

## Lease Versus Buy?

When the time comes to replace your copier or another asset, you may wonder if it is better to purchase or lease it. There are several factors to consider. When you lease an asset, you have access to it for the length of the lease period, during which you make monthly lease payments. Some lease arrangements allow the user to purchase the asset at the end of the lease. This is a contractual arrangement between the lessor (owner) of the asset and the lessee. When you buy the asset upfront, you typically plan on using it for a longer period. The purchase may need to be financed over time as well. To decide which option is best, consider the following list:

- Do you always need the most recent features or technology?
- Do you want to keep the asset for longer than the lease period?
- What are the financing costs for each option?
- Are there funds available for purchasing the asset?
- What are the financing costs for borrowing the funds to purchase the asset?
- What are the financing costs for leasing the asset?
- What are the warranty options?

It is important to compare the financial impact of both options. A lease-buy analysis will determine the financial impact of each alternative. This analysis compares the cost and calculates the financing rate for either decision. The financing costs are not always apparent when negotiating a lease. The following is an example of the thought process the Church of St. Michael in Prior Lake went through when considering lease versus buy for a copier.

### Case study:

In July 2016, Nathan Meehling, the Business Administrator at St. Michael Catholic Church in Prior Lake, analyzed the cost of an existing copier lease. Nathan's analysis included the following factors:

The old copier was costing \$815 per month, with color copies costing 9.44 cents per page and black/white copies 1.3447 cents per page. Including the buyout of the old copier lease, St. Michael could purchase a new copier with a loan from Catholic Finance Corporation with payments of \$543 per month for four years. After four years, there would be no additional financing costs until they decide to replace the copier.



Regarding maintenance, they were able to obtain a service agreement on the copier for five years with fixed rates. Further, the new copier would reduce their color copy cost to 2.57 cents per page and black/white copy cost to .58 cents per page.

Nathan calculated the savings from purchasing the copier to be \$6,500 per year for the first four years, and then \$14,000 per year in years five and beyond

UPDATE

## Lease Versus Buy? (continued)

until they decide to replace the copier. Ideally, they would plan to replace the copier after 7 years of service.

	Existing Lease	Buy	Annual Savings
Monthly lease/loan payment	\$815	\$543	\\\\\\\\\\\\\\\\\\\\
Annual payment cost	\$9,780	\$6,516	\$3,264
Black/white cost/copy	1.3447¢	.58¢	\\\\\\\\\\\\\\\\\\\\
Color copies	9.44¢	2.57¢	\\\\\\\\\\\\\\\\\\\\
Total annual copy cost			\$3,236
Total annual savings			\$6,500

Based on his analysis, Nathan concluded that he could save money buying a copier from another company even with the cost of buying out the existing lease. Therefore, he proceeded with the purchase of a new copier from a different company and financed the purchase (including the buyout of the other copier contract) through the Catholic Finance Corporation Purchasing program. A year later, he is very happy with his decision and the staff is pleased with the functionality of the new copier.

If you would like assistance analyzing a lease versus buy situation or assistance in comparing prospective lease proposals give CFC a call. We would be happy to assist you with a process that can often be very confusing and frustrating.

## Archdiocese School Report

In cooperation with the Office for the Mission of Catholic Education, CFC has again offered to compile financial reports for the Archdiocese School Report (formerly the MCEA Survey). This is a **free service offered to K-8 schools**.

The process will be similar to last year. CFC will compile the financial statements into ASR format and send the compilation back to the school for its review. The school will notify CFC of any changes. Once the compilation of financial data from each of the schools is complete, a summary report including school benchmarking data is created. The report includes these indicators: tuition collected per student, cost to educate, revenue per student, fundraising per student, and parish investment per student. These indicators allow leadership from each school to compare their individual data to the summary data. The individual reports also include corresponding graphs to assist schools with their own benchmarking analysis. Last year's report can be seen [here](#).

Please submit your 2017 year-end financial data, detailed Statement of Activities (Income Statement) and detailed Statement of Financial Position (Balance Sheet) for the **school and the parish** in an electronic (excel preferred) format via email to Mary Vang at [mvang@catholicfinance.org](mailto:mvang@catholicfinance.org) as soon as it is final.

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