

**UNIVERSITY OF CINCINNATI
DEPARTMENTAL MASTER LEASE FINANCING APPLICATION**

Minimum purchase amount to be financed under master lease is \$50,000.
 Repayment period must not exceed estimated useful life of assets being financed.
 Equipment purchase must follow all purchasing rules and regulations.
 To assure compliance with tax exempt financing regulations, this form must be completed, signed, and delivered to the Treasurer's Office, 500 University Hall, ML #0641, no later than 30 calendar days after the date of the purchase order. A copy of the purchase order on which the equipment being financed was ordered must be sent to the Treasurer's Office before the lease will be finalized. A copy of the business plan justifying this financing must be attached to this application.
 The lease is non-cancelable. Equipment may not be disposed of until lease is paid off.

DEPARTMENT

DESCRIPTION OF EQUIPMENT TO BE FINANCED

AMOUNT TO BE FINANCED

REPAYMENT PERIOD

ACCOUNT CODE TO WHICH PURCHASE ORDER WAS CHARGED

ACCOUNT CODE TO WHICH REPAYMENT WILL BE CHARGED

AUTHORIZATIONS:

PERSON INITIATING FORM	<input type="text"/>	DATE	<input type="text"/>
DEPARTMENT HEAD	<input type="text"/>	DATE	<input type="text"/>
DEAN OR ADMINISTRATOR	<input type="text"/>	DATE	<input type="text"/>
VP FISCAL OFFICER	<input type="text"/>	DATE	<input type="text"/>
VICE PRESIDENT	<input type="text"/>	DATE	<input type="text"/>
SPONSORED PROGRAM ACCOUNTING IF GRANT/ CONTRACT	<input type="text"/>	DATE	<input type="text"/>
TREASURER'S OFFICE	<input type="text"/>	DATE	<input type="text"/>

To be completed by Treasurer's Office:
 Interest Rate _____ Annual Payment _____ Amortization Schedule Attached _____ Financing Bank _____
 Copy of completed form, all attachments, and all lease documents sent to Construction Management. _____

DEPARTMENTAL MASTER LEASE FINANCING PROCEDURES

Authority

University of Cincinnati Board Recommendation No. 04.3.30.11, approved by the Board of Trustees on March 30, 2004, authorized the execution of master lease-purchase agreements by the University General Counsel, and the execution of individual advances under master lease-purchase agreements by the University Treasurer, Associate Treasurer, or Assistant Treasurer, without further action of the Board. Master lease advances are authorized up to a maximum of \$5,000,000 annually.

Purpose

The master lease purchase financing agreements provide a convenient, low-cost financing vehicle to departments making major equipment purchases. Departments that need to purchase expensive equipment that can not be funded by their current operating budget often are offered vendor financing arrangements. Standard vendor lease-purchase arrangements usually are not tax exempt and frequently contain provisions that are difficult to finalize with language required by the Ohio Revised Code. The use of tax-exempt master lease financing agreements permits the University to obtain lower financing rates and reduces the administrative time needed to approve individual vendor lease-purchases.

Requirements

The execution, documentation, reconciliation and payment tasks required for master lease-purchase transactions require significant administrative resources to support. In order to protect the tax-exempt status of the master lease-purchase financings and to assure that the administrative resources are utilized efficiently, the following requirements apply:

- Minimum purchase amount to be financed under a master lease is \$50,000.
- Repayment period must not exceed the estimated useful life of the assets being financed.
- Equipment purchase must follow all purchasing rules and regulations.
- To assure compliance with tax exempt financing regulations, the Departmental Master Lease Financing Application must be completed, signed, and delivered to the Treasurer's Office no later than 30 calendar days after the date of the purchase order.
- A copy of the purchase order on which the equipment being financed was ordered must be sent to the Treasurer's Office before the lease advance will be finalized.
- A copy of the business plan justifying the financing must be attached to the application.
- Leases are non-cancelable.
- Equipment may not be disposed of until the lease is paid off.
- Master lease financing will be obtained on a reimbursement basis.

Procedures

Execution of Master Lease Advance

Department contacts Treasurer's Office to discuss proposed equipment purchase and seek preliminary opinion that master lease is appropriate for the purchase.

Treasurer's Office contacts bank(s) to determine if equipment is financeable and to obtain estimated payments.

Treasurer's Office informs department if master lease financing is appropriate, provides estimated payments, and sends the Departmental Master Lease Financing Application to the department to complete.

Department sends completed and signed Departmental Master Lease Financing Application, with business plan attached, to the Treasurer's Office for final review. The department must send a copy of the purchase order on which the equipment was ordered to the Treasurer's Office before the lease will be finalized.

Treasurer's Office provides supporting documentation to financing bank, including description of equipment being financed and copy of University check to support reimbursement by financing bank.

Treasurer's Office and financing bank execute lease advance, including amortization schedule, essential use certificate, delivery and acceptance certificate, IRS form 8038-G, equipment life expectancy certificate, and other documents required to execute the transaction.

Treasurer's Office sends copy of completed and signed Departmental Master Lease Financing Application and all documentation to Financial Services.

Treasurer's Office maintains record to track master lease advances against the \$5,000,000 annual limit of authorization.

Accounting

Generally accepted accounting principles require capitalization of leases that transfer substantially all the benefits and risks of ownership of property. If any one of the four criteria listed below is met, then the lease is recorded as a capitalized lease.

1. The lease transfers ownership of the property to the lessee at the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the beginning of the lease term, excluding executory costs, equals or exceeds 90% of the fair value of the leased property.

All transactions executed under the master lease agreements meet criteria #1 and #4. The \$50,000 minimum dollar amount for master lease transactions exceeds the university's capitalization threshold of \$5,000. Therefore, all master lease transactions are accounted for as capitalized leases.

The department records the initial equipment purchase within their departmental fund. The Treasurer's Office records the receipt of cash from the financing bank that reimburses the equipment purchase. Financial Services records the capitalized lease obligation, mandatory transfers for debt service, principal amortization and interest expense, and initiates the lease payments to the financing bank(s). The detailed entries are listed below.

1. Department purchases equipment through normal purchasing channels.

Departmental Fund to which purchase is recorded (reflected on purchase order):
DR ~ Expense (G/L Code 539XXX or 549XXX)

2. Treasurer's Office receives reimbursement under master lease. Financial Services processes the entry to record the receipt of the reimbursement into an unexpended plant fund created for the specific master lease:

Unexpended Plant Fund to record master lease reimbursement (P2CLXXX):
DR ~ Bank Cash
CR ~ L/P Bank Loans (G/L Code 280001)

3. Financial Services transfers the cash received as a reimbursement under the master lease, to the department fund where the original equipment purchase was recorded:

Unexpended Plant Fund to record master lease reimbursement (P2CLXXX):
DR ~ Non-mandatory Transfer (G/L Code 870XXX)
CR ~ Bank Cash (System Generated)

Departmental fund to which purchase was initially recorded:
DR ~ Bank Cash (System Generated)
CR ~ Non-mandatory Transfer Income (G/L Code 830800)

4. Financial Services moves the capital lease liability from the Unexpended Plant fund into Investment in Plant.

Unexpended Plant fund used to record the master lease liability (P2CLXXX):

DR ~ L/P Bank Loans (G/L 280001)

CR ~ Expenditures of Debt Funds (G/L 538301)

Investment in Plant Fund (P899999)

DR ~ Expenditures of Debt Funds (G/L 538301)

CR ~ L/P Bank Loans (G/L 280001)

5. Financial Services records mandatory transfer for debt service for annual lease payment

Departmental fund that supports lease payments:

DR ~ Mandatory Transfer to Debt (G/L 861000)

CR ~ Bank Cash (System Generated)

Retirement of indebtedness fund (P7CLXXX):

DR ~ Bank Cash (System Generated)

CR Mandatory Transfer to Debt (G/L 821000)

6. Financing bank sends lease payment invoices to Financial Services for payment.

7. Financial Services initiates ACH payment request(s) for the lease payment and sends it to Treasurer's Office to execute bank transfer(s). Treasurer's Office executes bank transfer(s), charging it to a debt clearing fund.

Debt Clearing fund (P7ALLDT):

DR ~ Principal Expense (G/L 538100) or

DR ~ Interest Expense (G/L 538200)

8. Financial Services executes a journal entry to clear the debt clearing fund and charge the appropriate debt service fund.

Retirement of Indebtedness fund (P7CLXXX):
DR ~ Principal Expense (G/L 538100)
DR ~ Interest Expense (G/L 538200)
Debt Clearing fund (P7ALLDT):
CR ~ Principal Expense (G/L 538100)
CR ~ Interest Expense (G/L 538200)

Should Financial Services initiate an A114 for the lease payment, it will be routed for signature and processing according to University rules, based on the dollar amount of the A114. The coding that will be reflected on the A114 will be as follows:

Retirement of Indebtedness fund (P7CLXXX):
DR ~ Principal Expense (G/L 538100)
DR ~ Interest Expense (G/L 538200)

9. Financial Services amortizes principal:

Investment in Plant Fund (P899999):
DR ~ L/P Bank Loans (G/L 280001)
CR ~ Fund Balance (G/L 390001)

Note: All above entries being recorded into a P2XXXXXX, a P7XXXXXX or a P899999 fund must contain a WBS Element within the account string. The WBS element is created for the specific master lease by Financial Services.

Contacts

Treasurer's Office

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Financial Services

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