

Document Code No.: FIN-12-4-EP

Title: Lease Accounting

Affected Agencies: All King County Executive Branch Agencies

Authorities: 43.09.200 RCW

Keywords: Personal Property, Real Property, Lease, Use Agreement, Franchise

Sponsoring Agency: DES Finance and Business Operations Division

Executive signature: Dow Conrath

Date signed and effective: 12.14.22



King County

I. Purpose

This policy establishes practices and accounting guidelines for capitalizing leased assets. This policy is intended to streamline and simplify accounting practices related to reporting leases, especially for personal property assets; and to reduce the administrative burden on county staff while complying with Government Accounting Standards Board (GASB) rules.

Applicability and Audience

This policy applies to the Administrative Offices and Executive Departments supervised by the King County Executive and any non-Executive Branch King County departments adopting this policy.

The policy does not apply to leases containing exclusively real property assets, which are governed by 4.56.150 KCC where the County is lessor and 4.56.186 KCC where the County is lessee.

II. Definitions

“EBS” means the county’s Oracle Electronic Business Suite system.

“FBOD” refers to the Finance and Business Operations Division of the Department of Executive Services.

“Personal property asset” or “personal property” refers to a class of capital assets which includes all movable furniture, machinery, and equipment as well as plant and other fixed equipment.

“Lease” means a legally binding arrangement where one party, the lessee, has the right to use the non-financial asset of another party, the lessor, for a finite period of time in an exchange or exchange-like transaction. A document or contract need not be called a “lease” to meet this definition. Common terms used by the County include use agreements, franchise agreements, and licenses.

“Real Property Assets” or “real property” refers to a class of fixed capital assets which includes land, buildings, and all things immovably attached to them.

“Total Cost of Ownership” or “TCO” means the sum of all direct and indirect costs involved in acquiring and operating an asset over its lifetime. These costs include lease or purchase price, installation, service, and maintenance costs, supply costs, transaction costs, interest charges, taxes, and other administration and lease accounting costs incurred throughout government.

III. Policy

A. New Leases

1. County agencies shall consider the Total Cost of Ownership when evaluating whether owning or leasing a real property or personal property asset provides the best economic benefit to the County.
 - a. For purposes of performing lease/buy analysis, county agencies should assume that lease accounting activities will cost \$1,000 per lease per year.
 - b. Leases for personal property costing less than \$100,000 incur disproportionate administrative cost under current GASB guidelines and are prohibited. Exceptions must be approved by FBOD, Director of Finance prior to entering into the lease. Alternatives to leasing include purchase, rental, or other non-lease arrangement.
2. Departments/agencies must report leases meeting the following criteria to the FBOD Financial Accounting Unit within 30 days of lease initiation (when the period covered by the lease's right-of-use provisions begins):
 - a. Lease has a duration of greater than one year, including options to extend whether they are likely to be utilized or not. For lease accounting purposes, the following provisions are excluded when calculating lease duration:
 - i. Clauses that terminate the lease based on insufficient appropriation.
 - ii. Periods of time wherein both the lessee and the lessor can unilaterally terminate the lease.
 - b. The value received, whether monetary or other forms of consideration received by the lessor, is approximately equivalent to the value received by the lessee in using the underlying asset at lease initiation, and for every lease amendment thereafter.
3. Agencies reporting leases that cover multiple assets shall provide the Financial Accounting Unit with a list of assets covered by the lease.
4. The Financial Accounting Unit will maintain the County's central lease inventory and provide agencies with a unique identifier with which to identify all new leases within 30 days of a new lease being reported.
5. Leases where the County is the lessor shall be billed through FBOD Accounts Receivable and the EBS Accounts Receivable module. Maintenance, taxes (including leasehold excise tax), and other non-lease amounts shall be invoiced on separate lines from the lease amount.

B. Existing Leases

1. Agencies will review leases with options to terminate, purchase the underlying asset, or extend the lease term at least annually and report changes in the likelihood that a lease will use such options to the Financial Accounting Unit.
2. For personal property leases where the County is lessee, agencies shall reference the Financial Accounting Unit's lease identifier in the payment description.
3. Agency staff making payments shall not bundle multiple leases on the same Purchase Order line or Purchasing Card expense line.
4. The preferred method of paying a lease where the County is the lessee is by check/ACH transactions through FBOD Accounts Payable. Because Purchasing Card (P-card) payments are difficult to reconcile for lease accounting purposes, using a P-card to make a lease payment is permitted only under the following conditions:
 - a. Agencies must identify the specific lease being paid by ensuring the County's lease contract number, Work Order, and the Financial Accounting Unit's lease identifier are included in the payment description.
 - b. After three warnings, failure to comply may result in FBOD charging a surcharge to the agency in question for each additional instance of non-compliance.

C. Lease Modifications

1. Agencies with leases must report changes in the type or quantity of assets under lease, the term of the lease, lease pricing, or the fund making lease payments to the Financial Accounting Unit within 30 days of the change effective date.

IV. Implementation Plan

- A. This policy becomes effective for Executive Branch agencies on the date that it is signed by the Executive. The FBOD is responsible for implementation of this policy.
- B. The FBOD is responsible for communicating this policy to the management structure within their respective agencies and other appropriate parties.

V. Maintenance

- A. This policy will be maintained by the FBOD or its successor agency.

- B. This policy will automatically expire five (5) years after its effective date. A new, revised, or renewed policy will be initiated by the FBOD, or its successor agency, prior to the expiration date, or to reflect changes to GASB lease accounting requirements.

VI. Consequences for Noncompliance

- A. Failure to comply with this policy could result in audit findings against the county, resulting in loss of the public's trust in their government's ability to manage its assets. Departments and agencies that do not conform to this policy may be in violation of required accounting standards.

Appendices

Lease Accounting Procedure Manual – [SharePoint link](#)