

Financial Policy & Procedure Instructions Manual
FPI I-1 Lease Agreements, Rent and Use Charges
Last Updated April 21, 2005

FPI 30 - Lease agreements, rent and use charges

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I. PURPOSE

This procedure describes University policy and Federal requirements associated with lease agreements, rent and use charges. It identifies accounting classifications and user obligations.

II. DEFINITIONS

A lease is defined as an agreement conveying the right to use Buildings, land or equipment for 12 months or more. Building and equipment capitalization limits, which include capital leases, are discussed in Financial Procedure Instruction FPI 25.00. Lease agreements, rent and use charges are categorized and defined as follows:

- A. Capital leases are leases of buildings or equipment that meet one of the following criteria as defined by AICPA FASB Standards 13, 98 and Federal OMB Circular A21:
 - 1. "The lease transfers ownership of the property to the lessee (CSU) by the end of the lease term."
 - 2. "The lease contains a bargain purchase option."
 - 3. "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.
 - 4. "The present value at the beginning of the lease term of the minimum lease payments excluding that portion of the payments representing executory costs such as insurance and maintenance equals 90 percent of the fair value of the leased property."
- B. Operating leases are leases of 12 months or longer not qualifying as capital leases.
- C. Rent is payment for the use of land, buildings or equipment where the obligation is for less than 12 months.

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- D. A use charge is the amount paid by one University department or account for the use of buildings or equipment owned by another University department or account.
- E. Property acquired via a capital lease is depreciated according to the University's useful life criteria, unless the lease qualifies under criteria 3 or 4 above, and the property is depreciated over the shorter of the life of the lease or the life of the asset.

III. UNIVERSITY POLICY

- A. Lease agreements are contractual agreements and must adhere to the requirements outlined in Section 8 of the Purchasing Manual. Only those individuals authorized to sign contractual agreements are authorized to approve lease agreements.
- B. Lease agreements are University obligations and must be recorded as such, therefore, all lease agreements must be routed through Property Accounting.
- C. All proposed lease agreements must be accompanied by a repayment plan covering the entire lease term. Repayment plans should be submitted to Business and Financial Services.
- D. The use of Federal funds for lease payments must be in accordance with Federal requirements.
- E. Leased property may not be sold or otherwise disposed of prior to the termination of the agreement.
- F. The definitions provided above should be used to distinguish between a capital lease, an operating lease, rent and a use charge. The proper subcode for each is listed below. All four subcodes are exempt from indirect cost and G & A.

LEASE TYPE	SUBCODE
CAPITAL LEASES	8700
OPERATING LEASES	4780
RENT	4760
USE CHARGE	4770

IV. FEDERAL REQUIREMENTS

- A. Section 33 of the Office of Management and Budgets (OMB) Circular A-21 states: "Lease costs, which create a material equity in the leased property, are allowable only up to the amount that would be allowed if the institution (CSU) purchased the property on the date the lease agreement was executed." The Circular further states: "Rental costs of buildings or equipment are allowable to the extent that they are necessary, prudent, consistent with institutional (CSU) policies and are in agreement with Federal laws, State laws, and the terms of the sponsored agreement."

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- B. Section 13 of OMB Circular A-21 states: "Capital expenditures for general and special purpose equipment, buildings and land are unallowable charges to sponsored projects, except where advance written approval has been obtained from the sponsoring agency."
- C. Section 17 of OMB Circular A-21 states: "Costs incurred for interest on borrowed capital is unallowable"
- D. Section 38 of OMB Circular A-21 states: "The cost (use Charges) of institutional (CSU) services when material in amount will be charged directly to users including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and non-federally supported activities of the institution, including use by the institution for internal purposes. Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long term period agreed to by the institution and the cognizant Federal agency. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long term plan and adjusted if necessary."
- E. In summary, the Federal Government requires prior written approval for purchases of land, buildings and equipment to sponsored projects. Capital leases include an interest charge that is specifically identified as unallowable. A capital lease less the interest component would be an allowable charge but is subject to the same prior approval requirement as a purchase. Reasonable and prudent rental costs may be charged to sponsored projects if allowed by the sponsored agreement. Use charges must be based on actual logged usage and a billing rate that represents actual cost. Billing rates charged to sponsored projects may not exceed those charged to other users.

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