

COLORADO STATE UNIVERSITY PROCEDURE
Financial Procedure Instructions
FPI 4-8

1. **Procedure Title:** Classification of External Lease Agreements, Rent and Use Charges.
2. **Procedure Purpose and Effect:** This procedure describes university, state and federal requirements associated with external lease agreements, rent and use charges for classifying accounting and user obligations. Business and Financial Services must review all agreements for proper classification and reporting on the financial statements.
3. **Application of Procedure:** This procedure sets the review process by Business and Financial Services for the proper classification and reporting of leases. Refer to FPI 4-9 (CSURF Equipment Leasing Program) regarding the Colorado State University Research Foundation lease/purchase program.
4. **Exemptions:** Any exemptions to this procedure require approval by Business and Financial Services.
5. **Definitions:**
 - A. **Bargain Purchase Option (BPO):** A provision allowing the lessee the option to purchase the leased property for a price that is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable such that exercise of the option appears, at the inception of the lease, to be reasonably assured.
 - B. **Capital Lease:** The act of acquiring assets by making periodic payments, which generally consist of principal and interest. A capital lease transfers substantially all of the benefits and risk inherent in ownership of the equipment to the lessee. At the end of the payment period, the lessee obtains title to the asset, yet has been able to use the asset and spread payments over time to ease the financial burden of making a large acquisition.
 - C. **External Lease:** A direct lease agreement between a department and a vendor.
 - D. **Lease:** Grant or rights by a lessor to a lessee to possess and use real or personal property for a stated time-period in exchange for rent or other consideration.
 - E. **Lease Agreement:** A contractual agreement conveying the right to use property, plant or equipment usually for a stated time-period. A lease agreement involves at least two parties, a lessor and a lessee. The lessor agrees to allow the lessee to use the item for a specified time-period in return for periodic payments. There are two types of lease agreements available, an operating lease and a capital lease.
 - F. **Operating Lease:** Includes a lessor (vendor), who collects rent, and a lessee (the university), who uses the leased equipment or property and pays periodic rent for such use. The lessee merely uses the equipment and/or property and there is no transfer of ownership or any risk of benefit of ownership. An Operating Lease is for a period longer than 12 months.
 - G. **Rent:** A payment or series of payments made by a lessee to an owner in return for the use of machinery, equipment, etc. Also, a payment made periodically by a tenant to a landlord in return for the use of land, a building, an apartment, an office, or other property.

H. Rental Agreement: Payment for the use of land, buildings or equipment where the obligation is for less than 12 months.

I. Use Charge: The amount paid by one university department or account for the use of buildings or equipment owned by another university department or account.

6. Procedure Statement: Lease agreements are contractual agreements and can obligate the university in several ways. All lease agreements must route through Procurement and Business and Financial Services. Only those individuals authorized to sign contractual agreements may approve lease agreements. Departments that are setting up an external lease agreement must adhere to the requirements outlined in Section 8 of the Purchasing Manual and submit the agreement to the lease accountant in Business and Financial Services. The lease accountant will complete a lease classification analysis in order to distinguish it as either a capital lease, operating lease, rent, or use charge.

A. Lease Agreements: Lease agreements are university obligations and must be recorded as such. All proposed lease agreements must be accompanied by a repayment plan covering the entire lease term. Repayment plans are submitted to the lease accountant. The use of federal funds for lease payments must be in accordance with federal requirements. Leased property may not be sold or otherwise disposed of prior to the termination of the agreement. Any modifications of leased equipment during the lease term require prior authorization.

1. Capital Leases: The act of acquiring assets by making periodic payments, which generally consist of principle and interest. Interest is an operation expense, whereas the principle payments reduce the balance of the long-term liability. As the liability is reduced the equity in the asset increases.

Leases of buildings or equipment that meet one of the following criteria will be classified as a capital lease:

- a. The lease transfers ownership of the property to the lessee (CSU) by the end of the lease term
- b. The lease contains a Bargain Purchase Option (BPO)
- c. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total economic life of the leased property, including earlier years of use; this criterion shall not be used for purposes of classifying the lease
- d. The present value at the beginning of the lease term of the minimum lease payments excluding that portion of the payments representing executor costs such as insurance and maintenance equals 90 percent of the fair value of the leased property

Property acquired via a capital lease is depreciated according to the University's useful life criteria, unless the lease qualifies under criteria c or d (under the capital lease criteria). If so, the property is depreciated over the shorter of the life of the lease or the life of the asset.

The Property Management Lease Accountant will make the necessary capital leasing entries to the general ledger and create an asset. External leases require the department to submit a requisition to set up the payments for the asset using the proper lease payment object code (8300-Furniture/Fixture, 8310-Other Capital Equipment, etc.). Down payments should be made on the appropriate equipment object code. The Capital Asset tab will need to be completed using "Multiple Systems" as the Capital Asset System Type; "Modify Existing" as the Capital Asset System State; entering the asset number created by the Lease Accountant; and using "Capital

Lease” as the Capital Asset Transaction Type. The lease payment terms will need to be entered in the Payment Info Tab and the Lease Agreement attached in the notes section.

2. Operating Leases: Leases of 12 months or longer and not qualifying as a capital lease are expensed in the current operation period. A requisition will need to be submitted annually, for each year of the lease term, using the expense object code 6646 and will not result in an asset being created.

B. Rental Agreements: Payments for the use of land, buildings or equipment where the obligation is for less than 12 months are expensed in the current operation period.

C. Use Charge: Internal payment by one university department or account for the use of buildings or equipment owned by another university department or account.

7. Reference and Cross-References:

FASB located at: <http://www.fasb.org/pdf/fas13.pdf>

FASB 98 located at: <http://www.fasb.org/pdf/fas98.pdf>

OMB Circulars A110 and A-21 relocated to 2 CFR Part 220 of the Uniform Guidance are located at: http://www.whitehouse.gov/omb/circulars_default/ (a) Recipients and sub-recipients that are institutions of higher education or other non-profit organizations (including hospitals) shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 (31 U.S.C. 7501–7507)

GASB 20 located at:

<http://www.gasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175824063192&blobheader=application/pdf&blobcol=urldata&blobtable=MungoBlobs>

GASB home page (GASB 34) located at: <http://www.gasb.org/>

GASB 62 located at:

http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159967625

Business and Financial Services website: <http://busfin.colostate.edu/>

Procurement Services website: <http://www.purchasing.colostate.edu/>

8. Forms and Tools:

Business and Financial Services Manual is located at:

http://busfin.colostate.edu/Resources/Guides_Manuals.aspx