

LEASE GUIDE



For EPro and Purchasing Users

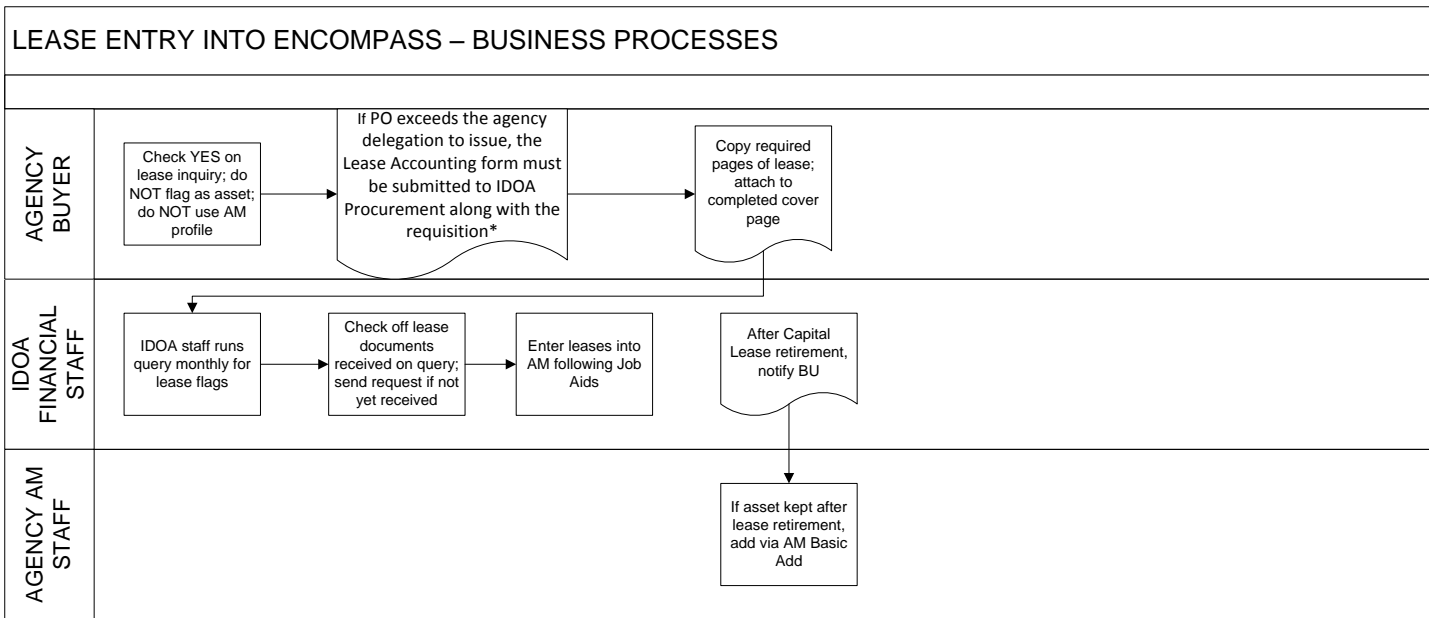
July 1, 2010

STATE OF INDIANA BUSINESS PROCESSES FOR LEASE ENTRY TO ENCOMPASS

The Indiana Department of Administration is, by statute, responsible for maintaining records of leases entered into by state agencies. These records must include financial information required for the state Comprehensive Annual Financial Report (CAFR). IDOA has delegated this responsibility to the Auditor of State, who also maintains Capital Asset records.

Only the finance staff at AOS are authorized to enter lease information into ENCOMPASS. In order that they receive complete information and leases are not duplicated, agency staff, beginning with the purchasing process, must follow certain guidelines.

1. PO creator does NOT enter asset profile on PO and does NOT flag as asset; DOES check 'yes' on lease inquiry.
2. PO creator sends, along with the completed Lease Accounting Form, a copy of pages containing EDS, financial information, dates, and purchase options for ALL lease documents to AOS Finance*. Other contract pages are not required. If other than a building lease, PO creator MUST note Location and Custodian of asset being leased. If desired, could send electronic copy of lease to AOS Finance.
3. If PO exceeds the agency delegation to issue, the Lease Accounting form must be submitted to AOS Finance along with the requisition with, at a minimum, the following fields completed – Requisition Number, PO Number (if available), Location, Custodian, Signature and Title of BU Representative.
4. AOS Finance staff runs query of leases from ePro at the end of each month; they then will check-off those with paperwork received and send a request to agency buyers for those not received.
5. AOS Finance staff enters leases into Asset Management, thus determining type of lease (capital or operating).
6. After saving the entry, AOS Finance staff notes the required information on lease documents and retains these records for future reference.
7. At expiration of lease, AOS asset staff retires lease and sends memo to agency, including info on entering the asset through AM Basic Add if leased equipment is kept by the agency.



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Only financial staff at AOS are authorized to enter lease information into ENCOMPASS. In order that they receive complete information and leases are not duplicated, others in agencies, beginning with the purchasing process, must follow these guidelines.

*The following fields must be completed – Requisition Number, PO Number (if available), Location, Custodian, Signature and Title of BU Representative.

STATE OF INDIANA – LEASE ACCOUNTING

<i>EDS Number:</i>	<i>EDS Date Prepared:</i>
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Document copies attached:

- _____ *Executive Document Summary (EDS)*
- _____ *Payment amount/terms page(s)*
- _____ *Buyout terms page(s)*
- _____ *Signature page*

If other than building lease, ENCOMPASS Location _____ and Custodian _____

<i>Business Unit Name:</i>	<i>Business Unit #:</i>	<i>Requisition #:</i>
<i>PO #:</i>	<i>Fund:</i>	<i>Program:</i>
<i>Dept:</i>	<i>Project:</i>	<i>Activity:</i>

Signature and Title of BU representative

This section for AOS FINANCE use only

<i>Date Rec'd:</i>	<i>Traced to monthly printout by:</i>
<i>Additional info requested date:</i>	<i>Additional info received:</i>
<i>Entered in ENCOMPASS by (User ID):</i>	<i>Date:</i>

<i>Lease ID:</i>	
<i>Asset ID (if Capital Lease):</i>	
<i>Lease Expiration Date:</i>	<i>Retired from ENCOMPASS User ID and date:</i>

DETERMINATION OF CAPITAL VS. OPERATING LEASE -- for Epro and Purchasing Users

(FINANCIAL ACCOUNTING STANDARD #13: Accounting for Leases)

The ENCOMPASS financial accounting system has the capacity to perform certain calculations to determine whether leased property (real estate, equipment, or other tangible property) qualifies as a capital or an operating lease. If said property is determined to be a capital lease, it is considered “as if” it has been purchased rather than leased for the term of the lease and must be included as an asset of the State and depreciated accordingly.

An operating lease is not considered as an asset.

Until the related calculations are made by the system in Asset Management, the classification of lease cannot be determined. Thus, for the purposes of a requisition or purchase order, you should avoid the use of a 55xxxx account for a lease. Instead, look in the list of expenditure accounts beginning with 59xxxx for rentals (590xxx for Real Estate Rentals and 591xxx for Equipment Rentals). These expenditures will remain in these accounts in the ACTUALS ledger; those that are determined to be Capital Leases by the IDOA Controller staff will be included as assets (155xxx) in the CAFR ledger.

Please note: It is important to separate maintenance costs from lease payments; accounts in the 533xxx section should be used for all maintenance costs, including maintenance on buildings and office equipment.

The following is an explanation of the calculations which will be made by the system to determine the lease type:

Capital leases – If, at its inception, a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property¹. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
4. The present value (PV) at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value (FV) at the inception of the lease. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
5. A lessee shall compute the present value of the minimum lease payments using his incremental borrowing rate², unless he knows the rate computed by the lessor and that rate is less than the lessee’s incremental borrowing rate.

¹ As determined by the State of Indiana Capital Asset Policy

² As revised annually by the Treasurer of State

Operating lease – A lease that does not qualify as a capital lease