



State of Arizona Accounting Manual

Topic 90 Special Topics
Section 35 Leases

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INTRODUCTION

State agencies enter into leases for all manner of personal and real property—land, buildings, premises, automobiles, miscellaneous equipment, etc.

Leases are classified as either capital leases or operating leases.

If the lease results in the State's acquisition of a capital asset, it may be a capital lease. SAAM 2545 presents the criteria used to determine whether a lease is a capital lease and describes how the acquisition of the capital asset and the recording of the lease payments should be performed.

If the lease does not result in the State's acquisition of a capital asset, it is an operating lease and the payments related to that lease are to be treated as expenses or expenditures in the period in which they are made.

Agencies are to take care that a financing arrangement is not an installment purchase agreement, which contravenes the Constitution of the State of Arizona. Installment purchase agreements are described in some detail in SAAM 9036.

All lease agreements, whether capital or operating, are subject to the provisions herein.

POLICY & PROCEDURES

1. Agencies are not to enter into any lease that:
 - 1.1. Does not contain a provision that exempts the State from any liability (beyond recovery of the underlying leased property) should funds not be available or not have been appropriated to make scheduled payments (i.e., that do not contain a fiscal funding out clause).
 - 1.2. Does not comply with the Arizona Procurement Code.
2. Before execution by an agency, any lease agreement is to be reviewed and approved by an agency's legal counsel or the Office of the Attorney General.
3. Copies of all leases involving real property should be forwarded to both the General Services Division and the General Accounting Office of the Arizona Department of Administration.
4. Copies of all leases involving personal property should be forwarded to the General Accounting Office.