



PURCHASING DEPARTMENT

2.12 Leases & Rentals

Lease agreements are entered into for a defined time period, for example, one to three years, and generally cannot be cancelled during the term of the lease. If the equipment will be needed on a continuous basis, it is usually more economical to purchase the equipment outright if the funds are available. Leasing is a financing mechanism, not a funding source. The absence of current funding does not constitute a good reason to choose a lease over a purchase option. The primary reason to lease rather than buy an item is that the needed item is so expensive that its direct purchase is not possible and other financing mechanisms are unavailable or more expensive than leasing. Leases are legally binding contracts that financially obligate the University so new lease agreements are to be entered into only after the lease agreement has been vetted by the Purchasing Office and signed by an authorized University signatory.

There are two types of leases, Operating and Capital. Normally, at the end of an Operating Lease, the leased item is returned to the lessor. With a Capital Lease, the University will own the leased item at the end of the term either with no additional payments or by paying a predetermined final payment. An Operating Lease is treated like a series of rental payments, whereas a Capital Lease is recorded as an asset of the University, with a corresponding liability for the full amount of the lease obligation.

Rental agreements are similar to lease agreements, but differ in that they can generally be terminated by the renter at any point by providing proper notice, typically thirty days. The cost of some equipment is so great that it may be more economical to rent on a continuing, but indefinite basis.

Leases and rentals are also subject to the State's bidding requirements if the total costs exceed the bidding threshold.