

Rental and Lease of Equipment

Policy 509.15

1 Introduction

1.1 This policy addresses acquisition of equipment through rental or lease, as an alternative to the generally preferred option of purchasing. These procedures must be followed in order to pursue the alternate option of renting or leasing equipment.

2 Scope

2.1 This policy applies to all campus personnel who are involved in the purchasing function. Section 4.3 is an accounting function that applies to the Purchasing Office and the Controller's Office, which includes fixed assets accounting.

3 Definitions

4 Policy and Procedure Statements

4.1 Necessary Bidding and Approval

4.1.1 The purchase of equipment is encouraged, in lieu of leasing or rental when feasible. Departmental requests to lease equipment shall be submitted to the Purchasing Office on a procurement request. The request must be accompanied by a memorandum explaining the need for leasing rather than purchasing, a copy of the leasing agreement, and any other communications available, including but not limited to email, memorandums or other correspondence, concerning the request. The Purchasing Office will forward the procurement request and other material to the State Purchase and Contract Division for review.

4.2 Lease/Purchase Agreements

4.2.1 Lease agreements are for a definite period of time, usually one to three years, and cannot be canceled during the life of the lease. However, a lease may be entered into with the option to purchase the equipment during the life of the lease or at the end of the lease period. If it is determined that the leased equipment will be needed on a continuing basis, it is usually more economical to exercise the option to purchase, provided funds are available to make the purchase.

4.3 Capital Lease Policy

4.3.1 The Financial Accounting Standards Board has ruled that a lease should be treated as a capital lease if it meets any one of the following four conditions:

1. if the lease life exceeds 75% of the life of the asset
2. if there is a transfer of ownership to the lessee at the end of the lease term
3. if there is an option to purchase the asset at a "bargain price" at the end of the lease term
4. if the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

4.3.2 Purchasing shall send an email notification for all equipment leases to the Fixed Assets Accountant for review via the e-procurement system. The Fixed Assets Accountant will review all appropriate equipment leases and determine whether each lease is an operating or capital lease based on the above criteria. Upon a completed review, the Fixed Assets Accountant will send a response to the Purchasing Office with any required actions or recommendations. If the lease is determined to be a capital lease or if the type of lease is still in question, the lease information shall be forwarded to the University Controller for further review. If qualified as a capital lease and the equipment item meets the threshold for capitalization for assets, the equipment is then capitalized by journal entry and subsequently recorded in the capital assets management system (fixed assets database).

4.4 Rental Agreements

4.4.1 Rental requests should be submitted to the Purchasing Office on a procurement request with an explanation justifying the need for the rental, a copy of the rental agreement, and any other communication, including but not limited to email, memorandums or other correspondence, concerning the request. The Purchasing Office will forward this material to the State Purchase and Contract Division for review and action.

4.5 Reasons for Renting

4.5.1 It may be desirable to rent equipment for a short duration for a specific requirement. Rental agreements are similar to lease agreements, except that rental agreements are normally for an indefinite period and can be terminated by the renter after giving notice, usually thirty days in advance. The initial cost of some equipment, such as computers, is so great that when this type of equipment is required, it may be more economical to rent on a continuing but indefinite basis. Also, new, updated versions of this type of equipment are constantly placed on the market, making it unwise to invest large sums in equipment which may soon be obsolete.

5 Additional References

6 Authority

7 Contact Information

8 Original Effective Date

9 Revision Dates

July 1, 2014