

Lease Examples

Below are examples of operating and capital leases. When reviewing leases the use the following criteria to determine lease type: If any of these criteria apply the lease is considered a capital lease.

- The lease conveys ownership to the lessee during or at the end of the lease term
- The lessee has an option to purchase the asset at a bargain price at the end of the lease term
- The term of the lease is 75% or more of the useful life of the asset (as defined in DAS or county useful life tables)
- The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased asset

Operating Lease Example

Agency ABC is leasing a van.

The fair market value of the lease is \$33,900.

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

The monthly payment is \$578.81 and the maintenance fees are \$50.

The interest rate for the lease is 7.5%.

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

Based on the facts above it does not meet any of the capital lease criteria. See the worksheet for details.

Capital Lease Example

Agency DEF is leasing an imaging system.

The imaging system lease has a fair value of \$750,000.

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

The monthly payment is \$24,829.66 and the maintenance fees are \$1500.

The interest rate for the lease is 7.5%.

The Agency can buy the system for \$1.00 at the end of the lease.

The imaging system is a capital lease. Three criteria were met in this example as noted below:

- *the lessee can purchase the asset for a bargain price at the end of the lease*
- *the term of the lease is 75% or more of the asset's useful life*
- *the present value of the minimum lease payments equals or exceeds 90% of asset's fair value*