



University of California
San Francisco

Recharge Basics

Capital and Operating Leases

Recharge Review
Budget & Resource Management

This module will provide an overview of the policy and accounting procedures for Capital and Operating Leases

Topics

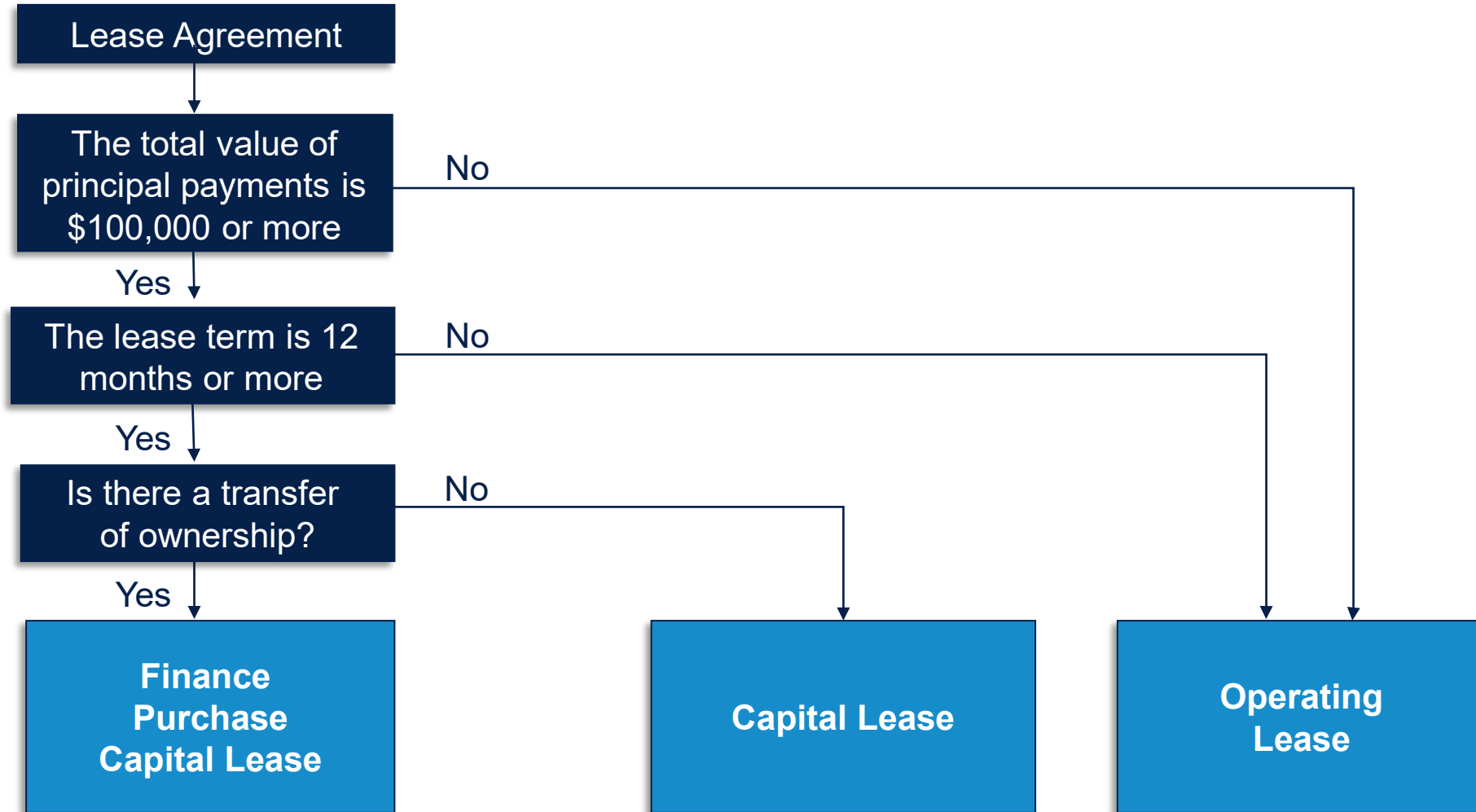
- Definition and Characteristics of a Lease
- Types of Equipment Leases
- Accounting Treatment on Recharges for Equipment Leases
- Operating Lease Payments for Real Property

A **Capital Lease or Operating Lease** is a lease agreement in which the University executes a written contract with a vendor through SCM Procurement to purchase or rent real property with scheduled installment payments during the life of a contract. Title to the property remains with the lessor throughout the contract term. The University may have the right to take possession of the property at the end of the contract, or earlier, subject to payment of any outstanding principal and the buy-out amount specified in the contract.

Characteristics of a Lease

- Has specific beginning and ending dates
- Interest rate is stated and fixed for the life of the lease
- May have provisions for transfer of ownership upon completion of payments due on the lease and/or payment of the agreed buy out amount (sometimes this will be for \$1 only)
- Lease is non-cancelable

Lease Classification Diagram



Finance Purchase Capital Lease - Equipment

\$100,000 or greater, longer than 12 months, and transfer of ownership to UCSF

- SCM Procurement approves the agreement and creates the Purchase Order which establishes the payment amounts, duration and interest
- Department notifies Capital Accounting that a lease has been entered by contacting CapitalAccounting@ucsf.edu
- Capital Accounting will assign a Property Tag and track the equipment during the life of the lease
- Accounts Payable will process the invoice and record the expenditure in the proper account:

Description	Principal Account	Interest Account
Cap lease - non-comp	57503	57504
Cap lease – computer	57501	57502

- Departments are required to ensure payments are made timely according to contractual schedule
- Capital Accounting may reclassify the interest portion of the payments as expense adjustments at year-end. Your department should not process journals to transfer or modify these transactions.

Finance Purchase Capital Lease Accounting Treatment

- A finance purchase capital lease is recorded as an asset purchased with a loan
- Finance purchase capital lease payments are [debt service payments](#) which must be appropriately split between **principal** and **interest**
 - **Principal**
 - Cannot be charged to a recharge activity operating fund (5018)
 - Can be charged to the recharge activity's associated equipment renewal and replacement reserve fund (5500) or another fund source
 - **Interest**
 - Can be charged directly to the recharge operating fund (5018)
 - The interest rate should not be higher than the fair market rate available to the institution (2 CFR Chapter II, Part 200 et. al. Uniform Guidance)

Finance Purchase Capital Lease Depreciation

- Depreciation expense is recognized over the asset's useful life as determined by UC policy
 - If the lease term is shorter than the asset's useful life, this will result in depreciation expense continuing to be charged to the recharge fund after the lease payments end
- Finance purchase capital lease payments that did not start on a sponsored award cannot be shifted to a sponsored award without reclassifying the equipment as federal or private sponsor acquired in the Asset Management System
 - If the finance purchase capital lease payments were charged to a non-sponsored fund, any future lease payments cannot be shifted to a federal fund if the depreciation is already included in the F&A cost pool

Capital Lease - Equipment

\$100,000 or greater, longer than 12 months, and vendor retains ownership

- SCM Procurement approves the agreement and creates the Purchase Order which establishes the payment amounts, duration and interest
- Department notifies Capital Accounting that a lease has been entered by contacting CapitalAccounting@ucsf.edu
- No Property Tag will be issued for vendor owned equipment
- Accounts Payable will process the invoice and record the expenditure in the proper account: 54101 - Leased Equipment Expense

Operating Lease - Equipment

Value below \$100,000 and/or shorter than 12 months

- Campus Procurement creates the Purchase Order which establishes the payment amounts, duration and interest
- The equipment does not receive a property tag and is not counted during physical inventory
- Accounts Payable will process the invoice and record the expenditure in the proper account: 54101 - Leased Equipment Expense

Capital Lease and Operating Lease Accounting Treatment

- Equipment operating costs should be included in the recharge
- If only a portion of the equipment is used by the recharge activity, only the proportionate cost should be included
- No asset acquisition is recognized
- The asset is not placed on the capital asset inventory within the Asset Management System
- No depreciation expense is recognized
- No special accounting procedures are needed at lease initiation

Operating Lease Payments – Real Property

- Operating lease payments are recorded as straight expenses in the fiscal year to which they apply
 - No split is made between principal and interest
 - If rental payments are not made on a straight-line basis, the rental expense shall be recognized on a straight-line basis
 - Exceptions:
 - Increases over the term of the lease that are intended to cover economic factors like inflation
 - Lease payments which increase with increased availability of the property

Operating Lease with Free Rent

- Free rent on facilities rentals must be amortized over the life of the lease
- Property tax exemptions should be filed on time
 - UCSF is exempt if it is waived
 - Remaining tax is allowed on a recharge if included in the lease

References

- [UCSF Controller's Office Accounting & Reporting: Capital and Operating Equipment Leases](#)
- Governmental Accounting Standards Board (GASB) Statement No. 87, Leases



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