

Complete Policy Title: External Financing Decisions (Lease vs. Buy)	Policy Number:
Approved by: AVP (Administration) & CFO	Date of Most Recent Approval: January 2020
Date of Original Approval: June 2019	Supersedes/Amends Procedure dated: June 2019
Responsible Executive: AVP (Administration) & CFO	Enquiries: finserv@mcmaster.ca
<i>DISCLAIMER: If there is a discrepancy between this electronic policy and the written copy held by the policy owner, the written copy prevails.</i>	

Purpose

The purpose of this document is to outline the policy surrounding any leasing or financing decisions made by University faculty and staff. During the procurement process, there may be more than one method of acquisition for goods or services, such as leasing, financing or a cash purchase price. A vendor may present a leasing or financing scenario with a low or zero percent interest rate. A low or zero percent interest rate option may include an embedded or implicit interest rate that Financial Affairs needs to review before a purchase commitment since it may be to the University's benefit to finance these acquisitions internally.

Scope

This procedure applies to all acquisitions by University faculty and staff. Acquisitions up to \$2 million will involve Financial Affairs review before a commitment decision is made. Purchases in excess of \$2 million will involve both Financial Affairs and approval from the appropriate level of governance consistent to the Appendix E: Execution of Instruments by-law.

Definitions

Cash Purchase Price – The amount otherwise payable by the University if no external financing is used.

Hurdle Rate – The rate of return on short-term investments as determined by Treasury.

Policy

- As part of the acquisition process, all relevant financing details (including the Cash Purchase Price, where available) are to be submitted to the Senior Accountant, Financial Affairs, for analysis. The results of the analysis will be submitted to the AVP (Administration) & CFO for approval and consultation with the faculty or staff member.
- The University faculty or staff member, in conjunction with Strategic Procurement, will undertake a best-efforts approach to obtaining all relevant information needed to complete a comprehensive analysis of each financing decision.
- The hurdle rate will be compared to the implicit rate of the lease to help determine whether the leasing option is economical.

Related Links

[Execution of Instruments](#)

[Strategic Procurement - SP-01](#)