

Example 1**The Facts:**

Agency A is leasing a van.

The van's fair value is \$33,900.

The lease is for three (3) years and the useful life is seven (7) years.

The monthly payment is \$578.81 which includes maintenance fees of \$50.

The interest rate for the lease is 7.5%.

At the end of the lease the van may be purchased for \$21,500.

What type of lease is this and why? Capital or OperatingPoints to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

 Yes **No****If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.**

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

 Yes **No****If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.**

Example 1 - Van Lease

3 Year Lease	FMV	Monthly Pymt	Interest
	\$ 33,900.00	\$ 578.81	7.5000%
		50.00	Maintenance Fees
	\$ 33,900.00	\$ 528.81	Minimum Lease / Loan Pymt

Month #	Loan Payment	Interest	Principal	Balance
				\$ 33,900.00
1	\$ 528.81	\$ 211.88	\$ 316.93	33,583.07
2	528.81	209.89	318.92	33,264.15
3	528.81	207.90	320.91	32,943.24
4	528.81	205.90	322.91	32,620.33
5	528.81	203.88	324.93	32,295.40
6	528.81	201.85	326.96	31,968.44
7	528.81	199.80	329.01	31,639.43
8	528.81	197.75	331.06	31,308.37
9	528.81	195.68	333.13	30,975.24
10	528.81	193.60	335.21	30,640.03
11	528.81	191.50	337.31	30,302.72
12	528.81	189.39	339.42	29,963.30
13	528.81	187.27	341.54	29,621.76
14	528.81	185.14	343.67	29,278.09
15	528.81	182.99	345.82	28,932.27
16	528.81	180.83	347.98	28,584.29
17	528.81	178.65	350.16	28,234.13
18	528.81	176.46	352.35	27,881.78
31	528.81	146.74	382.07	23,095.79
32	528.81	144.35	384.46	22,711.33
33	528.81	141.95	386.86	22,324.47
34	528.81	139.53	389.28	21,935.19
35	528.81	137.09	391.72	21,543.47
36	528.63	134.65	393.98	21,149.49
	\$ 19,036.98	\$ 6,286.47	\$ 12,750.51	

Asset's Fair Market Value:	\$ 33,900.00
	90%
90% of Asset's Fair Market Value	<u>\$ 30,510.00</u>
PV of Minimum Lease payments:	\$ 19,036.98

Useful Life - 7 years or 84 months	84
	75%
75% of asset's useful life	<u>63</u>
Lease Term - 3 years or 36 months	<u>36</u>

Example 2**The Facts:**

Agency B is leasing a copier.

The copier's fair value is \$12,500.

The lease is for eight (8) years and the useful life is for ten (10) years.

The monthly payment is \$212.48 which includes maintenance fees of \$30.

The interest rate of the lease is 8.9%.

There is a fair market price purchase option at the end of the lease.

What type of lease is this and why? Capital or Operating

Points to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.

*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.



Operating & Capital Lease Examples

Example 2 - Copier Lease

8 Year Lease	\$	FMV 12,500.00	Monthly Pymt \$ 212.48	Interest 8.90%	Depreciation 10 Year Useful Life 120 Months
			30.00	Maintenance Fees	
			<u>\$ 182.48</u>	Minimum Lease / Loan Pymt	

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 12,500.00		
1	\$ 182.48	\$ 92.71	\$ 89.77	12,410.23	\$ 104.17	\$ 14.40
2	182.48	92.04	90.44	12,319.79	104.17	13.73
3	182.48	91.37	91.11	12,228.68	104.17	13.06
4	182.48	90.70	91.78	12,136.90	104.17	12.39
5	182.48	90.02	92.46	12,044.44	104.17	11.71
6	182.48	89.33	93.15	11,951.29	104.17	11.02
7	182.48	88.64	93.84	11,857.45	104.17	10.33
8	182.48	87.94	94.54	11,762.91	104.17	9.63
9	182.48	87.24	95.24	11,667.67	104.17	8.93
10	182.48	86.54	95.94	11,571.73	104.17	8.23
11	182.48	85.82	96.66	11,475.07	104.17	7.51
12	182.48	85.11	97.37	11,377.70	104.17	6.80
13	182.48	84.38	98.10	11,279.60	104.17	6.07
14	182.48	83.66	98.82	11,180.78	104.17	5.35
15	182.48	82.92	99.56	11,081.22	104.17	4.61
88	182.48	11.74	170.74	1,412.28	104.17	(66.57)
89	182.48	10.47	172.01	1,240.27	104.17	(67.84)
90	182.48	9.20	173.28	1,066.99	104.17	(69.11)
91	182.48	7.91	174.57	892.42	104.17	(70.40)
92	182.48	6.62	175.86	716.56	104.17	(71.69)
93	182.48	5.31	177.17	539.39	104.17	(73.00)
94	182.48	4.00	178.48	360.91	104.17	(74.31)
95	182.48	2.68	179.80	181.11	104.17	(75.63)
96	182.45	1.34	181.11	-	104.17	(76.94)
97					104.17	104.17
98					104.17	104.17
99					104.17	104.17
113					104.17	104.17
114					104.17	104.17
115					104.17	104.17
116					104.17	104.17
117					104.17	104.17
118					104.17	104.17
119					104.17	104.17
120					104.17	104.17
	<u>\$ 17,518.05</u>	<u>\$ 5,018.05</u>	<u>\$ 12,500.00</u>		<u>\$ 12,500.00</u>	<u>\$ 0.00</u>

Asset's Fair Market Value:	\$ 12,500.00	Useful Life - 10 years or 120 months	120
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 11,250.00</u>	75% of asset's useful life	<u>90</u>
PV of Minimum Lease payments:	<u>\$ 17,518.05</u>	Lease Term - 8 years or 96 months	<u>96</u>

Example 3

The Facts:

Agency C leases a new phone system.
 The phone system's fair value is \$15,999.
 The lease is for three (3) years and the asset life is for seven (7) years.
 The monthly payment is \$528.79 which includes maintenance fees of \$50.
 The interest rate is 4.9%.
 The Agency can purchase the system at the end of the lease for \$1.00.

What type of lease is this and why? Capital or Operating

Points to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.

*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.



Operating & Capital Lease Examples

Example 3 - Phone System Lease

3 Year Lease	\$	FMV 15,999.00	Monthly Pymt \$ 528.79	Interest 4.9000%	Depreciation 7 Year Useful Life
			50.00	Maintenance Fees	84 Months
			<u>\$ 478.79</u>	Minimum Lease / Loan Pymt	

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 15,999.00		
1	\$ 478.79	\$ 65.33	\$ 413.46	15,585.54	\$ 190.46	\$ (223.00)
2	478.79	63.64	415.15	15,170.39	190.46	(224.69)
3	478.79	61.95	416.84	14,753.55	190.46	(226.38)
4	478.79	60.24	418.55	14,335.00	190.46	(228.09)
5	478.79	58.53	420.26	13,914.74	190.46	(229.80)
6	478.79	56.82	421.97	13,492.77	190.46	(231.51)
7	478.79	55.10	423.69	13,069.08	190.46	(233.23)
8	478.79	53.37	425.42	12,643.66	190.46	(234.96)
9	478.79	51.63	427.16	12,216.50	190.46	(236.70)
10	478.79	49.88	428.91	11,787.59	190.46	(238.45)
11	478.79	48.13	430.66	11,356.93	190.46	(240.20)
12	478.79	46.37	432.42	10,924.51	190.46	(241.96)
13	478.79	44.61	434.18	10,490.33	190.46	(243.72)
26	478.79	20.99	457.80	4,681.98	190.46	(267.34)
27	478.79	19.12	459.67	4,222.31	190.46	(269.21)
28	478.79	17.24	461.55	3,760.76	190.46	(271.09)
29	478.79	15.36	463.43	3,297.33	190.46	(272.97)
30	478.79	13.46	465.33	2,832.00	190.46	(274.87)
31	478.79	11.56	467.23	2,364.77	190.46	(276.77)
32	478.79	9.66	469.13	1,895.64	190.46	(278.67)
33	478.79	7.74	471.05	1,424.59	190.46	(280.59)
34	478.79	5.82	472.97	951.62	190.46	(282.51)
35	478.79	3.89	474.90	476.72	190.46	(284.44)
36	478.67	1.95	476.72	0.00	190.46	(286.26)
37					190.46	190.46
38					190.46	190.46
39					190.46	190.46
40					190.46	190.46
41					190.46	190.46
80					190.46	190.46
81					190.46	190.46
82					190.46	190.46
83					190.46	190.46
84					190.46	190.46
	<u>\$ 17,236.32</u>	<u>\$ 1,237.32</u>	<u>\$ 15,999.00</u>		<u>\$ 15,999.00</u>	<u>\$ (0.00)</u>

Asset's Fair Market Value:	\$ 15,999.00	Useful Life - 7 years or 84 months	84
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 14,399.10</u>	75% of asset's useful life	<u>63</u>
PV of Minimum Lease payments:	<u>\$ 17,236.32</u>	Lease Term - 3 years or 36 months	<u>36</u>

Example 4**The Facts:**

Agency D is leasing a car.

The car's fair value is \$20,000.

The lease is for five (5) years and the useful life is seven (7) years.

The monthly payment is \$450.76 which includes maintenance fees of \$50.

The interest rate for the lease is 7.5%.

There is an option to purchase the car at the end of the lease at a predetermined fair market value.

What type of lease is this and why? Capital or Operating

Points to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.

*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.



Operating & Capital Lease Examples

Example 4 - Car Lease

5 Year Lease	\$	FMV 20,000.00	Monthly Pymt \$ 450.76	Interest 7.5000%	Depreciation 7 Year Useful Life 84 Months
			50.00	Maintenance Fees	
			<u>\$ 400.76</u>	Minimum Lease / Loan Pymt	

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 20,000.00		
1	\$ 400.76	\$ 125.00	\$ 275.76	19,724.24	\$ 238.10	\$ (37.66)
2	400.76	123.28	277.48	19,446.76	238.10	(39.38)
3	400.76	121.54	279.22	19,167.54	238.10	(41.12)
4	400.76	119.80	280.96	18,886.58	238.10	(42.86)
5	400.76	118.04	282.72	18,603.86	238.10	(44.62)
6	400.76	116.27	284.49	18,319.37	238.10	(46.39)
7	400.76	114.50	286.26	18,033.11	238.10	(48.16)
8	400.76	112.71	288.05	17,745.06	238.10	(49.95)
9	400.76	110.91	289.85	17,455.21	238.10	(51.75)
10	400.76	109.10	291.66	17,163.55	238.10	(53.56)
11	400.76	107.27	293.49	16,870.06	238.10	(55.39)
12	400.76	105.44	295.32	16,574.74	238.10	(57.22)
13	400.76	103.59	297.17	16,277.57	238.10	(59.07)
14	400.76	101.73	299.03	15,978.54	238.10	(60.93)
15	400.76	99.87	300.89	15,677.65	238.10	(62.79)
16	400.76	97.99	302.77	15,374.88	238.10	(64.67)
17	400.76	96.09	304.67	15,070.21	238.10	(66.57)
18	400.76	94.19	306.57	14,763.64	238.10	(68.47)
49	400.76	28.87	371.89	4,247.35	238.10	(133.79)
50	400.76	26.55	374.21	3,873.14	238.10	(136.11)
51	400.76	24.21	376.55	3,496.59	238.10	(138.45)
52	400.76	21.85	378.91	3,117.68	238.10	(140.81)
53	400.76	19.49	381.27	2,736.41	238.10	(143.17)
54	400.76	17.10	383.66	2,352.75	238.10	(145.56)
55	400.76	14.70	386.06	1,966.69	238.10	(147.96)
56	400.76	12.29	388.47	1,578.22	238.10	(150.37)
57	400.76	9.86	390.90	1,187.32	238.10	(152.80)
58	400.76	7.42	393.34	793.98	238.10	(155.24)
59	400.76	4.96	395.80	398.18	238.10	(157.70)
60	400.67	2.49	398.18	0.00	238.10	(160.08)
61					238.10	238.10
76					238.10	238.10
77					238.10	238.10
78					238.10	238.10
79					238.10	238.10
80					238.10	238.10
81					238.10	238.10
82					238.10	238.10
83					238.10	238.10
84					238.10	238.10

<u>\$ 24,045.51</u>	<u>\$ 4,045.51</u>	<u>\$ 20,000.00</u>	<u>\$ 20,000.00</u>	<u>\$ 0.00</u>
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Asset's Fair Market Value:	\$ 20,000.00	Useful Life - 7 years or 84 months	84
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 18,000.00</u>	75% of asset's useful life	<u>63</u>
PV of Minimum Lease payments:	<u>\$ 24,045.51</u>	Lease Term - 5 years or 60 months	<u>60</u>



Operating & Capital Lease Examples

Example 5 - Imaging System Lease

3 Year Lease	\$	FMV 750,000.00	Monthly Pymt \$ 24,829.66	Interest 7.50%	Depreciation 3 Year Useful Life 36 Months
			1,500.00	Maintenance Fees Minimum Lease / Loan Pymt	
	\$		<u>23,329.66</u>		

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 750,000.00		
1	\$ 23,329.66	\$ 4,687.50	\$ 18,642.16	731,357.84	\$ 20,833.33	\$ 2,191.17
2	23,329.66	4,570.99	18,758.67	712,599.17	20,833.33	2,074.66
3	23,329.66	4,453.74	18,875.92	693,723.25	20,833.33	1,957.41
4	23,329.66	4,335.77	18,993.89	674,729.36	20,833.33	1,839.44
5	23,329.66	4,217.06	19,112.60	655,616.76	20,833.33	1,720.73
6	23,329.66	4,097.60	19,232.06	636,384.70	20,833.33	1,601.27
7	23,329.66	3,977.40	19,352.26	617,032.44	20,833.33	1,481.07
8	23,329.66	3,856.45	19,473.21	597,559.23	20,833.33	1,360.12
9	23,329.66	3,734.75	19,594.91	577,964.32	20,833.33	1,238.42
10	23,329.66	3,612.28	19,717.38	558,246.94	20,833.33	1,115.95
11	23,329.66	3,489.04	19,840.62	538,406.32	20,833.33	992.71
12	23,329.66	3,365.04	19,964.62	518,441.70	20,833.33	868.71
13	23,329.66	3,240.26	20,089.40	498,352.30	20,833.33	743.93
14	23,329.66	3,114.70	20,214.96	478,137.34	20,833.33	618.37
29	23,329.66	1,134.35	22,195.31	159,300.44	20,833.33	(1,361.98)
30	23,329.66	995.63	22,334.03	136,966.41	20,833.33	(1,500.70)
31	23,329.66	856.04	22,473.62	114,492.79	20,833.33	(1,640.29)
32	23,329.66	715.58	22,614.08	91,878.71	20,833.33	(1,780.75)
33	23,329.66	574.24	22,755.42	69,123.29	20,833.33	(1,922.09)
34	23,329.66	432.02	22,897.64	46,225.65	20,833.33	(2,064.31)
35	23,329.66	288.91	23,040.75	23,184.90	20,833.33	(2,207.42)
36	23,329.81	144.91	23,184.90	(0.00)	20,833.33	(2,351.57)
	<u>\$ 839,867.91</u>	<u>\$ 89,867.91</u>	<u>\$ 750,000.00</u>		<u>\$ 750,000.00</u>	<u>\$ (0.00)</u>

Asset's Fair Market Value:	\$ 750,000.00	Useful Life - 3 years or 36 months	36
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 675,000.00</u>	75% of asset's useful life	<u>27</u>
PV of Minimum Lease payments:	<u>\$ 839,867.91</u>	Lease Term - 3 years or 36 months	<u>36</u>



Operating & Capital Lease Examples

Example 6a - Copier Lease

3 Year Lease	\$	FMV 10,000.00	Monthly Pymt \$ 300.00	Interest 3.9000%	Depreciation 10 Year Useful Life 120 Months
			70.00	Maintenance Fees	
			<u>\$ 230.00</u>	Minimum Lease / Loan Pymt	

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 10,000.00		
1	\$ 230.00	\$ 32.50	\$ 197.50	9,802.50	\$ 83.33	\$ (114.17)
2	230.00	31.86	198.14	9,604.36	83.33	(114.81)
3	230.00	31.21	198.79	9,405.57	83.33	(115.46)
4	230.00	30.57	199.43	9,206.14	83.33	(116.10)
5	230.00	29.92	200.08	9,006.06	83.33	(116.75)
6	230.00	29.27	200.73	8,805.33	83.33	(117.40)
7	230.00	28.62	201.38	8,603.95	83.33	(118.05)
8	230.00	27.96	202.04	8,401.91	83.33	(118.71)
9	230.00	27.31	202.69	8,199.22	83.33	(119.36)
10	230.00	26.65	203.35	7,995.87	83.33	(120.02)
11	230.00	25.99	204.01	7,791.86	83.33	(120.68)
12	230.00	25.32	204.68	7,587.18	83.33	(121.35)
13	230.00	24.66	205.34	7,381.84	83.33	(122.01)
14	230.00	23.99	206.01	7,175.83	83.33	(122.68)
15	230.00	23.32	206.68	6,969.15	83.33	(123.35)
16	230.00	22.65	207.35	6,761.80	83.33	(124.02)
17	230.00	21.98	208.02	6,553.78	83.33	(124.69)
18	230.00	21.30	208.70	6,345.08	83.33	(125.37)
30	230.00	13.01	216.99	3,787.15	83.33	(133.66)
31	230.00	12.31	217.69	3,569.46	83.33	(134.36)
32	230.00	11.60	218.40	3,351.06	83.33	(135.07)
33	230.00	10.89	219.11	3,131.95	83.33	(135.78)
34	230.00	10.18	219.82	2,912.13	83.33	(136.49)
35	230.00	9.46	220.54	2,691.59	83.33	(137.21)
36	230.00	8.75	221.25	2,470.34	83.33	(137.92)
116					83.33	83.33
117					83.33	83.33
118					83.33	83.33
119					83.33	83.33
120					83.33	83.33
	<u>\$ 8,280.00</u>	<u>\$ 750.34</u>	<u>\$ 7,529.66</u>		<u>\$ 10,000.00</u>	<u>\$ 2,470.34</u>

Asset's Fair Market Value:	\$ 10,000.00	Useful Life - 10 years or 120 months	120
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 9,000.00</u>	75% of asset's useful life	<u>90</u>
PV of Minimum Lease payments:	<u>\$ 8,280.00</u>	Lease Term - 3 years or 36 months	<u>36</u>



Operating & Capital Lease Examples

Example 6b - Copier Lease

3 Year Lease	\$	FMV 10,000.00	Monthly Pymt \$300 / \$145	Interest 4.2009%	Depreciation 10 Year Useful Life 120 Months
			70.00	Maintenance Fees Minimum Lease /	
			<u>\$230 / \$75</u>	Loan Pymt	

Month #	Loan Payment	Interest	Principal	Balance	Depreciation Expense	Net Cash Effect
				\$ 10,000.00		
1	\$ 230.00	\$ 35.01	\$ 194.99	9,805.01	\$ 83.33	\$ (111.66)
2	230.00	34.32	195.68	9,609.33	83.33	(112.35)
3	230.00	33.64	196.36	9,412.97	83.33	(113.03)
4	230.00	32.95	197.05	9,215.92	83.33	(113.72)
5	230.00	32.26	197.74	9,018.18	83.33	(114.41)
6	230.00	31.57	198.43	8,819.75	83.33	(115.10)
7	230.00	30.88	199.12	8,620.63	83.33	(115.79)
8	230.00	30.18	199.82	8,420.81	83.33	(116.49)
9	230.00	29.48	200.52	8,220.29	83.33	(117.19)
10	230.00	28.78	201.22	8,019.07	83.33	(117.89)
11	230.00	28.07	201.93	7,817.14	83.33	(118.60)
12	230.00	27.37	202.63	7,614.51	83.33	(119.30)
17	230.00	23.79	206.21	6,590.64	83.33	(122.88)
18	230.00	23.07	206.93	6,383.71	83.33	(123.60)
19	230.00	22.35	207.65	6,176.06	83.33	(124.32)
20	230.00	21.62	208.38	5,967.68	83.33	(125.05)
21	230.00	20.89	209.11	5,758.57	83.33	(125.78)
22	230.00	20.16	209.84	5,548.73	83.33	(126.51)
23	230.00	19.42	210.58	5,338.15	83.33	(127.25)
24	230.00	18.69	211.31	5,126.84	83.33	(127.98)
36	230.00	9.64	220.36	2,532.65	83.33	(137.03)
37	75.00	8.87	66.13	2,466.52	83.33	17.20
38	75.00	8.63	66.37	2,400.15	83.33	16.96
39	75.00	8.40	66.60	2,333.55	83.33	16.73
40	75.00	8.17	66.83	2,266.72	83.33	16.50
41	75.00	7.94	67.06	2,199.66	83.33	16.27
42	75.00	7.70	67.30	2,132.36	83.33	16.03
43	75.00	7.46	67.54	2,064.82	83.33	15.79
44	75.00	7.23	67.77	1,997.05	83.33	15.56
45	75.00	6.99	68.01	1,929.04	83.33	15.32
46	75.00	6.75	68.25	1,860.79	83.33	15.08
47	75.00	6.51	68.49	1,792.30	83.33	14.84
48	75.00	6.27	68.73	1,723.57	83.33	14.60
72	75.00	0.26	74.74	(0.00)	83.33	8.59
119					83.33	83.33
120					83.33	83.33
	<u>\$ 10,980.00</u>	<u>\$ 980.00</u>	<u>\$ 10,000.00</u>		<u>\$ 10,000.00</u>	<u>\$ 0.00</u>

Asset's Fair Market Value:	\$ 10,000.00	Useful Life - 10 years or 120 months	120
	90%		75%
90% of Asset's Fair Market Value	<u>\$ 9,000.00</u>	75% of asset's useful life	<u>90</u>
PV of Minimum Lease payments:	<u>\$ 10,980.00</u>	Lease Term - 6 years or 72 months	<u>72</u>

Example 7

The Facts:

Agency G is leasing a used large passenger van.

The van is in exceptional shape but is six (6) years old.

The van's present value is \$7,500.

The lease is for three (3) years and the useful life is seven (7) years, of which six have already been consumed.

The monthly payment is \$286.76 which includes maintenance fees of \$50.

The interest rate for the lease is 8.5%.

The agency has an option to purchase the van at the end of the lease at a predetermined fair market value.

What type of lease is this and why? Capital or Operating

Points to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.

*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

- Yes** **No**

If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

- Yes** **No**

If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.



Operating & Capital Lease Examples

Example 7 - Van Lease (used)

3 Year Lease	\$	FMV 7,500.00	Monthly Pymt \$ 286.76	Interest 8.50%
			50.00	Maintenance Fees
			<u>\$ 236.76</u>	Minimum Lease / Loan Pymt

Month #	Loan Payment	Interest	Principal	Balance
				\$ 7,500.00
1	\$ 236.76	\$ 53.13	\$ 183.63	7,316.37
2	236.76	51.82	184.94	7,131.43
3	236.76	50.51	186.25	6,945.18
4	236.76	49.20	187.56	6,757.62
5	236.76	47.87	188.89	6,568.73
6	236.76	46.53	190.23	6,378.50
7	236.76	45.18	191.58	6,186.92
8	236.76	43.82	192.94	5,993.98
9	236.76	42.46	194.30	5,799.68
10	236.76	41.08	195.68	5,604.00
11	236.76	39.70	197.06	5,406.94
12	236.76	38.30	198.46	5,208.48
13	236.76	36.89	199.87	5,008.61
14	236.76	35.48	201.28	4,807.33
15	236.76	34.05	202.71	4,604.62
16	236.76	32.62	204.14	4,400.48
17	236.76	31.17	205.59	4,194.89
18	236.76	29.71	207.05	3,987.84
19	236.76	28.25	208.51	3,779.33
20	236.76	26.77	209.99	3,569.34
21	236.76	25.28	211.48	3,357.86
22	236.76	23.78	212.98	3,144.88
23	236.76	22.28	214.48	2,930.40
24	236.76	20.76	216.00	2,714.40
25	236.76	19.23	217.53	2,496.87
26	236.76	17.69	219.07	2,277.80
27	236.76	16.13	220.63	2,057.17
28	236.76	14.57	222.19	1,834.98
29	236.76	13.00	223.76	1,611.22
30	236.76	11.41	225.35	1,385.87
31	236.76	9.82	226.94	1,158.93
32	236.76	8.21	228.55	930.38
33	236.76	6.59	230.17	700.21
34	236.76	4.96	231.80	468.41
35	236.76	3.32	233.44	234.97
36	236.63	1.66	234.97	(0.00)
	<u>\$ 8,523.23</u>	<u>\$ 1,023.23</u>	<u>\$ 7,500.00</u>	

Asset's Fair Market Value:	\$ 7,500.00
	90%
90% of Asset's Fair Market Value	<u>\$ 6,750.00</u>
PV of Minimum Lease payments:	\$ 8,523.23

Useful Life (new) - 7 years or 84 months	84
Useful Life (consumed) - 6 years or 72 months	(72)
Remaining Useful Life at inception of lease - 1 year or 12 months	<u>12</u>
Useful Life (new) - 7 years or 84 months	84
	75%
75% of asset's useful life	<u>63</u>
Lease Term - 3 years or 36 months	<u>36</u>

Example 8

The Facts:

Agency X is leasing servers and related equipment from their internet service provider.

The leased equipment works best for the service and includes all maintenance and updates.

The servers and related equipment have a present value of \$30,000.

The lease is for two (2) years and the useful life is three (3) years.

However, the equipment may be changed out as often as yearly if technological changes warrant, and pieces are usually changed out every 18 months.

The monthly payment is \$ 900 which includes maintenance fees of \$50.

The interest rate for the lease is 7.75%.

The equipment will never be sold to the Agency.

What type of lease is this and why? Capital or OperatingPoints to evaluate when determining lease type:

- 1) Does the lease convey ownership to the lessee either during or at the end of the lease term? **Yes** **No**
- 2) Does the lessee have an option to purchase the asset at a bargain price at the end of the lease term? **Yes** **No**
- 3) Is the term of the lease 75% or more of the asset's useful life? **Yes** **No***
- 4) Does the present value of the minimum lease payments equal or exceed 90% of the fair value of the leased asset? **Yes** **No***

If ANY of the above answers are "Yes", the lease is a capital lease.

*If either points 3 or 4 are "No", the following also needs to be considered:

Does the lease contain a bargain renewal option with a lease rate sufficiently lower than fair rental value of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are recalculated utilizing the additional lease life and the additional minimum lease payments.

Does the beginning of the lease term fall within the last 25% of the useful life of the asset?

 Yes **No**

If this additional criterion is marked "Yes", points three and four are irrelevant and only points one and two are applicable in determining a capital lease.

Example 8 - Server Lease

2 Year Lease	\$	FMV 30,000.00	Monthly Pymt \$ 900.00	Interest 7.75%
			50.00	Maintenance Fees
			<u>\$ 850.00</u>	Minimum Lease / Loan Pymt

Month #	Loan Payment	Interest	Principal	Balance
				\$ 30,000.00
1	\$ 850.00	\$ 193.75	\$ 656.25	29,343.75
2	850.00	189.51	660.49	28,683.26
3	850.00	185.25	664.75	28,018.51
4	850.00	180.95	669.05	27,349.46
5	850.00	176.63	673.37	26,676.09
6	850.00	172.28	677.72	25,998.37
7	850.00	167.91	682.09	25,316.28
8	850.00	163.50	686.50	24,629.78
9	850.00	159.07	690.93	23,938.85
10	850.00	154.61	695.39	23,243.46
11	850.00	150.11	699.89	22,543.57
12	850.00	145.59	704.41	21,839.16
13	850.00	141.04	708.96	21,130.20
14	850.00	136.47	713.53	20,416.67
15	850.00	131.86	718.14	19,698.53
16	850.00	127.22	722.78	18,975.75
17	850.00	122.55	727.45	18,248.30
18	850.00	117.85	732.15	17,516.15
19	850.00	113.13	736.87	16,779.28
20	850.00	108.37	741.63	16,037.65
21	850.00	103.58	746.42	15,291.23
22	850.00	98.76	751.24	14,539.99
23	850.00	93.90	756.10	13,783.89
24	850.00	89.02	760.98	13,022.91
	<u>\$ 20,400.00</u>	<u>\$ 3,422.91</u>	<u>\$ 16,977.09</u>	

Asset's Fair Market Value:	\$ 30,000.00
	90%
90% of Asset's Fair Market Value	<u>\$ 27,000.00</u>
PV of Minimum Lease payments:	<u>\$ 20,400.00</u>

Useful Life - 3 years or 36 months	36
	75%
75% of asset's useful life	<u>27</u>
Lease Term - 2 years or 24 months	<u>24</u>