

COLORADO STATE UNIVERSITY PROCEDURE
Financial Procedure Instructions
FPI 4-8

1. **Procedure Title:** Classification of Financed Purchase Agreements, Right to Use (RTU) Leases, Subscription-Based IT Arrangements (SBITA), Rental Agreements, and Use Charges.
2. **Procedure Purpose and Effect:** This procedure describes university, state and federal requirements associated with financed purchase agreements, right to use (RTU) leases, subscription-based IT arrangements (SBITA), rental agreements, 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. All leases must adhere to the lease requirements outlined in Section 8 of the Purchasing Manual.
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 (Colorado State University (CSU) STRATA Financed Purchase Program) for information regarding the CSU STRATA financed 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. **Colorado State University (CSU) STRATA Financed Purchase Program:** The arrangement between CSU and CSU STRATA to facilitate the acquisition of scientific, administrative support, and research equipment for the benefit of CSU pursuant to financed purchase arrangements. The CSU STRATA Financed Purchase Program consists of two options: the “CSU STRATA Line of Credit (LOC) Lease” and the CSU STRATA “Municipal Lease.”
 - C. **External (Direct) Lease:** A direct lease agreement between a department and a vendor.
 - D. **Financed Purchase (formerly known as Capital Lease):** The act of acquiring assets by making periodic payments, which generally consist of principal and interest. A financed purchase 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 was able to use the asset and spread payments over time to ease the financial burden of making a large acquisition.
 - E. **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.
 - F. **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.

- 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 or for a period greater than 12 months, but the total liability is less than \$25,000.
 - I. Right to Use (RTU) 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. A Right to Use (RTU) Lease is for a period longer than 12 months and the total liability is \$25,000 or more.
 - J. Subscription-Based IT Arrangement (SBITA):** A contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.
 - K. 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:** Departments may need to use a lease to purchase equipment. The department can either use the Colorado State University (CSU) STRATA financed purchase program (formerly known as the Colorado State University Research Foundation [CSURF] equipment lease/purchase program) or do an External (Direct) Lease (lease directly from a vendor). Lease agreements are contractual agreements and can obligate the university in several ways. Only those individuals authorized to sign contractual agreements may approve lease agreements. Lease agreement obligations must be recorded; therefore, all lease agreements must route through Procurement and the Lease Accountant in the Business and Financial Services Property Management Department. All proposed lease agreements must be accompanied by a repayment plan covering the entire lease term. For External (Direct) Leases, 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.
- A. Lease Classifications:** All lease contract information will need to be forwarded to the lease accountant. The lease accountant will complete a lease classification analysis in order to distinguish it as either a financed purchase (CSU STRATA or External [Direct]), right to use (RTU) lease, subscription-based IT arrangement (SBITA), rental agreement, or use charge.
 - 1. Financed Purchase (CSU STRATA or External [Direct]):** The act of acquiring assets by making periodic payments, which generally consist of principal and interest. Interest is an operation expense, whereas the principal 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 financed purchase:
 - 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 financed purchase is depreciated according to the University's useful life criteria unless the lease qualifies under criteria c or d (under the financed purchase criteria). If so, the property is depreciated over the shorter of the life of the lease or the life of the asset. For CSU purposes, we do not capitalize leases under the capitalization threshold; therefore, if a lease meets one or more of the above criteria but is for less than the capitalization threshold it should be tracked using object code 8315.

The lease accountant will determine the appropriate financial reporting of the lease and make the necessary capital leasing entries to the general ledger to create an asset. Once the asset has been created, a leased asset decal number will be assigned.

For External (Direct) Leases: The department will need 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. **Right to Use (RTU) Lease:** Leases of 12 months or longer with a total liability of \$25,000 or more and not qualifying as a financed purchase are expensed in the current operation period. A requisition will need to be submitted annually for each year of the lease term using the appropriate expenditure object code of either 8410, 8411, 8414, or 8415 and will not result in a capital asset being created.
- 3. **Subscription Based IT Arrangement (SBITA):** Leases of 12 months or longer with a total liability of \$50,000 or more, that convey control of the right to use another party's information technology software. A requisition will need to be submitted annually for each year of the agreement term using expenditure object code 8416 and will not result in a capital asset being created.
- 4. **Rental Agreement:** Payments for the use of land, buildings, or equipment where the obligation is for less than 12 months or for a period greater than 12 months, but the total liability is less than \$25,000 are expensed in the current operation period.
- 5. **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:

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

Financial Accounting Standards Board (FASB) is located at: <https://www.fasb.org/>

Financial Accounting Standards Board (FASB) 98 is located at:
<https://www.fasb.org/page/PageContent?pagelD=/reference-library/superseded-standards/summary-of-statement-no-98.html&bcpath=tff>

Governmental Accounting Standards Board (GASB) (Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities the use Proprietary Fund Accounting); (Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments); (Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries); (Statement No. 51, Accounting and Financial Reporting for Intangible Assets); (Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements [Issued 12/10]); (Statement No. 87, Leases); and (Statement No. 96, Subscription-Based Information Technology Arrangements) home page: <http://www.gasb.org>

Office of Management and Budget (OMB) Uniform Guidance Code of Federal Regulations at 2 CFR Part 200 is the abbreviated title for Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR part 200), which supersedes OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122, and A-133, and the guidance in Circular A-50 on Audit Follow up home page: <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>

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

Property Management website: <http://busfin.colostate.edu/Depts/PropMgt.aspx>

8. Forms and Tools:

Business and Financial Services Guides and Manuals are located at:
http://busfin.colostate.edu/Resources/Guides_Manuals.aspx