



MOVABLE PROPERTY LEASES

- Scope:** All campuses served by Louisiana State University Office of Accounting Services
- Effective:** March 1, 2023
- Purpose:** To establish guidelines and best practices related to leases of movable property.

DEFINITIONS

1. **Anti-Substitution:** Prohibits a public entity from replacing the leased equipment or service with a substitute, even through other means, when the lease is terminated by non-appropriation.
2. **Lease:** A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a non-cancelable period (greater than one year) in an exchange or exchange-like transaction. Ownership of the asset does not change or transfer. Also referred to as an operating lease.
3. **Lease with Option to Purchase:** A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a non-cancelable period (greater than one year) in an exchange or exchange-like transaction. The University, as Lessee, has the option to purchase the leased item at the end of the term. Ownership of the asset does not change or transfer *unless* the purchase option is exercised.
4. **Lease-Purchase:** A lease that transfers ownership at the end of the lease term; like an installment payment agreement. Also referred to as a capital lease.
5. **Movable Property:** Equipment or other tangible non-consumable property that has a useful life of greater than 1 year and is not immovable or attached as a permanent part of a building or structure. *Immovable property leases must follow LSU System Permanent Memorandum 6 (PM-6) "Lease of Immovable Property" provisions.*
6. **Non-Appropriation:** If for any reason, the public entity/political subdivision fails to appropriate or make available funds to meet its obligations under the agreement during any fiscal year, the agreement may be terminated, without penalty.
7. **Penalty Clause:** A clause by which the lease payments would be accelerated and the total amount of payments/rent for the remainder of the term would become due upon the uncured failure to make timely payments.

POLICY – UNIVERSITY AS LESSEE

Leases and lease-purchases of movable property by the University from a third party are procurements and are governed by the provisions of Title 39 of the Louisiana Revised Statutes, specifically the Higher Education Procurement Code (HEPC) and the Louisiana Procurement Code (LPC), where the HEPC is not authorized.

Regardless of the lease type, Procurement's competitive bid thresholds apply.

Agreements for leases and lease-purchases of movable property must meet the following two (2) conditions:

1. Must contain a non-appropriation clause, **and**
2. Does not contain an anti-substitution or penalty clause.

If these two conditions are not met, the transaction is considered “debt” and State Bond Commission approval would be required prior to the University entering the lease.

GUIDELINES – Leases of Movable Property

University Thresholds	Policy
Agreements for one (1) year or less	Considered a “rental” – no additional approvals required.
Movable property valued under \$100,000	Leases are not recommended. Item(s) should be procured in accordance with university procurement policies. Exceptions may be granted on a case-by-case basis with completion of AS-856 and approval from Financial Accounting and Reporting (FAR).
Contracted payments totaling less than \$500,000 <u>and</u> movable property valued at \$100,000 or more	Approval from Financial Accounting and Reporting (FAR) required through submission of a completed AS-856 with all supporting documentation.
Contracted payments totaling \$500,000 or more	Approval from the Executive Vice President of Finance and Administration & Chief Administrative Officer is required.
Contracted payments totaling \$2,000,000 or more	Approval from the Board of Supervisors required.

ROLES AND RESPONSIBILITIES

Rendering Department/College/Unit

- Complete an AS-856: Request to Lease Movable Property to obtain **prior** approval for a movable property lease or lease-purchase before submitting a requisition.
- AS-856 requirements include:
 - ✓ Justification of cost savings for the University to lease instead of purchase
 - ✓ Documentation of bid and/or quote estimate
 - ✓ Technical and operational useful life of the item
 - ✓ Likelihood of continued use beyond the lease term
 - ✓ Market value (purchase price) of the item
 - ✓ Supporting documentation of market value
- After approval is obtained from FAR, submit a requisition for a “Lease of Movable Property” or a “Lease Equipment Purchase.”
- Attach the approval documentation to the requisition in Workday.
- Notify Property Management, for a lease with the option to purchase, when the determination is made to purchase an item.

Procurement Services

- Review the requisition and lease agreement for adherence to university procurement policies.
- Confirm the two (2) requirements referenced in the “University as Lessee” section above are met.
- Ensure the appropriate requisition type is selected to ensure accurate lease reporting.

Financial Accounting and Reporting

- Review AS-856 and required supporting documentation to determine feasibility of entering into a lease agreement.
- Review fully executed leases and lease-purchases to determine any applicable reporting requirements.