5.2.2 EQUIPMENT LEASES

Last updated on: 09/01/2016

Formerly Known As Policy Number: 54.3

This Guide Memo describes policies that apply to equipment leases. Capital and operating lease liabilities utilize the University's debt capacity. All uses of debt must comply with the University's debt policy and require prior approval. The only parties authorized to execute documents that commit Stanford to an equipment lease obligation are the Director of Procurement, the CFO, or their designees. For relevant policies, see section 1 in Administrative Guide Memo 5.1.1 [1]: Procurement Policies. Approvals, requisition processes and reporting requirements are included.

Authority:
Approved by the Vice President for Business Affairs and Chief Financial Officer.

1. Definitions and Terms

a. Leases
Leases are contracts under which a lessee has committed to pay stipulated cash payments for the use of an asset for a specific period of time. For the purposes of this memo, an equipment lease is considered the commitment to pay for the use of an asset for longer than one year, with total contracted cash payments over the term of the lease of $5,000 or greater.

Capital and operating leases are considered long-term financial obligations of the University. Therefore, all new equipment leases and lease renewals are considered a use of the University's debt capacity.

b. Rentals
Commitments not meeting these qualifications should be considered rentals that are not subject to this policy.

c. Capital Lease
An equipment lease is capitalized if the total anticipated contracted cash payments over the term of the lease, excluding any transportation costs, are greater than or equal to $200,000, on a per contract basis, and at least one of the following criteria is met:

- By the end of the lease term, ownership of the leased property is transferred to Stanford
- The lease contains a bargain purchase option that Stanford reasonably expects to exercise
- The lease term is substantially (75% of more) equal to the estimated useful life of the leased property
- At the inception of the lease, the value of the minimum lease payments is 90% or more of the fair value of the leased property.
Capital leases are reported as an asset and a liability on Stanford's financial statements and interest and depreciation are expensed.

d. Operating Lease
When an operating lease does not meet the definition of a capital lease in 1.c above, the operating lease payments are expensed as incurred.

2. Equipment Leases

a. Approvals and Thresholds
Equipment leases with total anticipated contracted cash payments over the term of the lease of $200,000 and above must be approved by the CFO. Equipment leases with total contracted cash payments over the term of the lease under $200,000 can be approved by managers with requisite expenditure authority in relationship to total contracted cash payments.

b. Approval Forms
The Equipment Lease Approval form can be downloaded from the Gateway to Financial Activities website.

c. Board of Trustees Approval
Equipment leases with total anticipated contracted cash payments of $5,000,000 and above require approval by the Board of Trustees.

d. Requisition
Following budget approval, departments must submit an online requisition for the total contracted cash payments over the term of the lease to Procurement in Oracle Financials using the Standard Lease category.

e. Lease Terms
Procurement is responsible for negotiating equipment lease terms. Equipment leases must be signed and executed by the Director of Procurement or the CFO.

f. Reporting Requirements
Departmental Property Administrators are responsible for establishing and maintaining property records for leased equipment in the Sunflower Asset Management System. Leased equipment must be tagged and tracked according to the policies of the Property Management Office.

By September 30 each year, departments must provide the Controller's Office with a certificate and a schedule of all equipment lease obligations to assist with the preparation of the University's financial statements and the property tax-exemption application. Reporting forms for equipment lease obligations can be downloaded from the Gateway to Financial Activities website.

g. Return of Equipment
Unless the department wishes to buy the equipment, a memo to Procurement is sufficient to return the item at the end of the lease. Procurement will notify the lessor.

h. Equipment Purchase at the End of the Agreement
To buy equipment at the end of a lease, the department must submit a new online requisition, using the Standard Capital Equipment category and referencing the original lease purchase order number.

i. Receiving Equipment
The department must inspect, verify and document the condition of leased equipment when received. Online
receiving in Oracle Financials is required for leased equipment. A record for each asset must be entered into the Sunflower Asset Management System within 30 days of receipt.

**j. Insurance**
Stanford's high deductible insurance coverage makes it unlikely that the University's insurance carrier would pay for any loss or damage. Therefore, lessor's insurance for equipment should cover all aspects of damage and injury. For more information, contact the Assistant Vice President of Risk Management.

**k. Change of Terms**
Departments must observe the start and stop dates of the lease. Using the equipment outside the terms of the agreement has significant contractual implications and may subject Stanford to additional rental charges, early termination charges, and other liabilities. The lessor's insurance may be valid only during the stated period. To terminate an equipment lease early, the department must contact the assigned buyer in Procurement.

**l. Renewals and Extensions**
Departments must submit an online requisition to Procurement to extend the duration or renew the term of a lease.

---


**Links**