



Roland W. Burris

Comptroller
State of Illinois

ACCOUNTING BULLETIN NO. 39

201 State House
Springfield, Illinois 62706
217/782-6000

April 16, 1982

TO: Agency Heads and Chief Fiscal
Officers of All State Agencies

SUBJECT: Personal Property Contracts

A review of contracts on file with the Office of the Comptroller indicates that some agencies are improperly charging expenditures pursuant to agreements for the acquisition of equipment to the "contractual services" line item instead of the "equipment" line item. Charges for the outright purchase, lease-purchase or installment purchase of tangible personal property, whether pursuant to a multi-year agreement or not, are generally chargeable to the "equipment" line item. Charges for the rental of tangible personal property are properly chargeable to the "contractual services" line item. The fact that an agreement is labeled a "lease" does not make it a rental contract, if it, in fact, constitutes a contract to purchase.

Beginning with Fiscal Year 1983, the Comptroller will process payments in accordance with the guidelines set forth in this Bulletin.

Duplicating Equipment:

Section 15a of the State Finance Act provides in part:

The item "contractual services", when used in an appropriation act, means and includes:

X X X

(d) Expenditures pursuant to multi-year lease, lease-purchase, or installment purchase contracts for duplicating equipment authorized by Section 5.1 of "The Illinois Purchasing Act", approved July 11, 1957, as now or hereafter amended.

X X X

Based upon this definition all payments pursuant to multi-year agreements for the lease or purchase of duplicating equipment are chargeable to "contractual services". Outright purchases or installment purchases of

duplicating equipment which only involve one fiscal year are chargeable to "Equipment."

Electronic Data Processing Equipment:

When the agency has an appropriation item "For Electronic Data Processing", charges for the rental or acquisition of electronic data processing equipment are properly chargeable to this object. When an agency does not have such an appropriation, the same guidelines apply to electronic data processing equipment, as apply to other items of tangible personal property.

Telecommunication Equipment:

Charges for the rental, lease, or purchase of telecommunication equipment must be charged to the "For Telecommunication Services" major object.

Lease of Tangible Personal Property:

A lease is an agreement providing for the use of property for a specified period of time in return for consideration. Ownership (title) is retained by the lessor.

Leases of tangible personal property are chargeable to "Contractual Services."

Lease with Option to Purchase:

A lease with an option to purchase is a lease where the lessee has the right to acquire title to the property at some time during the term of the agreement for an additional payment. The additional payment must be more than nominal.

A lease with an option to purchase is chargeable to "Contractual Services" until the option is exercised. When the option is exercised, the payment must be charged to "Equipment."

Installment Purchase:

An installment purchase agreement is an agreement where title to the property (ownership) vests in the purchaser immediately.

Installment purchase agreements are chargeable to "Equipment."

Lease-Purchase:

A lease-purchase agreement is an agreement where title remains with the lessor until a specified time when it may be acquired by the lessee merely by payment of a nominal amount or without any further payment.

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For example, an agreement where the option to purchase may be exercised upon the payment of \$1.00 is a lease-purchase agreement.

Also, a contract where the lessee obtains title after the last periodic payment required by the agreement is a lease-purchase.

A lease-purchase agreement must be charged to the "Equipment" line item.

It must be emphasized that it is the terms of the agreement which determine the correct object of expenditure, not the label used. In some cases, there will be agreements which do not seem to match any of the above definitions. These must be reviewed on a case by case basis.

A summary of the above guidelines is set forth below:

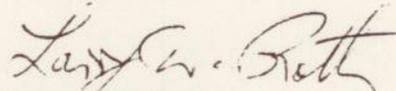
1. All multi-year agreements for duplicating equipment are chargeable to contractual services.
2. All expenditures for electronic data processing equipment are chargeable to the "Electronic Data Processing" major object, when the agency has this appropriation.

When an agency does not have an appropriation line item "For Electronic Data Processing", the same rules apply as to other items of tangible personal property.

3. All expenditures for telecommunication equipment are chargeable to the "Telecommunications Services" major object.
4. Leases are chargeable to "contractual services."
5. Leases with an option to purchase are chargeable to "contractual services," until the option is exercised. When the option is exercised, the payment must be from "Equipment."
6. Installment purchase agreements are chargeable to "Equipment."
7. Lease-purchase agreements are chargeable to "Equipment."

Questions concerning this bulletin should be addressed to Joe DiRocco who may be reached at 217/782-3608.

Sincerely,



Larry D. Roth
Director, State Accounting

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