

Bonds: Tax-Exempt Financing of Capital Leases

See [Operating Instruction 7.3.6.1](#), which states that MnSCU tax-exempt financing for capital leases of at least \$100,000 must be obtained through the Minnesota Department of Finance “Lease Purchase Financing Program.” It also states that colleges and universities shall not enter into tax-exempt capital lease financing arrangements with vendors in amounts under \$100,000. *Therefore, business officers should exercise caution when reviewing the fine print of vendor-provided copier/equipment agreements.*

MnSCU is subject to several Internal Revenue Code and Regulation requirements regarding tax-exempt bond issues. There are regulations on spending the bond proceeds in a timely fashion, rules regarding investment of bond proceeds, and restrictions on the use of tax-exempt financed property just to name a few. Tax-Exempt Bonds is a highly complex area with many rules and mandatory record retention requirements.

The following is an excerpt from the IRS web site on bond record retention:

What are the basic records that should be retained?

Although the required records to be retained depend on the transaction and the requirements imposed by the Code and the regulations, records common to most tax-exempt bond transactions include:

- Basic records relating to the bond transaction (including the trust indenture, loan agreements, and bond counsel opinion);
- Documentation evidencing expenditure of bond proceeds;
- Documentation evidencing use of bond-financed property by public and private sources (i.e., copies of management contracts and research agreements);
- Documentation evidencing all sources of payment or security for the bonds; and
- Documentation pertaining to any investment of bond proceeds (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received the investment of proceeds, guaranteed investment contracts, and rebate calculations).

Minnesota State campuses should contact tax@MinnState.edu prior to entering into tax-exempt lease purchase agreements.