GL Code 5172/5272, then GL Code 5172 is debited for the amount paid that is applicable to the principal portion of the lease-to-own agreements payable 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.

Agencies should review the balance in GL Code 5272 at the end of each fiscal year and reclassify as short term (GL Code 5172 "Lease-to-Own Agreements Payable") that portion of the lease liability that is due to be paid in the next fiscal year.

85.72.35 Liabilities for public-private and public-public partnerships and availability payment arrangements

July 1, 2022



85.72.35.a

Public-private and public-public partnerships (referred to as PPPs) are arrangements in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. Some PPPs are service concession arrangements (SCAs). Refer to [Subsection 30.20.47](#).

Availability payment arrangements (APAs) are arrangements in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

85.72.35.b Accounting for PPP and APA liabilities

The **operator** in a PPP arrangement, as applicable to the agreement, records: a liability for installment payments; a right-to-use asset; a liability for the underlying PPP asset to be transferred to the transferor; and a deferred outflow of resources.

APAs should be accounted for as a financed purchase by recording an acquisition of a capital asset and the incurrence of a liability, similar to a lease-to-own agreement. Refer to [Subsection 85.85.40](#) for illustrative entries.

Agencies should contact their OFM Statewide Accountant for more details and assistance.

85.72.40 Certificates of Participation (COP)

June 1, 2013

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 \(COP\)](#) 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.



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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 expenditure authority charge. It is the payment of the COP principal that is charged against expenditure authority.

85.72.40.d

When COP financed capital assets are acquired in governmental fund type accounts, the acquisition or construction is recorded as an expenditure using GL Code 6514 "Capital Asset Acquisitions by Other Financing Sources" and the proceeds are recorded in the acquiring account using GL Code 3221 "Other Financing Sources" Revenue Source Code 0807 "Certificates of Participation." The COP liability is recorded in Account 999 "General Long-Term Obligations Subsidiary Account" and the capital assets acquired in Account 997 "General Capital Assets Subsidiary Account."

For real estate acquisition/construction/renovation projects financed through COPs (excluding higher education), the COP proceeds are deposited into and expended out of a construction account.

For acquisition of equipment or real estate through COPs in proprietary and fiduciary fund type accounts, the COP liability and the corresponding asset are recorded in the acquiring account.

All assets acquired with COPs are capitalized. Refer to [Subsection 30.20.20](#).

OST accounts for COP sale and repayment activity in Account 739 "Certificate of Participation and Other Financing Account - State."

Refer to [Subsection 85.85.45](#) and [85.85.50](#) for illustrative entries.

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 fiduciary 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 expenditure authority charge for the portion of the payment applicable to the principal. This additional entry involves a debit 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 [Subsection 85.85.45](#) and [85.85.50](#) for illustrative entries.



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85.72.40.f

Refunding COPs - When advantageous and permitted by statute or COP covenants, the state refunds outstanding COPs. Refunding occurs when new COPs are issued to provide resources to satisfy the debt service requirements of an outstanding COP issue.

An economic gain or loss arises because of a refunding. The economic gain or loss is computed by determining the difference between the present value of cash flow requirements of the refunded debt and the present value of cash flow requirements of the refunding debt. The economic gain or loss is disclosed in the notes to the financial statements in the state's Annual Comprehensive Financial Report (ACFR).

There are two types of refunding:

- **Current Refunding** - To qualify as a current refunding, the refunded debt must all mature or be redeemed within 90 days from the date of issuance of the refunding debt.
- **Advance Refunding** - 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 COPs until the COPs are called or mature. The refunded COPs are considered to be defeased. Neither the liability for the refunded COPs nor the securities held in the irrevocable trusts are reflected in the state's financial accounting records.

In **governmental funds**, COP debt is refunded using a governmental fund type account but the accounting varies depending on whether it is a current refunding or an advance refunding.

In a current COP refunding, the refunding (new COP) proceeds are recorded with Revenue Source Code 0854 "Proceeds of Refunding COPs." The payment to the escrow agent is recorded as an expenditure, subobject PA "Principal" and/or PB "Interest." Original issue premiums are recorded to Revenue Source Code 0853 "Original Issue Premium – Refunding COPs." Original issue discounts are recorded to Revenue Source Code 0851 "Original Issue Discount – Refunding COPs." Issuance costs, including underwriter's discount, are recorded to Revenue Source Code 0852 "Underwriters Discount/Costs of Issuance – Refunding COPs."

In an advance COP refunding, the refunding (new COP) proceeds are recorded with Revenue Source Code 0854 "Proceeds of Refunding COPs." The payment to the escrow agent is recorded with Revenue Source Code 0850 "Payments to Refunded COP Escrow Agents." Original issue premiums are recorded to Revenue Source Code 0853 "Original Issue Premium – Refunding COPs." Original issue discounts are recorded to Revenue Source Code 0851 "Original Issue Discount – Refunding COPs." Issuance costs, including underwriter's discount, are recorded to Revenue Source Code 0852 "Underwriters Discount/Costs of Issuance – Refunding COPs."

The refunded debt (old COP) is removed from and the refunding debt (new COP) is recorded in Account 999 "General Long-Term Obligations Subsidiary Account."

In a **proprietary or fiduciary fund** type account, when COP debt is refunded (either a current or advance refunding), the refunded (old) COP is removed from, and the refunding (new) COP is recorded in the applicable account. If material, the difference between (1) the book value of the refunded (old) COP and



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(2) the amount required to retire the old COP is deferred. The deferred amount is recorded in GL Code 5266 "Deferred Inflow on COP Refundings" (credit amount) or 1971 "Deferred Outflow on COP Refunding" (debit amount). The deferred amount is amortized as an adjustment to interest expense over the remaining life of the refunded COP or the life of the refunding COP, whichever is shorter. Refer to [Subsection 85.85.52](#) for illustrative entries.

The book value of the refunded COP includes its maturity value, any related unamortized premium or discount (GL Codes 5920 "Unamortized Premiums on COPs Sold" and 1911 "Unamortized Discounts on COPs Sold").

85.72.50 Vacation leave payable

July 1, 2009

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 fiduciary fund type accounts record vacation leave payable as a fund liability.

85.72.50.b Establishing the Liability

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.)

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**



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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 fiduciary 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.

85.72.60 Sick leave payable

June 1, 2004

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

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.



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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 Statewide Accounting.

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.

Multiply the estimated sick leave that will be paid 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 fiduciary 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 Compensatory time payable

July 1, 2009

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 fiduciary fund type accounts record vacation leave payable as a fund liability.

85.72.65.b Establishing the Liability

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.)

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)



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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 fiduciary 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.

85.72.70 Termination benefits

July 1, 2006

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 post employment benefits are not considered termination benefits.

In governmental fund type accounts, termination benefits are recorded as an expenditure and fund liability. In proprietary and fiduciary fund type accounts, termination benefits are recorded as an expense and fund liability. Agencies should contact their OFM Statewide Accountant for further guidance on recording termination benefits.