State of Kansas
Operating Leases
Statewide Management, Accounting and Reporting Tool

S M A R T
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K A N S A S

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The Department of Administration has made the decision that lease entry into SMART Asset Management (AM) is optional beginning January 1, 2013. If an agency chooses to continue entering leases, only operating leases should be tracked in SMART Asset Management. Capital leases will not be tracked in SMART.

Leases entered in AM will only be used for an agency's internal tracking. The Department of Administration will not use this information in the statewide financial reports. Therefore, no entries will be generated forward to GL for leases.

It should be noted that the Asset Management module does NOT send payment information to the Accounts Payable module. Your agency will still be responsible for generating lease payments.

Prior to entering a lease in SMART, your agency must validate the lease is an operating lease. To be an operating lease, none of the criteria below can be met.

- There is an ownership transfer at the end of the lease.
- The lease contains a Bargain Purchase Option (BPO).
- The lease term is 75 percent or more of the asset's life.
- The present value of the minimum lease payment is 90 percent or more of the Fair Market Value (FMV) of the asset.

The instructions below show how to:
- Enter an operating lease
- Update an operating lease
- Change the chartfields for an operating lease
- Retire an operating lease

Entering an Operating Lease

Step 1: Navigate to *Asset Management > Asset Transactions > Leased Assets > Express Add*. Enter your Business Unit and click Add.

Step 2: Populate the fields on the **Definition** tab. If a field is not mentioned, do not populate that field.

Fields:

First Section

- **Profile ID**: Do NOT select a Profile ID for an operating lease.
- **Description**: Enter a description for the lease.
- **Asset Type**: For operating leases, select an appropriate Asset Type.
- **Serial ID**: Enter the Serial ID, if applicable.
- **Subtype**: Select an appropriate Subtype.
- **Tag Number**: Enter the Tag Number, if applicable.

- **Trans Date (Transaction Date):** This field drives the start date of the Payment Schedule. If the lease being entered began October 1, 2009, enter 10/01/2009 as the Transaction Date.
- **Acctg Date** (Accounting Date): The Accounting Date should be the current date.

Lease Information section
- **Vendor ID**: Select the vendor serving as the lessor from the lookup.
- **Lease End Date**: Enter the date the lease expires.

Lease Term
- **Lease Term**: Enter the number of periods (months) the lease is active. This should correspond with the Lease End Date. For example, a three-year lease will have 36 periods.
- **Estimated Life**: Enter 1,000.
  - Because one of the criteria under FASB 13 has to do with the lease term and estimated life, it's necessary to inflate this figure to prevent the system from calculating the lease as an operating lease. It is important to populate this field; otherwise, the value entered in the Lease Term field will default into the Estimated Life field, and the lease will be defined as a capital lease when it should be an operating lease.
- **Payment Schedule ID**: Select the appropriate value from the drop-down. Examples include Annual, Monthly, Quarterly, and Semi-annual payment schedules.
- **Fair Value**: Enter 100,000,000,000,000.
  - Because Fair Market Value (FMV) is one of the criteria under FASB 13 to determine whether a lease is capital or operating, this field must be inflated to prevent the system from calculating the lease as a capital lease.
- **Minimum Rental Payment (MRP):** Enter the periodic lease payment dependent on the Payment Schedule. If the Payment Schedule is Monthly, this would be the monthly payment; if the Payment Schedule is Quarterly, this would be the quarterly payment, etc.
- **Lease Payment Type:** Select the appropriate payment type for the lease.
  - **Advanced**: first payment due before the lease begins
  - **Arrears**: payment due at the end of the period
- **Lease Type:** Select Operating.

Step 3: Click **Calculate**. (Do NOT click Verify.) This populates the **Payment Schedule** tab, as well as the following fields:
- **Minimum Lease Payments (MLP):** In general, the MLP is equal to the MRP * (Lease Term/12 periods) * number of payments per year (i.e. Payment Schedule). For example: $100 MRP for 36 Life Months on a Quarterly Payment Schedule would be 100*(36/12)*4 = 1200. This should equate to the Payment Total column on the Payment Schedule tab.
- **Present Value Lease Payments**: This value should be the same as what was calculated for the MLP.
- **Capitalized Lease Amount**: This field should be 0.00. Operating leases are not capitalized.

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Step 4: Click the **Operating Chartfields** tab. Select **OPLSE** as the Category, then enter the chartfields used to fund the lease in the appropriate fields. At a minimum, Fund should be entered.

Step 5: Review the **Payment Schedule** tab. The first payment should correspond with when the lease began. The Payment Total column should display the Minimum Rental Payment entered in the **Definition** tab. The payment frequency will depend on the **Payment Schedule ID** selected on the **Definition** tab. If a monthly Payment Schedule ID was selected, a payment will display for each new month. There should not be any values in the Interest Expense column. The **Payment Schedule** tab is for informational purposes only; it will not generate payments in the Accounts Payable module.

Step 6: Click **Save**. An Asset ID will be assigned.

Updating an Operating Lease

Similar to how owned assets can be updated in Basic Add, leased assets can be updated on the Update Lease Information page (Asset Management > Asset Transactions > Leased Assets > Update Lease Information). Any of the following fields can be updated:

- Description
- Serial ID
- Tag Number
- Vendor

If updates are needed to financial fields or if a lease is renewed, it is recommended that you retire the existing lease and add a new one with the corrected/renewal information. (See the steps below for Retiring an Operating Lease). The financial fields include:

- Lease End Date
- Lease Term
- Payment Schedule ID
- Minimum Rental Payment

Changing Chartfields for an Operating Lease

Step 1: Navigate to *Asset Management > Asset Transactions > Leased Assets > Transfer Operating Lease*. Enter your Business Unit and Asset ID and click Search.

Step 2: Populate the New Chartfields section with the appropriate chartfield(s).

Step 3: Click Save. The Operating Chartfields tab on the Update Lease Information tab will now display the new set of chartfields.

Retiring an Operating Lease

Step 1: Navigate to *Asset Management > Asset Transactions > Asset Disposal > Retire/Reinstate **Non-Fin** Asset*. Enter your Business Unit and Asset ID and click Search.

Step 2: Click Retire. You can select a different Retirement Type from the drop down if you wish. Sale defaults in.

Step 3: Click Save. The operating lease is now Disposed.