



# SAN DIEGO STATE UNIVERSITY

SDSU Policies and Procedures

**Subject:** Leases – Capital and Operating

Department Name: For All Departments (written by: BFA) and Contract and Procurement Management

Supersedes: N/A  
Effective Date: 07/01/2007  
Issue Date: 07/31/2007  
Approved by: Scott Burns, Associate Vice President for Financial Operations

**Policy:**

SDSU Departments shall not engage in or execute Capital Leases without the approval of the VP/AVP in Business and Financial Affairs and subsequent authorized Purchase Order from Contract and Procurement Management. Departments may submit requests to Contract and Procurement Management for processing simple Operating Lease agreements without additional approvals from the VP/AVP in Business and Financial Affairs.

**Definitions:**

1. *Operating Leases* are generally short term rental agreements and do not contain any elements of a Capital Lease.
2. *Capital Leases* are agreements that contain any one of the following elements: (source: Financial Accounting Standards #13 – FAS13 of FASB)
  - a. Transfer of ownership
  - b. Bargain purchase option
  - c. Term is greater than or equal to 75% of the estimated economic life
  - d. Present value of the lease payments is 90% or more of the fair market value of the leased asset.  
(Note: Accounting for Capital Leases requires the organization to record a capital asset and a capital liability.)

Therefore, Operating Lease agreements would contain no transfer of ownership, no bargain purchase options, and use up less than 75% of the economic life. For example, if a copier machine had a 5 year useful life, then we would suggest a 3 year lease term or less (3/5=60%).

**Procedures:**

The Contract & Procurement Management Department will assist SDSU departments to structure lease agreements as Operating Leases. If a lease is identified as a Capital Lease, Contract & Procurement must obtain approval from the VP/AVP in Business and Financial Affairs.

*Copier machines* – Departments can obtain a proposal from an outside supplier other than SDSU Business Services. However, they must obtain a quote from SDSU Business Services to compare pricing opportunities. SDSU Business Services has a master agreement with a vendor for various copier machines and services. This master agreement has pre-negotiated terms and conditions in accordance with state and campus policy. State Policy requires in most cases award be made to the lowest, responsive, responsible bidder. If award is not made based on lowest cost, then the department must provide a justification to their Department Chair or Director for approval. The request will then be forwarded to Contract & Procurement Management for final approval of the award.