



State of Arizona Accounting Manual

Topic 90 Special Topics
Section 37 **Lease Purchase Contracts and
Leases with the Option to Purchase**

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INTRODUCTION

There are two types of financing instruments used to acquire property, both real and personal, that contain the words “lease” and “purchase.” The first of these is a lease purchase contract and the second is a lease with an option to purchase. The purpose of this section of SAAM is to discuss these agreements, their provisions, their differences, and whether, how, when or if they may be used by State agencies to finance acquisitions.

In a lease with an option to purchase, the purchaser pays an option fee. This fee is generally non-refundable. The option provides the buyer with the right, but not the obligation, to acquire the underlying property at a specified price at the time option is exercised. Some portion of the lease payments, as agreed to by the parties to the agreement, may be credited to the purchase price. Unlike most leases, the lessee in these situations is generally liable for maintenance, repairs, insurance and taxes. Importantly, if the lessee decides not to exercise the option, he has no liability beyond the forfeiture of the option fee. In other words, this is a unilateral agreement that binds the seller to sell, but not the buyer to buy.

A lease purchase contract, while similar to a lease with an option to purchase, differs in one very important respect: The lease purchase contract is a bilateral agreement that binds the seller to sell, but also binds the buyer to buy. In other words, it establishes a liability upon the lessee that extends beyond lease payments and option fees.

A rent-to-own agreement can be either a lease with an option to purchase or a lease purchase contact. What is important is not the title, but the terms.

POLICY & PROCEDURES

1. State agencies may not enter into lease purchase contracts or similar arrangements.
2. Any contracts employing periodic payments to finance the acquisition of assets must be submitted to in-house legal counsel or the Office of the Arizona Attorney General for review.