



Agency Policies and Procedures

Issue Date: August 19, 1999
Revised Date:

Policy Number: FMR-1F-01
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Master Lease Program

Policy Objectives:

Agency policies and procedures for the master lease program are designed to:

- Ensure consistent processing of purchases,
- Ensure consistent processing of loan money received and vendor payments,
- Ensure timely repayments, and
- Ensure accounting for master lease loans are consistent agency wide.

Background Information:

Master lease loans are typically used to help Minnesota Management and Budget the purchase of equipment used in the normal course of the governments business, such as computers and related equipment, telephones, machinery, cars, trucks, and office furniture that have a life expectancy of more than one year.

Authority:

- **Minnesota Statutes**
 - [M.S. § 16A.85 Master Lease](https://www.revisor.leg.state.mn.us/statutes/?id=16A.85) – This statute authorizes the commissioner of Admin to determine, in conjunction with the commissioner of Finance, the personal property needs of the various state departments, agencies, boards, commissions and the legislature that may be economically funded through a master lease program. (<https://www.revisor.leg.state.mn.us/statutes/?id=16A.85>)
 - [M.S. § 16A.15 Accounting System; Allotment and Encumbrance](https://www.revisor.leg.state.mn.us/statutes/?id=16A.15) – This statute identifies the proper procedure on incurring obligations and processing payments. (<https://www.revisor.leg.state.mn.us/statutes/?id=16A.15>)
- [Internal Revenue Service \(IRS\) Code - Title 26, subtitle A, Chapter 1, Subtitle B, part IV, subpart B, section 148 Arbitrage](#) – Federal regulations on the spending and refunding of loan money.

Business Risks:

- If loan repayments are not made timely this may adversely affect future loans.
- If loan funds are deposited incorrectly, invoices would not be paid, causing a potential violation of M.S. § 16A.

Policies and Procedures:

PART ONE – THE LOAN PROCESS

1. Division Responsibilities

- A. It is the agencies/divisions responsibility to maintain and guarantee that master lease funds are spent and maintained in accordance to which it was intended. In the event that an agency/division ceases to exist, the

agency/division *must* notify the Financial Management and Reporting (FMR) Division accountant for the proper procedure on completing the loan repayment process.

- B. Issue a purchase order (PO) and encumber the money in the appropriate master lease fund (060).
- C. The Department of Minnesota Management and Budget (MMB) will supply a master lease draw schedule (Refer to Exhibit A).
- D. Requesting division will fill out a *Certificate of Participation* (Refer to Exhibit B) for each vendor with which a purchase is being made.
 1. On the *Certificate of Participation*, the following items must appear:
 - a. PO number
 - b. Agency name
 - c. Equipment information
 1. Description of equipment, and
 2. Vendor name and division
 - d. Invoice information
 1. Date of invoice,
 2. Invoice number, and
 3. Amount of purchase
 - e. Financial information
 1. Purchase price (includes sales tax if applicable), and
 2. Life of loan (terms of the loan, 2 to 5 years)
 2. Attached to the *Certificate of Participation* will be the:
 - a. Invoice
 - b. PO
 - c. If applicable, the following items should also be included:
 1. Receiving report (signed and dated by receiving agent),
 2. Packing slips (signed and dated by receiving agent),
 3. Bills of lading,
 4. Shippers inventory documents, and
 5. Shipping tickets.
 3. Make two copies of the *Certificates of Participation* and all the attachments. Send these two copies to the FMR Division accountant.
- E. Make a copy of the PO, receiving documents, packing slips, and invoices. Send these documents to the division's fixed asset coordinator. The division fixed asset coordinator will look at the purchase, and determine what equipment is a fixed asset, sensitive item, or a direct expense. The coordinator will then make the necessary adjustments to their fixed asset database and calculate depreciation per agency policy.
- F. Upon receiving the loan funds in MAPS, the requesting division will pay the invoices from the appropriate master lease loan fund (060). Payment for equipment must be made within six months of receiving the cash or the equipment. Failure to spend down all cash in fund 060 will require the division to comply with IRS Section 148, *Arbitrage*.

2. FMR Responsibilities

- A. The FMR Division accountant will sign as the authorized agency representative and forward one copy of the *Certificate of Participation*, with the attachments, to MMB. The FMR Division accountant will retain a second copy.
- B. The FMR Division accountant will update the amortization spreadsheets and record the cash proceeds in the financial records for the correct accounting period.
- C. When payment is made to the vendor, the FMR Division accountant will record the expense in the financial records.
- D. After all payments have been made for the purchase of equipment, the FMR Division accountant should check the appropriation screen in MAPS, to see if all the money has been spent. If not, a reconciliation should be done to find discrepancies and notify the appropriate division of any corrections.
- E. If a reconciliation is done and it is found that the requesting division asked for too much, or too little cash, the FMR Division accountant will adjust the next draw to correct the cash outlay. To do this correction, reduce or increase the next draws cash request.
- F. If a governmental agency/division ceases to exist, the FMR Division accountant must notify the financial management director for the proper procedure on handling loan repayment of a nonexistent funding source.

PART TWO – SEMIANNUAL LOAN REPAYMENT

Twice a year (December 1 and June 1), the Department of Minnesota Management and Budget will send a memo requesting payment of the current loan interest and principle due (Exhibit C). This request should be checked against the internal FMR Division information for verification of the amount due. Once this is verified, the FMR Division accountant will enter PV 2 transactions for the principle and interest portion of the memo.

PART THREE – DEMAND SURVEY

1. MMB will request information on the estimated amount of master lease funds to be used in the following two years.
2. Each division using the master lease program must submit related information to the FMR Division accountant; this information must be documented in six-month increments. It should include the equipment type, financing term, and estimated cost.
3. The FMR Division will combine the agency survey results and submit the information to MMB.

PART FOUR – EARLY PAYOFF OF MASTER LEASE LOANS

The amortization schedule (Exhibit D) from MMB includes information for early payoff of master lease loans. The Purchase Option Price column indicates the amount for early payoff, and when the option is available. There is a penalty for early payoff.

Example:

Looking at Exhibit D, the purchase option price for payment numbers 1, 2 and 3 are not applicable, indicating the early payoff option is not available. Early payoff of this master lease loan is available for \$13,888.85 at payment number four, on December 1, 2000.

1. To take advantage of early payoff of master lease, send a letter to the MMB and to the FMR Division accountant:
 - A. Request early payoff of master lease,
 - B. Specify which draws are being paid off,
 - C. Specify the date the loan will be paid off, and
 - D. Specify the amount of repayment.
2. Partial repayment is not allowed. If early payoff is elected, each loan must be paid in full.

See Also:

FMR-1G-01, [Property Management](#)

FMR-3F-01, [Interest Income](#)

FMR-4A-01, [Ordering, Receiving, and Payment Processing \(Three-Way Match\)](#)

FMR-4B-01, [Prepaid Expenses](#)

[IRS CODE Section 148, Arbitrage](#)

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Exhibit A

**MASTER LEASE VII DRAW SCHEDULE
For Calendar year 1999/12000**

<u>3/5 day Notice</u>	<u>Draw Date</u>	<u>Draw #</u>	<u>Current Draw</u>	<u>Cumulative Draw</u>
24-Nov-99	1-Dec-99			
10-Dec-99	15-Dec-99			
28-Dec-99	03-Jan-99			
12-Jan-00	18-Jan-00			
27-Jan-00	01-Feb-00			
10-Feb-00	15-Feb-00			
25-Feb-00	01-Mar-00			
10-Mar-00	15-Mar-00			
29-Mar-00	03-Apr-00			
12-Apr-00	17-Apr-00			
26-Apr-00	01-May-00			
10-May-00	15-May-00			
26-May-00	01-Jun-00			
12-Jun-00	15-Jun-00			
28-Jun-00	03-Jul-00			
12-Jul-00	17-Jul-00			
27-Jul-00	01-Aug-00			
10-Aug-00	15-Aug-00			
29-Aug-00	01-Sep-00			
12-Sep-00	15-Sep-00			
27-Sep-00	02-Oct-00			
11-Oct-00	16-Oct-00			
27-Oct-00	01-Nov-00			
09-Nov-00	15-Nov-00			

(end of 1st contract or \$16,491,200)

**MASTER LEASE VII DRAW SCHEDULE
For Calendar year 2000/2001**

<u>3/5 day Notice</u>	<u>Draw Date</u>	<u>Draw #</u>	<u>Current Draw</u>	<u>Cumulative Draw</u>
28-Nov-00	01-Dec-00			
12-Dec-00	15-Dec-00			
27-Dec-00	02-Jan-01			
10-Jan-01	16-Jan-01			
29-Jan-01	01-Feb-01			
12-Feb-01	15-Feb-01			
26-Feb-01	01-Mar-01			
12-Mar-01	15-Mar-01			
28-Mar-01	02-Apr-01			
11-Apr-01	16-Apr-01			
26-Apr-01	01-May-01			
10-May-01	15-May-01			
29-May-01	01-Jun-01			
12-Jun-01	15-Jun-01			
27-Jun-01	02-Jul-01			
11-Jul-01	16-Jul-01			
27-Jul-01	01-Aug-01			
10-Aug-01	15-Aug-01			
29-Aug-01	04-Sep-01			
12-Sep-01	17-Sep-01			
26-Sep-01	01-Oct-01			
10-Oct-01	15-Oct-01			
26-Oct-01	01-Nov-01			
09-Nov-01	15-Nov-01			

(end of 2nd contract or \$14,654,200)

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Exhibit C

STATE OF MINNESOTA

Department: of Minnesota Management and Budget

OFFICE MEMORANDUM

Date: October 1, 1998

To:

From: Karen Hinkemeyer
Administrative Services

Phone: 296-7858

Subject: Master lease VI – December 1, 1998 Billing

Pursuant to Procedure 06:09:19, the PV2 MUST be entered on or before Tuesday, November 17 by your accounting staff. The P1 will be entered by Minnesota Management and Budget on Wednesday, November 18. The wire transfer will be made Monday, November 30. The additional time is required due to the MAPS system not being available the week of November 23. These procedures are required to meet the federal law concerning arbitrage restrictions.

Please encumber and process PV2's for the following:

Fund				
Principle	060	G9R 9000 905	9580	2,538,396.28
Interest	060	G9R 9000 905	8010	<u>270,340.65</u>

Total 2,808,736.93

Cc: Ron Mavetz, MMB Accounting

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Exhibit D

DISBURSEMENT #26

FEBRUARY 16, 1999

Loan Amount \$26,847.21
APR 4.159984%
Payment \$3,646.33

Dated Date 02/16/99
First Pmt Date 06/01/99
Last Pmt Date 12/01/02

AMORTIZATION SCHEDULE

<u>Date</u>	<u>Payment #</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Purchase Option Price</u>
06/01/99	1	\$ 3,646.33	\$ 3,320.59	\$ 325.74	N/A
12/01/99	2	3,646.33	3,156.98	489.35	N/A
06/01/00	3	3,646.33	3,222.64	423.69	N/A
12/01/00	4	3,646.33	3,289.67	356.66	13,888.85
06/01/01	5	3,646.33	3,358.10	288.23	10,518.39
12/01/01	6	3,646.33	3,427.95	218.38	7,080.99
06/01/02	7	3,646.33	3,499.25	147.08	3,575.31
12/01/02	8	3,646.33	3,572.03	74.30	1.00