

Leases

30.20.30

Capital lease – a lease that transfers substantially all the benefits and risks inherent in the ownership of property to the state. Must meet criteria to qualify as a capital lease.

Operating lease – a rental of an asset with a term of more than one year, where the payments are chargeable as rent or lease expenditures.



Capital Lease definition 30.20.30

Must meet one or more of the following criteria:

- Ownership transfers to the state by the end of the lease term
- Lease contains a bargain purchase option
- Lease term is equal to 75% or more of the useful life of the leased property
- If, at the beginning of the lease, the present value of the future minimum payments, less executory costs, is 90% or more of the fair value of the leased property
 - However, if the beginning of the lease term falls within the last 25 % of the total estimated economic life, then you would not use this criterion.

Examples: Multifunctional Device – Class Code 7033, useful life of 5 years

- You enter into a 48 month lease agreement. This would be 80% of the useful life, therefore you must capitalize the lease.
- You enter into a 36 month lease agreement. This would be 60% of the useful life. This lease would be reported as an operating lease.

Capital Lease Accounting

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When the state's capitalization policy is met:

Account for a capital lease as an acquisition of a capital asset and the incurrence of a liability.

Detailed sample entries are in SAAM: 85.65.62 and 85.85.40.a