

CHAPTER 30-7 CAPITAL LEASE REPORTING

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30-7.1 PURPOSE

Capital leases are considered a liability of the Federal Government. As such, the Indian Health Service (IHS) is required to report them.

The IHS strives not to acquire capital leases. However, when they occur they are subject to Federal accounting standards, regulations, and reporting requirements. This chapter provides guidance on reporting capital leases.

30-7.2 GUIDANCE

All direct leases, excluding Village-Built-Clinic and nominal/no-cost leases, shall be evaluated to determine if they are classified as a capital lease in accordance with Technical Handbook Section 3-2.1 "Capital Lease Analysis." Once IHS enters into a capital lease, it is reported in the General and Real Property Subsidiary Ledgers and as required to meet auditing requirements.

30-7.3 STANDARDS

The OMB through the Federal Accounting Standards Advisory Board (FASAB) has developed several accounting standards that deal with real property assets and liabilities. The FASAB produced a series of Statement of Federal Financial Accounting Standards (SFFAS). Applicable SFFAS standards are summarized below:

SFFAS #5, Accounting for Liabilities of the Federal Government. This standard requires that present value of minimum rent payments for all leased real property assets which do not meet the criteria of an 'operating lease' be reported in the agency's general financial statements.

SFFAS #6, Accounting for Property, Plant and Equipment. This standard directs how Federal agencies will track real property assets in its Real Property Inventories (RPI) and requires the reconciliation of these inventories (subsidiary ledger accounts) with the agency's general financial statement.

In addition to the SFFAS, two Office of Management and Budget (OMB) Circulars provide guidance and standards applicable to Capital Lease issues. OMB Circular A-11, Preparation, Submission and Execution of the Budget, provides instructions on scoring lease-purchases and leases of capital assets consistent with the scorekeeping rule developed by the executive and legislative branches in connection with the Budget Enforcement Act of 1990, as revised pursuant to the Balanced Budget Act of 1997.

OMB Circular A-94, Guidelines for Discount Rates for Benefit Cost Analysis of Federal Programs, is used in preparing the Capital Analysis Worksheet.

30-7.4 DEFINITIONS

Capital Leases. Leases that transfer substantially all the benefits and risks of ownership to the lessee. Per OMB Circular A-11, a lease is considered a capital lease when it meets one or more of following criteria:

- Ownership of the asset is conveyed to the Government at the end of the lease period;
- Lease contains an option to purchase the asset at a bargain price;
- The lease life exceeds 75% of the asset life;
- The present value of the minimum lease payments exceed 90% of the assets fair market value at the inception of the lease;
- The asset is constructed on Government land;
- The asset is not general purpose in nature and was built to unique Government specifications;
- There is no private sector market for the asset; or
- The Government must assume all the financial risks of ownership of the asset, even though they may not be at fault for loss of the asset.

If a lease does not meet any of these criteria it is an operating lease.

Direct Lease. Lease agreements that the IHS enters into directly with the lessor.

Fair Market Value. The price at which property is donated or transferred between a willing buyer and seller, each of whom has a reasonable knowledge of all pertinent facts with neither being under any obligation to buy or sell.

Operating Lease. A lease that does not meet any of the eight criteria listed for a capital lease (see capital lease definition above). It is an agreement conveying the right to use property for a limited time

in exchange for periodic payment. A lease is considered an operating lease when:

- The lessee is granted only the right to use the property and assumes no risk of ownership;
- The lease life does not exceed 75% of the asset life; and
- The lease payments do not exceed 90% of the asset value.

Present Value. The discounted monetized value of the expected asset.

Health Facilities Data System (HFDS). The IHS-wide asset management database where the IHS lease inventory is maintained and from which the subsidiary ledger that accounts for Federally-leased real property for which the IHS has custody and accountability for is drawn.

30-7.5 REPORTING REQUIREMENTS

Per SFFAS #5, the amount to be recorded by the lessee as a liability under a capital lease is the present value of the rental and the minimum rent payments during the lease term, excluding that portion of the payments representing executory costs to be paid by the lessor.

Per SFFAS #6, the cost of general property, plant, and equipment acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception (i.e., the net present value of the lease payments calculated as specified in the liability standard, unless the net present value exceeds the fair market value of the asset).

30-7.6 PROCESS

The LCO is responsible for entering data on capital leases in the HFDS and updating the data annually. The HFDS tracks the current and last year's actual lease costs and projects forward 5 years.

The Office of Finance and Accounting enters the obligation data under object class 32.61, *Land, Buildings, and Structures under Capital Lease*, as of the effective date of the lease.

The Parklawn Support Center in conjunction with the IHS Office of Finance and Accounting, Headquarters, will reconcile the General Ledger quarterly or as required. A monthly reconciliation of lease debt expenditures may need to be performed to deduct minimum rent payments from the total.

The Division of Facilities Operations, Office of Environmental Health and Engineering, Headquarters will provide capital lease reporting as required to meet audit requirements.