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# FISCAL POLICIES MANUAL

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## REVENUE: LEASING ACTIVITIES

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### PREFACE

State agencies may enter into lease agreements as the lessor for assets such as land, buildings and personal property that generate revenue to the state. Industry-specific lease agreements may not provide sufficient reporting of account data to properly disclose such activities in statewide financial statements.

### DEFINITIONS

Full Service Lease – A lease which includes all property expenses. Property expenses assumed by the lessor will vary from building to building and property type to property type, as defined in the lease agreement.

Lessee (Tenant) – The entity paying a fee to the lessor for the right to use real or personal property.

Lessor – The owner or the owner's agent acting on behalf of the owner who gives the Lessee the right to use the personal or real property.

Triple Net Lease – A lease in which the lessee of the building pays for all costs related to the use and occupancy of the building as defined in the lease agreement. Debt service and income taxes on the revenue received from the leased property are solely the responsibility of the lessor.

### EXAMPLES OF LEASE COSTS

The following are examples of the types of costs associated with full service and triple net leases.

A Full Service Lease may include janitorial services, property taxes, insurance, grounds-keeping, snow removal, general building maintenance, and utility costs (excluding phone). In some shopping centers, a full service lease may include the property taxes, insurance, grounds-keeping, and snow removal and overall maintenance of the property. A retail store may be responsible for its own utilities and janitorial services.

A Triple Net Lease may include taxes, insurance, utilities, janitorial, maintenance of mechanical equipment, and common area maintenance, and license fees. For real estate, this generally would include taxes, insurance, utilities, janitorial, building maintenance, grounds-keeping, and snow removal. For personal property, the expenses paid by the lessee may include license fees and personal property taxes.

## **POLICY**

In order to properly account for and disclose leasing activities in the statewide financial statements, agency leases, where the agency is acting as a lessor, shall stipulate that the lessee must annually report all expenses incurred in any leasing agreement. Records shall be maintained for each state-owned asset leased to another party.

## **ADMINISTRATIVE PROCEDURES**

All records shall be retained for audit purposes.

Agencies shall disclose leasing activities and provide expense information when completing the annual Leases Receivable Closing Package for the State Controller's Office.