HITE-CT, Inc. **F210**

SUBJECT: LEASES		
Reviewed by: Finance Committee **Revised by:**	**Effective: 5/21/12**	
	Reviewed: 3/5/12	**Revised: 3/28/12**
Approved by: HITE-CT Board of Directors	Page 1 of 1	
	Related to Core Policy: F 100	

PURPOSE:

The following guidelines are to be used for the accounting of lease agreements.

PROCEDURE:

A. It is generally accepted that long-term leasing is usually a very expensive way to obtain the control and use of assets. This is because the leasing company will ordinarily charge enough monthly payment to cover the cost of the asset and sufficient interest to justify the transaction. For these reasons, it is usually more prudent to purchase assets needed for normal operations. Exceptions may occur when the proposed asset is easily made obsolete by frequent technology updates, or if the asset is only needed for a temporary period of time.

B. Generally Accepted Accounting principles (GAAP) identify two basic types of leases: operating and capital. If any one of the following conditions is true, the lease is a capital lease. All other lease agreements would be classified as operating:

   1. Condition 1 – The lease contains a bargain purchase option
   2. Condition 2 – Ownership of the lease asset transfers to the Lessee at the end of the lease term.
   3. Condition 3 – Seventy-five percent (75%) of the asset’s useful life is consumed during the lease term.
   4. Condition 4 – The present value of the minimum lease payment is equal to or greater than 90% of the asset value.

   If any one of the above conditions is true of the lease, the lease is a capital lease and must be accounted for accordingly. If none of the conditions is true, the lease is an operating lease and is merely expensed.

   To assure proper accounting for leases, all lease agreements must be approved by the CEO prior to entering into the lease.