



## Illinois Department of Corrections

### Administrative Directive

Number: <b>02.28.110</b>	Title: <b>Accounting for Capital Equipment Leases and Installment Purchases</b>	Effective: <b>8/1/2021</b>
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<b>Authorized by:</b>	<i>[Original Authorized Copy on File]</i>	<b>Rob Jeffreys</b> Director
<b>Supersedes:</b>	02.28.110 effective 8/1/1998	

<b>Authority:</b> 730 ILCS 5/3-2-2 Statewide Accounting Management System (SAMS)	<b>Related ACA Standards:</b> 5-ACI-1B-08, 13, 14
<b>Referenced Policies:</b>	<b>Referenced Forms:</b> C-15 – Agency Report of Fixed Assets

#### I. **POLICY**

Capital equipment leases and installment purchases shall be recorded in the General Ledger in accordance with this directive.

#### II. **PROCEDURE**

##### A. **Purpose**

The purpose of this directive is to establish uniform guidelines to account for capital equipment leases for all facilities.

##### B. **Applicability**

This directive is applicable to all correctional facilities within the Department.

##### C. **Facility Reviews**

A facility review of this directive may be conducted annually.

##### D. **Designees**

Individuals specified in this directive may designate stated responsibilities to another person or persons unless otherwise directed.

##### E. **Separation of Duties**

The following is a list of the responsibilities of the Division of Finance and Administration (DOFA) and the facility's Business Office personnel in regard to accounting for capital equipment leases.

1. The DOFA Procurement Section shall obtain all necessary approvals for all leases (except for telecommunications leases) and return all approved documents to the originating facility's Business Administrator.
2. The DOFA Telecommunications Coordinator shall forward all approved telecommunications leases to the facility's Business Administrator.

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3. Upon receipt of approved leases, the facility's Business Administrator shall forward a copy of the lease to the facility's Accountant, who shall:
  - a. Complete an Accounting for Leases Lessee, SCO 559, and submit to the Office of the Comptroller in accordance with the SAMS, Section 29.10.30.
  - b. Upon receipt of notification from the Comptroller's Office of a capital lease and amount, record the capital lease in the General Ledger and Agency Report of Fixed Assets, C-15.
4. The facility's Voucher Clerk shall provide copies of all processed payment vouchers for installment purchase agreements to the Accountant and shall ensure the principal and interest payments are listed separately on the Invoice Voucher. All interest payments shall be charged to the same appropriation as the principal payment.

**F. General Provisions**

1. Classification of Leases

There are two classifications of leases, capital and operating.

- a. If a lease meets one or more of the following criteria, it is classified as a capital lease (refer to Section 03.55.40 of the SAMS):
  - (1) The lease transfers ownership of the property to the lessee.
  - (2) The lease contains a bargain purchase option.
  - (3) The lease term is equal to 75% or more of the estimated useful economic life of the leased property.
  - (4) The present value of the minimum lease payments (excluding executory costs) equals or exceeds 90% of the fair value of the leased property.
- b. Leases that do not meet any of the four criteria for capital leases are classified as operating leases and rental payments for operating leases shall be expensed as they are incurred.

2. Types of Leases

- a. Leases with an Option to Purchase – where ownership is transferred upon exercising of the option.
- b. Installment Purchase Agreements – where title vests in the purchaser immediately.
- c. Lease purchase Agreements – where the title remains with the lessor until a specified time when the title is transferred to the lessee with or without any further payment.

3. Recording of Capital Lease Transactions

Capital leases shall be recorded as assets in the facilities' General Ledgers. The following outlines the proper journal entries and identifies the source documents and points of entry in the journals for each type of equipment lease listed in Paragraph II.E.

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a. Leases with Option to Purchase

- (1) When the lease agreement has been signed and the equipment has been received, the facility shall:
  - (a) Debit a leased equipment asset account for the total amount of all lease payments less any interest expense plus the amount payable when the option is exercised.
  - (b) Credit "Obligations Under Capital Leases" for the same amount. (A separate General Ledger account number shall be used for each lease.)
- (2) When the Invoice Voucher has been processed for the periodic rental payment, the facility shall:
  - (a) Debit "Obligations Under Capital Leases" for the amount of rental payment.
  - (b) Debit "Interest Expense" for any interest charge.
  - (c) Credit "Contractual Services Appropriation" or "Telecommunications Appropriation" for the amount of the payment.
- (3) When the option to purchase has been exercised; the Invoice Voucher has been processed for the additional payment; and the title has been acquired, the facility shall:
  - (a) Debit the appropriate detail object code asset account.
  - (b) Debit "Obligations Under Capital Leases" for the amount of the account balance.
  - (c) Credit "Equipment Appropriation" or "Telecommunications Appropriation" for the additional payment.
  - (d) Credit the leased equipment asset account.
  - (e) Record equipment in property control system.
- (4) If at the end of the lease the option to purchase is not exercised, the facility shall:
  - (a) Debit "Obligations under Capital Leases" for the amount payable if the option to purchase has not been exercised.
  - (b) Debit "Rental Expense" for the lease payments made during the fiscal year in which the lease expires.
  - (c) Debit "State of Illinois Net Worth" for the sum of the lease payments made in the prior fiscal years.
  - (d) Credit the leased equipment asset account originally charged.

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b. Installment Purchase Agreements

- (1) When the installment purchase agreement has been signed and the equipment received, the facility shall:
  - (a) Debit an equipment asset account for the purchase price of the equipment or the amount of principal (do not include interest or finance charges).
  - (b) Credit "Installment Purchase Payable" for the same amount. (Use a separate General Ledger account number for each lease.)
  - (c) Record the equipment in property control system.
- (2) When the Invoice Voucher has been processed for the payment of principal and interest for each accounting period, the facility shall:
  - (a) Debit "Installment Purchase Payable" for the amount of principal for the accounting period.
  - (b) Debit "Interest Expense" for the amount of interest.
  - (c) Credit "Contractual Services Appropriation" (for duplication or photocopy equipment), "Electronic Data Processing Appropriation," "Equipment Appropriation" or "Telecommunications Appropriation" for the total amount of principal and interest.

c. Lease purchase Agreements

- (1) When the lease purchase agreement has been signed and the equipment has been received, the facility shall:
  - (a) Debit the appropriate leased equipment asset account for the total amount of all rental payments.
  - (b) Credit "Lease purchase Payable" for the same amount. (Use a separate General Ledger account number for each lease.)
- (2) When the Invoice Voucher has been processed for the periodic rental payment, the facility shall:
  - (a) Debit "Lease purchase Payable" for the amount of the periodic rental payment.
  - (b) Credit "Equipment Appropriation" or "Telecommunications Appropriation" for the same amount.
- (3) When the title is transferred to the facility, the facility shall:
  - (a) Debit the appropriate equipment asset account.
  - (b) Credit the leased equipment asset account.

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(c) Record the equipment in the property control system.

4. Cancellation of Capital Leases

The following entries shall be recorded if a capital lease purchase agreement is canceled.

- a. Debit "Obligations under Capital Leases" for the account balance.
- b. Debit "Rental Expense" for all payments made during the current fiscal year.
- c. Debit "State of Illinois Net Worth" for the sum of lease payments made in a prior fiscal year.
- d. Credit the asset account originally charged.

5. Cancellation of Installment Purchase Agreements

- a. Debit "Installment Purchase Payable" for the remaining balance.
- b. Debit "Rental Expense" for payments made during the fiscal year the agreement is canceled.
- c. Debit "State of Illinois Net Worth" for installment payments made during prior fiscal years.
- d. Credit the asset account originally charged.
- e. Prepare necessary document to remove equipment from property control system.

6. Any questions regarding this directive should be directed to the Division of Finance and Administration, Management and Budget Unit, Accounting Section, (217) 522 2666 extension 4122.