

# Arkansas State University - Jonesboro

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**Effective Date: 07/01/13**

**Number: 05-43**

**Section: Finance and Administration**

**Subject: Capital Lease Financing Procedures**

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## **Introduction**

These procedures are for the acquisition of equipment and other assets purchased through a capital lease financing arrangement. Operating leases are not subject to these procedures. Definitions of each type of lease are listed below.

## **Type of Lease Arrangement**

A lease is classified as either an operating lease or a capital lease. When a lease meets any of the following criteria, it should be classified as a capital lease (also referred to as an installment purchase). A corresponding asset and liability must be recorded to properly account for the lease.

1. Ownership – The lease transfers ownership of the property to the University at the end of the lease term.
2. Purchase Option – The lease contains an option to purchase the lease property at a bargain price (significantly lower than the property's fair market value when the option is exercised).
3. Lease Term – The lease term equals or exceeds 75 percent of the estimated useful life of the lease property.
4. Rental Payments – The present value of rental payments equals or exceeds 90 percent of the value of the leased property.

If none of the above criteria are met, the lease is classified as an operating lease. The recording of an asset and liability are not required with operating leases.

## **Approvals**

A department who wishes to purchase equipment or another type of asset using capital lease financing must first receive the approval of the following individuals or their designee:

- Vice Chancellor for Finance and Administration
- System Vice President for Finance

The [Capital Lease Form](#) should be used for any capital lease financing arrangements. Reviewed on 08/02/2018.