

COLORADO STATE UNIVERSITY
Financial Procedure Instructions
FPI 4-9

1. **Procedure Title:** Colorado State University (CSU) STRATA Financed Purchase Program
2. **Procedure Purpose and Effect:** Procedures for any department or organization within the university regarding acquisition of equipment using the Colorado State University (CSU) STRATA financed purchase program (formerly known as the Colorado State University Research Foundation [CSURF] equipment lease/purchase program). The CSU STRATA financed purchase program was developed to meet the needs of all institutions of the Colorado State University System to acquire certain scientific, administrative support and research equipment and pay for it over a period of years. All leases must adhere to the requirements outlined in Section 8 of the Purchasing Manual.
3. **Application of Procedure:** This procedure applies to equipment acquired through the CSU STRATA financed purchase program. The CSU STRATA finance purchase program is administered by CSU STRATA in cooperation with the Vice President for University Operations and Vice President of Research, who is responsible for the overall management of CSU's participation in the CSU STRATA financed purchase program, for obtaining any necessary Board of Governors' approvals, and for assuring that CSU Pueblo conforms to these policies and procedures. Refer to FPI 4-8 (Classification of Financed Purchase Agreements, Right to Use [RTU] Leases, Subscription-Based IT Arrangements [SBITA], Rental Agreements, and Use Charges) for more information regarding leases.
4. **Exemptions:** Any exemptions to this procedure require approval by Procurement, CSU STRATA, and Business and Financial Services.
5. **Definitions:**
 - A. **Acquiring Department:** The academic or administrative department or division of Colorado State University that acquires equipment.
 - B. **Colorado State University (CSU) STRATA:** A private, not-for-profit corporation, legally separate from the CSU system. Founded in 1941, STRATA supports and serves the campuses and affiliates of the CSU system through strategic real estate management, project development services, special project oversight, intellectual property management and technology transfer services, as well as operational management of regional, state, national, and international assets.
 - C. **Colorado State University (CSU) STRATA Financed Purchase Program:** The arrangement between CSU and CSU STRATA to facilitate the acquisition of scientific, administrative support, and research equipment for the benefit of CSU pursuant to financed purchase arrangements. The CSU STRATA Financed Purchase Program consists of two options: the "CSU STRATA Municipal Lease" and the "CSU STRATA Line of Credit Lease."
 - D. **Colorado State University (CSU) STRATA Line of Credit Lease (LOC):** Used to acquire equipment valued at \$50,000 or less.
 - E. **Colorado State University (CSU) STRATA Municipal Lease:** Used to acquire equipment valued over \$50,000.

F. Financed Purchase (formerly known as Capital Lease): The act of acquiring assets by making periodic payments, which generally consist of principal and interest. A capital lease transfers substantially all of the benefits and risk inherent in ownership of the equipment to the lessee. At the end of the payment period, the lessee will obtain title to the asset, yet was able to use the asset and spread the payments out over time easing the financial burden of making a large acquisition.

G. Lease: Grant or rights by a lessor to a lessee to possess and use real or personal property for a stated time period in exchange for rent or other consideration.

H. Lease Agreement: A contractual agreement conveying the right to use property, plant, or equipment usually for a stated time period. A lease agreement involves at least two parties; a lessor and a lessee. The lessor agrees to allow the lessee to use the item for a specified time period in return for periodic payments.

6. Procedure Statement: Departments may need to use a lease to purchase equipment. The department can either use the Colorado State University (CSU) STRATA financed purchase program or do an External (Direct) Lease (lease directly from a vendor). Lease agreements are contractual agreements and can obligate the university in several ways. Only those individuals authorized to sign contractual agreements may approve lease agreements. Lease agreement obligations must be recorded; therefore, all lease agreements must route through Procurement and the Lease Accountant in the Business and Financial Services Property Management Department. All proposed lease agreements must be accompanied by a repayment plan covering the entire lease term. For External (Direct) Leases, repayment plans are submitted to the lease accountant. The use of federal funds for lease payments must be in accordance with federal requirements. Leased property may not be sold or otherwise disposed of prior to the termination of the agreement. Any modifications of leased equipment during the lease term require prior authorization. For CSU STRATA financed purchases, the department will need to complete the Financing Application found on the CSU STRATA webpage under the Financing Program header. Procurement can assist the department in contacting CSU STRATA. CSU STRATA will collate the lease contract information and provide it to the lease accountant in the Business and Financial Services (BFS) Property Management Department. The lease accountant will determine the appropriate financial reporting of the lease and make the necessary capital leasing entries to the general ledger to create an asset. Once the asset has been created, a leased asset decal number will be assigned.

A. CSU STRATA Financed Purchase Program: Departments may acquire equipment through two CSU STRATA financed purchase options, the CSU STRATA Line of Credit (LOC) Lease and the CSU STRATA Municipal Lease. The type of lease used depends on the dollar amount of the requested financed purchase. Purchases may not be artificially subdivided to qualify for a Line of Credit Lease.

1. CSU STRATA Line of Credit Lease (\$50,000 or less): The CSU STRATA Line of Credit Lease is designed for equipment purchases of \$50,000 or less, which can be financed for a term of up to 5 years. The CSU STRATA Line of Credit (LOC) Lease is funded through CSU STRATA's \$1,000,000 line of credit at a local bank. This \$1,000,000 is available for leases to all institutions of the Colorado State University System. The allocation of available funds among the system schools, if necessary, will be agreed upon by CSU STRATA and representatives of the System Institutions.

A year-to-year cancelable lease agreement is executed between the acquiring department (CSU) and CSU STRATA. CSU will become the lessee and CSU STRATA will become the lessor. The

lessor will reimburse the equipment vendor for the cost of the items acquired. Title to the equipment will remain with the lessor and assigned to the bank as collateral, until the lease has been paid in full.

The interest rate on the CSU STRATA Line of Credit is negotiated annually, and CSU pays the prevailing interest rate on the outstanding balance.

CSU STRATA assesses an administrative fee for a CSU STRATA Line of Credit Lease. The fee is equal to 4 percent of the total amount borrowed, but not less than a minimum fee of \$800 and is payable to CSU STRATA upon signing of the lease.

- a. The acquiring department completes the applicable request form available from CSU STRATA. Acquisitions require a fully completed request form signed by the department head, dean/director, and vice president.
- b. Upon obtaining signatures, the acquiring department submits the request form to CSU STRATA for additional approval signatures and processing.
- c. CSU STRATA will submit the request form to the Office of the Vice President for Research and the Vice President for University Operations for approval. The lease will be signed as soon as practical.
- d. CSU STRATA will coordinate the preparation of the lease documents with all necessary parties, including sending a copy of the lease to the lease accountant in the BFS Property Management Department.
- e. CSU STRATA will consult with the CSU Procurement department for selection of a vendor for the equipment.
- f. The lease accountant records the item as a leased capital asset in the Investment-in-Plant Fund and will create the asset. An offsetting Lease Payable will also be recorded.
- g. Payments will be the responsibility of the acquiring department. Payment will be initiated quarterly by CSU STRATA's issuance of a request for a fund transfer into a revolving fund. A check will be generated to CSU STRATA from the revolving fund via a Disbursement Voucher.
- h. Upon receipt of all lease payments, the lease agreement is terminated, and CSU STRATA passes title to CSU.

2. **CSU STRATA Municipal Lease (Over \$50,000):** The CSU STRATA Municipal Lease is for equipment purchases over \$50,000 and can be financed for a longer term of up to 10 years. CSU STRATA administers the transaction but is not a party to it. The Municipal Lease term is on a fiscal year-to-year basis with renewal options to assure CSU's liability is limited to the present fiscal year if the lease should be canceled by CSU. This year-to-year cancelable lease agreement is executed between the acquiring department (CSU) and a bank, leasing company, or underwriter. CSU will become the lessee and the cooperating financial institution will become the lessor. The lessor will reimburse the equipment vendor for the cost of the items acquired. Title to the equipment will remain with the lessor until the lease has been paid in full.

Cancellation is permitted only in special circumstances involving lack of appropriated funds as specifically set forth in the Municipal Lease document. No Acquiring Department has the authority to cancel a Municipal Lease unilaterally. The Vice President for Research must be consulted regarding any proposed cancellation.

The interest rate on a Municipal Lease is set by the lessor, is reflective of market conditions (usually around 80% of the prime lending rate) and is fixed for the life of the lease. Under a Municipal Lease, the Acquiring Department makes clearly defined payments of principal and interest. A Municipal Lease transaction may permit the lessor to treat the interest portion of the lease payments as tax-exempt income.

CSU STRATA's up-front administrative fee for a Municipal Lease is based on the amount financed and is payable to CSU STRATA upon signing of the lease. The fee rates shall be:

Principal Amount Financed	Fee Charged
\$ 50,001 to \$75,000	3.0%
\$ 75,001 to \$100,000	2.5%
\$100,001 to \$150,000	2.0%
\$150,001 and Over	1.5%

- a. The acquiring department completes the applicable request form available from CSU STRATA. Acquisitions require a fully completed request form signed by the department head, dean/director, and vice president.
- b. Upon obtaining signatures, the department submits the request form to CSU STRATA for additional approval signatures and processing.
- c. CSU STRATA will submit the request form to the Director of Business and Financial Services for review.
- d. After review, the form is forwarded to the Office of the Vice President for Research and the Vice President for University Operations for approval. The lease will be signed as soon as practical. Some leases are funded into Escrow when the acquisition period is lengthy (more than 3 months).
- e. CSU STRATA will coordinate the preparation of the lease documents with all necessary parties, including sending a copy of the lease to the lease accountant in the Business and Financial Services Property Management Department.
- f. CSU STRATA will consult with the CSU Procurement department for selection of vendors for both the equipment and the financing arrangements. The lessor is chosen by CSU STRATA in cooperation with the CSU Procurement Services Department through a competitive solicitation process.
- g. The lease accountant records the item as a leased capital asset in the Investment in Plant Fund and will create the asset. An offsetting Lease Payable will also be recorded.
- h. Payments are the responsibility of the Acquiring Department. Payment will be initiated by CSU STRATA's issuance of a request for a fund transfer into a revolving fund. A check will be generated to the cooperating financial institution from the revolving fund via a Disbursement Voucher. The payment check will be sent to CSU STRATA for transmittal to the cooperating financial institution.
- i. Upon receipt of all lease payments, the lease agreement is terminated, and the lessor passes title to CSU.

B. Internal Approval Required: The vice president for research, as the designated and authorized representative of CSU pursuant to a resolution of the board of governors, shall, in connection with the approval of any proposed acquisition of equipment under a municipal lease arrangement, declare CSU's official intent to reimburse itself for all expenditures made by CSU in connection with the acquisition of such equipment from the proceeds of a tax-exempt financed purchase transaction which may be completed after such expenditures are made. This declaration shall be made no later than 60 days after payment of the earliest expenditure.

Acquisitions under the municipal leasing arrangement will be subject to CSU's ability to accommodate the additional debt that will result from the acquisition. CSU's overall debt capacity for the program is based on an annual debt service not to exceed \$2.5 million. The maximum annual debt service can be adjusted by approval of the cabinet budget committee.

1. The appropriate department head, dean/director and vice president must approve equipment that is to be acquired using the CSU STRATA Line of Credit Lease.

2. The appropriate department head, dean/director, vice president, vice president for research and the vice president for university operations, must approve equipment that is to be acquired using the Municipal Lease option.

C. Acquisition of and Title to Equipment: Items acquired under the program, including CSU STRATA Line of Credit Leases and Municipal Leases, will be purchased by CSU STRATA in cooperation with the CSU Procurement department. Under the Municipal Lease program, acquisition is undertaken by CSU STRATA as the agent of the lessor. All purchasing documents issued in connection with the acquisition or financing of such equipment shall reflect that the equipment to be acquired shall at all times be owned by and titled in the name of the lessor subject to CSU's beneficial interest under a lease/purchase agreement.

D. Reporting Requirements: All outstanding financed purchase agreements by the Colorado State System institutions must be reported annually to CSU's external auditor. CSU STRATA will collate such information and provide it to Business and Financial Services for its use in providing the annual report. The Board of Governors requires a quarterly activity report. This report is compiled and distributed by CSU STRATA.

7. Reference and Cross-References:

Colorado State University (CSU) STRATA website: <https://csustrata.org//>

Governmental Accounting Standards Board (GASB) (Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities the use Proprietary Fund Accounting); (Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments); (Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries); (Statement No. 51, Accounting and Financial Reporting for Intangible Assets); (Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements [Issued 12/10]); (Statement No. 87, Leases); and (Statement No. 96, Subscription-Based Information Technology Arrangements) home page: <http://www.gasb.org>

Procurement Services website: <https://procurement.colostate.edu/>

Property Management website: <http://busfin.colostate.edu/Depts/PropMgt.aspx>

8. Forms and Tools:

Colorado State University (CSU) STRATA Lease Application is located at:
<https://csustrata.org/financing-application/>