

IMPROVING LIQUIDITY FOR SCHOOLS THROUGH EQUIPMENT SALE-AND-LEASEBACK

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As educational institutions approach their fiscal year-end, accounting and finance professionals begin to analyze their company's year-end financial position. In a turbulent economic environment, a company's cash position is often an important financial consideration. By demonstrating a strong cash position, organizations can maintain debt ratings, avoid bank covenant violations, and improve liquidity ratios.

In the final month of a company's fiscal year, executing a sale-and-leaseback transaction on equipment acquisitions is often considered.

ABOUT SALE-AND-LEASEBACK

In an equipment sale-and-leaseback, the lessor reimburses the lessee for equipment that was purchased during the past 6-12 months. Items typically included in a sale-and-leaseback are computer equipment, telephone systems, networking infrastructure, printers, software, and office furniture. Once the sale-and-leaseback is finalized, the lessee will receive 100% reimbursement of the acquisition cost of the equipment included in the lease. When this occurs, ownership of the equipment is transferred to the lessor and lease payments begin.

FINALIZING A SALE-AND-LEASEBACK

The financial disclosure requirements for a sale-and-leaseback are generally the same as a traditional lease transaction. The lessor will require three years of audited financial statements, interim financial statements, and bank reference information. The lessor will also require copies of the vendor invoices for the equipment and cleared check copies as proof of payment. Equipment inspections may also be required.

The lessor will verify that the equipment is not encumbered by the lessee's existing credit provider(s). If a lien has been filed on the equipment being transferred, a lien release may be needed. Most leasing companies will work with the lessee's credit providers on obtaining the releases without any additional administrative burden on the lessee.

SALE-AND-LEASEBACK CONSIDERATIONS

A properly structured sale-and-leaseback can be a beneficial financial strategy. The lessor should take the time to understand the lessee's accounting considerations and budgetary needs. Sale-and-leasebacks can be structured as either operating leases or capital leases. Since the costs of maintaining old technology equipment are high, rapidly depreciating assets are often placed onto an operating lease. Leasing companies should take the time to analyze the lessee's financial strategies and asset lifecycles to recommend an appropriate sale-and-leaseback.

ABOUT FIRST AMERICAN EQUIPMENT FINANCE

First American Equipment Finance is an experienced lessor specializing in the healthcare, insurance, education, and legal industries. Currently ranked among the 10 largest independent leasing companies in the U.S., First American provides simple, innovative financing solutions for complex projects. First American specializes in combining products and services from multiple vendors and service providers into a single equipment lease. First American has a long-standing reputation for professionalism and exceptional service among sophisticated borrowers throughout the U.S.