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**FINANCIAL SERVICES  
PROCEDURES FOR PROCESSING LEASES/RENTALS FOR EQUIPMENT  
(For Purchasing Services)**

**INDEX**

- **What is a Capital Equipment Lease?**
- **Process for setting up a Capital Lease**
- **Non-Capital Equipment (Operational Lease/Rental) Criteria**

### ➤ What is a Capital Equipment Lease?

You must first assess whether or not an item to be leased is Capital Equipment. To correctly assess equipment as capital, please use criteria set out in the *Guidelines for Processing Capital Equipment POs*. Then to determine if the order should be set up as a capital lease, please use the following criteria:

- The University **will** retain ownership at the end of the lease with a buy-out clause, preferably a “bargain” buy-out clause of \$1.00
- The lease term is greater than or equal to **75%** of the economic life of the leased equipment.  
E.g. A copier may have an economic, useful life of 5 years and the lease payment term is for 4 years. Therefore, the lease term is 80% of the economic life of the leased equipment ( $4/5=80\%$ ).
- The present value of the minimum lease payments is equal to 90% or more of the fair market value of the leased equipment at the time the lease contract is signed. In other words, the lease payments are equal to or greater than the actual purchase price for the leased asset.

If one or more of the above noted conditions exist at the time of purchase and the equipment is valued over \$2,500.00, then the **lease should be capitalized** using the processed noted below.

### ➤ Process for setting up a Capital Lease

- Purchase Orders will initially be sent to vendors in the first phase of a lease purchase, for quotes, to choose the actual equipment vendor and for delivery of the equipment to the respective Departments/Organizations. When the actual lease documents have been finalized, transfer appropriate information to a lease series purchase order, making reference to the original order(s) in the body. If one lease is for multiple Organizations, there must be a line for each department, with individual FOAPALs. The original order(s) should then be closed. **DO NOT** record receiving on the initial vendor orders. Receiving should only be entered for the individual lines on the lease order. For more in-depth order entry information, see *Purchasing Procedures – Leasing Photocopiers*.
- Use expenditure account **726301** for all capital lease payment orders.
- All capital leases are to be set up with **annual payments only, payable at the beginning of the yearly lease term**. Leasing companies that wish to deal with the University of Manitoba can and will accommodate this request.
- Capital leases should never start around year-end months, March or April. This allows too much room for payments to be processed in the wrong fiscal year. Please ensure that capital lease payments start anytime between May and February in any given fiscal year.
- The following information is required from **all** leasing companies dealing with the University of Manitoba:
  - First payment invoice to be sent along with signed contract
  - Certificate of insurance (if applicable)
  - Schedule of Equipment\*\*
  - Fixed rate
  - Copy of invoice(s) paid to vendor(s) \*\*
  - Amortization schedule\*\*

Failure or unwillingness to provide the above noted documentation will disqualify the vendor from leasing/contracting with the University of Manitoba.

Copies of the items marked with \*\* must be given to Capital Asset Management in a timely manner. These documents are required for proper reporting of capital leases on financial statements.

➤ **Non-Capital Equipment Leases**

A determination must be made as to whether the equipment purchased is Capital Equipment or not, or whether a piece of equipment which would normally be considered a Capital Asset, is not. If the previously noted criteria used for determining a capital asset lease does not apply, then use the following criteria:

- The University of Manitoba will not retain ownership of the equipment at the end of the lease term.
- Purchasing Services has negotiated a lease for equipment for an organization within the University of Manitoba community, but which is considered its own entity and responsible for their own equipment, e.g. St. Andrew's College, Alumni House. These areas will have their own accounts that these leases should be processed through and the equipment will not be capitalized.
- Monthly rental payments for equipment used short term, regardless of value.
- The company or leasing agent must be pre-approved by the University of Manitoba.
- Lease contracts for single item orders where the equipment is valued under \$5,000.00 and where the company is not a recognized leasing agent for the University of Manitoba.

If one or more of the above conditions exist, then the equipment should not be set up as a capital lease, but will be considered an operational lease or rental. The expenditure accounts to use in these cases will be 740203 for general equipment and 740204 for computer equipment.

If you have any questions or concerns regarding any of the information noted in these procedures, please contact:

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