3.4 **Liabilities**

3.4.1 **Leases**

3.4.1.10 A number of Washington municipalities are entering into tax-exempt municipal leases as a method of financing purchases of equipment. We want to emphasize some accounting procedures applicable to municipal leases:

1. The asset acquired with the lease should be capitalized at the outset of the lease agreement.

2. Future lease principal payments should be recorded either as other financing uses or as proprietary fund liabilities.

3. Expenditures to make principal payments on leases should be coded to a debt service object.

4. In the year of acquisition, the entire principal should be budgeted as a capital outlay with a credit to other financing sources. Interest and principal payments should be included in the comprehensive budget of the municipality; however, like other debt service obligations, formal appropriation authority is not required.

3.4.1.20 Any contract, whether it is called a conditional sales contract, a lease with an option to purchase, or a simple lease, should be let only after competitive bidding if the contract exceeds minimum bidding dollar requirements and has some provision for the vesting of title in the municipality at the end of the term of the contract. Such contracts should be bid regardless of whether title vests automatically or upon the payment of additional consideration.

3.4.1.30 Fiscal funding or cancellation clauses normally do not prevent a lease from being capitalized as long as the possibility of cancellation is remote.