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Chapter 1 – Introduction

What is a lease? A lease, according to FASB Statement 13, *Accounting for Leases*, is "an agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time." Leases need to be budgeted for and accounted for accurately.

The purpose of this handbook is to provide guidance and procedures for the budget and accounting treatment of real property capital and operating leases. This handbook is intended to assist in the understanding and preparation, distribution, and modification of the Real Property Lease Determination Worksheet and related appendices (see Attachment C).

The Real Property Lease Determination Worksheet is divided into two parts. Part A relates to the budgeting for leases while Part B relates to accounting for leases.

Budgeting

The Federal Government accounts for its spending under Federal budget laws including the Congressional Budget Act of 1974 (as amended). The process of tracking this spending is known as "budget scorekeeping." The intent of scorekeeping is to measure the effects of Government actions (legislative or administrative) on the deficit. The House and Senate Budget Committees, CBO, and OMB govern scorekeeping.

One element of scorekeeping involves determining whether expenditure is classified as an "operating expenditure" (annual spending to keep the Government operating – such as Federal salaries, maintenance, and utilities) or as a "capital expenditure" (spending that is equivalent to the purchase of a fixed asset – such as a building, machinery, or land).

When the Government purchases a capital asset – defined by OMB as land, structures, equipment or intellectual property that have an estimated life of two years or more – scorekeeping rules require that the Government budget for the entire cost of that asset ("asset cost") in the fiscal year in which it is purchased.

This concept is applied to Federal leases of buildings, machinery, and land that result in direct purchase, and also to leases where it is determined that the Federal Government is assuming the risks of ownership.

The Budget Enforcement Act of 1990 (BEA) is the basis for the budgetary treatment of leases. The BEA established a scoring rule that focuses on transactions that provide the Government with ownership of a building or other capital assets. These transactions are substantially the equivalent of a debt-financed purchase, with cash flows occurring for an extended number of years long after the resource allocation decision is made. It requires agencies to fund the full costs of certain kinds of leases up-front, in the year the transaction is entered into.

OMB Circular No. A-11, *Preparation and Submission of Annual Budget Estimates*, explains the measurement of budget authority, outlays, and debt for lease-purchases and capital leases. Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, presents the requirements under which a lease-purchase or capital lease must be justified.

For budgeting purposes, there are three main types of leases: capital, operating, and lease-purchase. Lease-purchases are further broken down into lease-purchase with substantial risk and lease-purchase without substantial risk.

- <u>Lease-purchase</u> means a type of lease in which ownership of the asset is transferred to the Government at or shortly after the end of the lease term.
- <u>Capital lease</u> means any lease other than a lease-purchase that does not meet the criteria of an operating lease.
- <u>Operating lease</u> means a lease that meets all the criteria listed below. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase, as appropriate.
    - Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term.
    - The lease does not contain a bargain-price purchase option.
    - The lease term does not exceed 75 percent of the estimated economic life of the asset.
    - The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term.
    - The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
    - There is a private market for the lease.

(The above definitions of the three types of leases are from OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*.)

<u>Accounting</u>
There are two main types of leases for accounting: operating and capital. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, (See Appendix No. 13) and SFFAS No. 6, *Accounting for Property, Plant, and Equipment* (See Appendix No. 14) cover the FASAB guidance on leases. Both standards define “capital lease” and list the four criteria used to determine whether or not a lease is a capital lease or an operating lease.

SFFAS No. 5 also discusses: the amount to be recorded by the lessee as a liability; the discount rate to be used; and the allocation of the payment between the obligation and interest expense. Appendix B of SFFAS No. 5 provides an explanation of the expense and liability that should be recognized for a capital lease.

Per FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, "capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory costs, equals or exceeds 90 percent of the fair value of the lease property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property."

<u>Summary</u>
The following table summarizes the types of leases under budgetary and accounting laws and regulations. The table also examines the criteria used to determine the type of lease and the differences between the budgetary and accounting criteria.

	Budgetary (OMB A-11)	**Accounting (FASAB/FASB)**
Types of Leases	• Capital • Lease-Purchase • Operating	• Capital • Operating
Criteria for classification of leases	• Transfer of Ownership	• Transfer of Ownership
	• Bargain Purchase Option	• Bargain Purchase Option
	• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life	• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life
	• Present Value of the Minimum Lease Payments equals or is greater than 90% of the	• Present Value of the Minimum Lease Payments equals or is greater than 90% of the

	fair value of the asset.	fair value of the asset.
	• Asset is a special purpose asset.	
	• Asset does not have a private sector market.	

While the criteria for budgeting and accounting for leases appear similar, there are several differences. Below is summary of some of those differences.

	Budgeting (OMB A-11)	**Accounting (FASAB/FASB)**
Interest Rate (for net present value calculation)	Treasury rate as of lease award (date lease was signed).	Treasury rate or contractor rate (whichever is lower) as of lease start date or beneficial occupancy date (whichever is later).
	Treasury rate is always used.	If fair market value (FMV) is less than net present value (NPV), then an "effective rate" is used (to draw down the remaining balance to zero). If NPV is less than or equal to FMV, then the Treasury or contractor rate (whichever is lower) is used.
Lease Term	Base term plus <u>all</u> option terms.	Base term plus option terms (may not be all the option terms).
Property Taxes	Part of executory costs, and therefore, excluded from the lease payments for purposes of the 90% of FMV test. However, included in lease payments to determine budget authority and outlays.	Part of executory costs, and therefore, excluded from the lease payments.
Bargain Purchase Option	If exists, it will be presumed to be exercised.	Option must be sufficiently lower than the expected FMV of the property at the date the option becomes exercisable. Determine if reasonable assurance, at inception date, that the option will be exercised.

Because of the differences, there are two parts of the lease determination worksheet: Part A for budgeting and Part B for accounting. The two sections may appear to be similar; however, each part accounts for the differences between budgeting and accounting.

Chapter 2 – General Information

Required Documentation

In order to complete the Lease Determination Worksheet, it is important to have the correct documentation available. The documentation required to complete the Lease Determination Worksheet depends on whether one is completing Part A or Part B of the worksheet and where in the process the lease is at (pre-award, at time of award, or post-award).

Since both parts of the worksheet can be completed several different times during the lease process, the documentation required will change depending on when the worksheet is being completed. For example, if the worksheet is being completed during time of award or post award, the documentation would include an actual copy of the lease and any modifications to the lease whereas if the worksheet is being completed during pre-award, an actual copy of the lease would not exist yet.

For budgetary purposes (completion of Part A of the worksheet), a proposal or other documentation of the proposed lease should be obtained. It should document, at a minimum, the proposed lease term, the proposed lease payments, and the proposed start date of the lease.

For accounting purposes (completion of Part B of the worksheet), the required documentation would include an actual copy of the lease and any modifications to the lease. In addition, documentation supporting the beneficial occupancy date is required.

For both budgetary and accounting purposes, documentation should be obtained that support the fair market value and remaining economic useful life used in the Lease Determination Worksheet. Further discussion related to these attributes can be found in Chapter 4.

Documentation that is required to be filed with the lease determination worksheet includes support for the fair market value, support for the lease payment stream (especially if not easily determinable from the lease), support for the remaining economic useful life, support for the interest rate, and any additional information that was used to complete the lease determination worksheet.

In addition, the source of the information should be documented, especially if the information was provided verbally. Include name, title, company, and contact information (e.g. phone number, email address).

Roles and Responsibilities

It is important to have an understanding of the roles and responsibilities of the Real Property personnel related to the lease determination worksheet.

Part A of the lease determination worksheet should be completed for every lease NOAA enters into except gratuitous leases, “no cost” leases, or leases costing $1. The worksheet does not need to be completed for leases that do not cost NOAA anything. Otherwise Part A should be prepared by the Realty Specialist and submitted to the Real Property Management Division (RPMD) – Silver Spring for review. The reviewer at RPMD - Silver Spring will return all comments to the realty specialist and appropriate branch chief for review and action. After the comments have been addressed and RPMD - Silver Spring has provided e-mail notification of concurrence with the results of the LDW, the branch chief will sign it. If the lease is determined to be capital for budget purposes, the signature of the headquarters line office budget officer must be obtained. If the lease is not capital, the signature of the local line office budget officer must be obtained.

All leases identified as capital after completion of Part A of the worksheet and with total lease payments equal to or greater than $200,000 need to be sent to RPMD – Silver Spring. Part B will be completed by an analyst in RPMD – Silver Spring for these leases and reviewed by the Chief of the Real Property Office. Once Part B of the lease determination worksheet has been prepared and reviewed, the worksheet will be sent to the Finance Office.

Part B will not be completed for leases identified operating or capital leases with total lease payments less than $200,000.

Leases should be entered in Federal RPM on the award date. A journal voucher should be used to capture costs from the effective date of the lease to the final signature date (award date).

NOAA RPMD – Silver Spring will report lease information (future minimum lease payments, acquisition cost, depreciation, etc.) to the Finance Office quarterly.

As questions arise during the completion of the lease determination worksheet, please refer back to this lease handbook or contact RPMD – Silver Spring.

Chapter 3 – Preparation of the Lease Determination Worksheet: Part A

Below are the detailed instructions, including examples, for completing Part A of the Real Property Lease Determination Worksheet. Part A should be completed for all leases regardless of lease term or total lease payments. Part A is to be completed by the Realty Specialists at the Real Property Field Branches.

Note: The term "lease" is referred to several times in the worksheet. It refers to lease, license, permits, and any other type of agreement that conveys the right to use property, plant or equipment, usually for stated periods of time, including rights of entry, interagency service agreements and memorandums of understanding (MOUs). "Lease" is used in the worksheet to simplify the process.

HEADER / IDENTIFYING INFORMATION

This section contains information to identify the lease and provide some general information about the lease.

Complex ID: This number represents a campus of buildings, structures, and/or land, each with their own Property ID number. When an asset is not located near other properties, then its complex ID equals its property ID. NOAA RPMD – Silver Spring is currently working on a methodology for creating a standard complex ID.

Property ID: This number is system generated when the property record is entered. Identify the number when the lease is entered into the property system. This cell in the spreadsheet should be left blank until the lease is entered into the system; at which time, this cell should be filled in with the number provided by the system.

Property Name: The property name is user defined. NOAA RPMD – Silver Spring is currently working on a methodology for creating a standard property name.

Location of Property (City, State): Identify the city and state where the leased property is located.

Description of Lease Property: At a minimum, describe the general purpose of the lease (office/lab/storage space, antennae space on tower, land for observation tower, dock space, etc.). Enough details should be provided to give the reader an understanding of the property to be leased and the operations taking place on the property. Also identify the NOAA Line or Staff Office that is leasing the asset.

Total square feet of building leased by NOAA: Identify the square feet of the building to be leased by NOAA. If NOAA will not be leasing the entire building, identify the portion that NOAA will lease.

Total gross square feet of building: Identify the total square feet of the entire building. This information is especially important if NOAA is not going to lease the entire building.

Total land leased in acres: Identify the acres of land to be leased. (Remember, that 1 acre equals 43,560 square feet.)

Tower space leased: Describe the proposed height and placement of the antennae. In addition, identify the number of occupants leasing space on the tower (if known). The number of occupants may be used later to determine fair market value.

Other space leased: Describe other properties to be leased (if any).

In the next section, if revising the original worksheet, provide the reason for the revision. Examples include a Modification or Supplemental Lease Agreement to original lease that changes the financial structure of the lease (i.e. the lease payment stream) or an error (i.e. calculation error) was identified in previous worksheet. Also include the date of the revision. See Chapter 5 for more detail instructions related to modifications to a completed lease determination worksheet.

SECTION A.I – General Information

This section is to determine if the lease is with another federal agency.

1. Is the lease with another federal agency?

Determine whether the lessor is another federal agency. Per OMB A-11, Appendix B, the only exception to the requirements outlined in the appendix is leases between Federal agencies if the lessor recorded the full cost of the asset when it was acquired.

If the answer to Question 1 is Yes, contact the federal agency to determine if the Federal agency recorded the full cost of the asset when acquired. Complete Question 1a. If the answer is No, continue to Section A.2.

1a. Did the other Federal agency record the full cost of the asset when acquired?

If the answer to Question 1a is Yes, then go to Section A.12, check “Other”, and provide an explanation such as “The lease is with xyz (the Federal agency). Xyz recorded the asset at cost, and therefore, NOAA does not need to budget for this lease.” The rest of Part A of this worksheet does not need to be completed.

However, if the other Federal agency did not record the leased asset at cost or it is unknown whether they did or did not record it at cost, then the answer to Question 1a is No and continue to Section A.2.

SECTION A.2- Economic Useful Life

2. Are there multiple assets in the lease?

This question relates to leases that have several assets and each asset has a different "delivery" date (i.e. acquisition date or beneficial occupancy date). An example would be a lease for two buildings with a beneficial occupancy date for Building A of January 1, Year 1 and a beneficial occupancy date for Building B of August 15, Year 2.

OMB A-11, Appendix B, states that the up-front budget authority (BA) is calculated differently for multiple deliveries of assets. "The up-front BA is the sum of the present values of the lease payments for each asset discounted back to the date that the asset is delivered. For example, if the lease contract provides for the delivery of one machine in each of the next five years, the lease payments for the machine acquired in the first year would be discounted back to the first year, while the lease payments for the machine acquired in the fifth year would be discounted back to the fifth year, and the total BA recorded up front would be the sum of the present values calculated for each of the five deliveries." (OMB A-11, Appendix B)

For example, a contract includes leases for three buildings. The proposed beneficial occupancy date for the first lease is June Year 1. The lease has a proposed beneficial occupancy date of May Year 2, and the last lease has a date of December Year 2. The present value would be calculated separately for each lease based on its beneficial occupancy date. The three present values would then be added together to determine the up-front budget authority required for this lease.

If there are multiple assets in the lease, identify the beneficial occupancy dates or acquisition dates of each asset. Continue to Question 3.

If there are not multiple assets in the lease, continue to Question 3.

3. Complete the following information:

This information should come from the proposal for the lease or once the lease has been signed, from the actual lease.

3a. Lease commencement date (lease term beginning date) or date of first payment, whichever is earliest.

Enter the earliest of either the date of the beginning of the lease term or date of the first payment.

3b. Date the contract/lease was signed.

Enter the date that the contract/lease is estimated to be signed or has been signed. This date will determine the interest rate used to calculate the net present value of the lease payments.

3c. Lease end date.

Enter the date that the lease ends. In determining the end date, include option periods and holdover term, if applicable.

3d. Base lease term (excluding option years).

The base lease term should be the amount of time that the asset will be leased before consideration of option periods or renewal options. Option years are additional periods that allow the lessee, at their option, to renew the lease for a period of time beyond the base term.

For example, a lease may have a base term of five years with a renewal period of fifteen years; thereby, the total term of the lease including options is twenty years.

3e. Number of ALL option years, including increments.

Option years are additional periods that allow the lessee, at their option, renew the lease for a period of time beyond the base term. Assume that all options will be exercised, even if the lease does not state that they will be automatically exercised or NOAA does not expect to exercise all the option periods. Also assume that an option will be exercised even if the rental payments are increasing after the implementation of the option.

3f. Holdover term, if applicable.

The holdover term describes what happens if the lease ends and NOAA has not vacated the premises. If the holdover term is in months, convert the number of months to years by dividing by 12 months. For example, a 3 month holdover term is .25 years (3 months/12 months). If no holdover term is specified, leave blank.

3g. Total lease term (including option periods and holdover term, if applicable).

Sum of the base lease term, the option periods, and the holdover term (if applicable).

Continue to Question 4.

4. Complete the following information:

These questions relate to the useful life of the asset and are not applicable if the leased asset is land because land has indefinite economic useful life. Therefore, if the lease is for land only, skip Questions 4 through 6, go to Question 7, and answer No to Question 7.

If the total lease payments (excluding executory costs) are equal to or greater than $75,000, then an appraisal is required. As part of this appraisal, the appraiser is required to determine the remaining economic useful life of the asset. Therefore, if an appraisal is required, then this question does not need to be completed. Skip to Question 5.

However, if the total lease payments (excluding executory costs) are less than $75,000 or the building is new construction, then an appraisal is not required. Therefore, this question will need to be completed.

This information will probably not be located within the lease itself. The landlord or property manager should have all necessary information required to answer the following questions.

4a. Enter NOAA's suggested economic useful life based on the type of leased property.

Below are guideline economic useful lifes based on the type of asset:

- Buildings and Structures
  - Temporary Buildings and Structures — 10 Years
  - Wood Buildings and Structures — 20 Years
  - Metal and Prefab Buildings and Structures — 30 Years
  - Masonry Buildings and Structures — 40 Years
- Construction Materials — 40 Years
- Electrical Power and Distribution Systems — 15 Years
- Plumbing Fixtures and Accessories — 15 Years
- Heating, Air Conditioning and Ventilation — 10 Years
- Industrial Boilers — 10 Years
- Dryers, Dehydrators, and Anhydrators — 10 Years

- Architecture and Related Metal Products 10 Years
- Towers (metal) 40 Years

4b. Have there been any major improvements/renovations to the building(s)/structure(s)?

If the answer is Yes, go to Question 4c. If the answer to this question is No, then skip Question 4c, 4d, 4e, 4f, and 4g and go to Question 4h. If the building is new at the beginning of the lease, then the answer to this question is No.

4c. Check the major systems and subdivisions of the leased property that have had major renovations or replacements. Also include the amount of each improvement.

NOAA's policy states that in order for a project to be considered life extending it should involve two or more major building systems (architectural, mechanical, and electrical) and include the complete replacement or major renovation of at least three subdivisions.

This policy is to be considered a general rule and is not intended to cover every situation. There may be projects – such as the complete replacement of a single major system – that would be life extending and thus capitalized. Projects of this type will be evaluated using the professional judgment of the engineer designing or overseeing the design of the project.

4d. Were there renovations/replacements to two or more major systems and at least three subdivisions?

Using the answers to Question 4c, determine if there have been renovations to two or major systems. In addition, determine if there have been renovations to at least three subdivisions.

4e. Did any of the renovations/replacements cost $200,000 or more?

Using the answers to Question 4c, determine if there were any renovations that cost $200,000 or more.

If the answers to Questions 4d and 4e are Yes, then the improvements/renovations extend the useful life of the leased property. Go to Question 4f and estimate the number of years that the improvements/renovations extend the property's useful life. If the answers to Questions 4d and 4e are No, then the improvements/renovations do not extend the useful life of the property. Go to Question 4f and put zero as the number of years.

4f. Enter the date the renovation or improvement was completed.

This information will be used to determine the effective age of the asset at the beginning of the lease. If the exact completion or acceptance date of the improvement is not known, assume the first of the month.

4g. Enter the number of years that the improvements/renovations (described in Questions 4c) extend the useful life of the leased property.

Analyze the major improvements and/or upgrades made to the leased property and estimate the number of years that those improvements and/or upgrades extend the useful life of the leased property over NOAA's recommended useful life.

4h. Enter the date that the building(s) or structure(s) was built.

This information will be used to determine how old the asset is at the beginning of the lease. If the exact date of the month is not known, assume the first of the month. If the asset is new, then enter the date that the lease began or the acceptance date.

4i. Lease commencement date (lease term beginning date) or date of first payment, whichever is earliest.

The worksheet automatically obtains this information from where it is located previously in the worksheet (Section A.2, Question 3a).

4j. Age of the leased property at the beginning of the lease.

The worksheet automatically calculates this amount by taking the date that the building(s) or structure(s) was built and subtracts the date that the lease began. If the leased asset is new, then the amount calculated should be zero. However, if the building was constructed on July 1, 2000 and the lease began on October 1, 2005, then the property is five years, 3 months old when the lease began.

If an improvement has been completed extending the useful life of the asset, the worksheet calculates the effective age by taking the date the improvement was completed and subtracting the date the lease began

Continue to Question 5.

5. What is the estimated remaining useful life of the building(s)/structure(s) after improvements and/or replacements?

The estimated remaining useful life of an asset is the estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

If the total lease payments (excluding executory costs) are equal to or greater than $75,000, then an appraisal is required. As part of this appraisal, the appraiser is required to determine the remaining economic useful life of the asset. Therefore, if an appraisal is required, then this question does not need to be completed.

However, if the total lease payments (excluding executory costs) are less than $75,000, then an appraisal is not required. Therefore, the worksheet will automatically calculate this amount by taking the proposed useful life of the property (Section A.2, Question 4g) less the age of the leased property at the beginning of the lease (Section A.2, Question 4j).

If the asset is new when the lease begins, then the remaining useful life will equal the economic useful life.

However, if the asset is used when the lease begins, the age of the asset when the lease begins and any renovations or replacements need to be taken into consideration when determining the remaining economic useful life.

For example, the age of a metal building is 25 years when NOAA begins its lease. The recommended economic useful life for a metal building is 30 years. Therefore, the remaining economic useful life is 5 years.

Total economic useful life of building	30 years
Less: Age of Building	25 years
Remaining economic life	5 years

Another example would be the same facts as above; however, the metal building had a new roof put on it prior to the beginning of NOAA's lease. It is estimated that the new roof extended the life of the building by 10 years and was completed 2 years before the start of the lease. The effective useful life of the building becomes 10 years from the completion date of the improvement.

Total economic useful life of building	10 years
Less: Age of Building	2 years
Remaining economic life	8 years

Continue to Question 6.

6. Total lease term (including option years and holdover term, if applicable) as a percentage of the estimated remaining useful life.

The worksheet automatically calculates this percentage by taking the lease term (Section A.2, Question 3g) divided by the estimated remaining economic useful life (Section A.2, Question 5).
Continue to Question 7.

7. Is the total lease term (including options and holdover term) equal to or greater than 75% of the estimated useful life of the asset?

This question is one of the six criteria used to determine the type of lease. If the percentage calculated in Section A.2, Question 6 is equal to or greater than 75%, then the answer to the question is Yes. If the remaining useful life of the asset is less than the lease term, this percentage will be negative and the answer will also be Yes. If the percentage is less than 75%, then the answer is No.

Lease Term	Estimated Remaining Economic Life	Percentage	Answer to Question 5
5 years	10 years	50%	No
10 years	5 years	-20%	Yes
8 years	10 years	80%	Yes

Continue to Section A.3.

SECTION A.3 – Present Value Calculation

If there are multiple assets within the lease, answer the questions in this section for each asset. Present value will need to be calculated for each asset.

8. Enter the scheduled payment periods, including option years.

Identify the total number of payment periods. The measurement unit should match the payment term of the lease. (For example: If the lease states payment terms in months, use months to identify the payment periods. If the lease states payment terms in years, use years to identify the payment periods. If the lease states payment terms in quarters, use quarters to identify the payment periods.) Make sure to indicate the units on the worksheet.

Continue to Question 9.

9a. Are the lease payments payable in advance?

Lease payments made in advance are made at the beginning of the payment period.

If the lease payments are payable in advance, one of the exception criteria noted in the Red Red Book Volume III, Chapter 13-132 must be met.
http://www.gao.gov/special.pubs/d08978sp.pdf

9b. Are the lease payments payable in arrears?

Lease payments made in arrears are made at the end of the payment period. Since the Government normally pays for services and supplies after they are acquired, payments in arrears are most common.

If the lease does not identify when the payment is to be made, assume that the payments are payable in arrears.

Continue to Question 10.

10. Enter the scheduled payment terms and amount, excluding executory costs and including all option years and holdover term.

Identify the actual number and amount of the lease payments to be made. Any increases in rent or changes in rent outlined in the lease should be documented. The operating (or executory) costs, if not broken out in the lease, should appear on the Form 1217.

Appendix A should be used to document the payment amounts. There are six versions of the appendix – two for monthly payments, one for payments in arrears and one for payments in advance; two for quarterly payments, one for payments in arrears and one for payments in advance; and two for annual payments, one for payments in arrears and one for payments in advance.

The appendix includes the following columns: month-year, payment number, total leas payment, operating costs (excluding property taxes), property taxes, net lease payments, increase percentage, and CPI percentage. This appendix should be modified if additional calculations are needed to show how the lease payments are determined.

Excel Tip - Enter a few months and years in the column. Highlight the cells containing the months and years. Grab the lower right-hand corner of the highlight and drag to the end of the payment stream. This technique should enter the months and years into the cells without having to enter them. The month and year have to be entered in a MM-DD-YY format for the drag-down technique to work.

Continue to Question 11.

11. Enter the Treasury's interest rate effective for the length of the lease as of the date that the base contract/lease was signed.

The Treasury rate is updated annually. The rates are effective as of February 1 of the year. Use the **annual nominal** interest rate. Treasury rates (including current year) can be found on Table of Past Years Discount Rates from OMB Circular A-94, Appendix C. Use the interest rates in the top table.
(http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html)

Use the year that the base contract/lease was signed and the length of the lease term (including option years and holdover term) to determine which interest rate should be selected.

The interest rates in the table are for 3-year, 5-year, 7-year, 10-year, and 30-year terms. For leases that have different terms than those identified in OMB Circular A-94, use Attachment D to figure out the appropriate interest rate. Enter into the Appendix B the 3-year, 5-year, 7-year, 10-year, and 30-year interest rates form Circular A-94. Appendix B will then calculate the interest rates for those leases with different terms.

For leases with one or two year lease terms, use the 3-year interest rate. For leases with terms greater than 30 years, use the 30-year rate.

11a. Enter the date signed or effective date, whichever is earlier of each modification (i.e. SLA) that changes the financial structure of the lease. Also enter Treasury's interest rate effective for that date.

See Chapter 5 for more specific instructions related to modifications.

Continue to Question 12.

12. Enter the fair market value of the leased property.

Per OMB A-11, Appendix B, "in the case of real property, the fair market value should be based on current market appraisals. If no asset exists, the fair market value of the proposed asset should be calculated based on the Government's estimate of the private developer's cost to construct the leased facility. The estimate should only include the costs the government would normally pay the private sector for such a facility. These costs include the total direct and indirect costs of constructing the facility, including land purchase, design, site improvements, and management costs. Fair market value should not include the value of features or enhancements that were built or added for the Government's unique needs or special purposes or features or enhancements that will be paid for by the Government in lump sum. If the government proposes to lease only a portion of a facility, then the estimate of fair market value should be adjusted accordingly to reflect the portion that will be leased by the Government."

Therefore, if the leased property is new construction, obtain the lessor’s construction costs for fair market value.

Enter the fair market value of the leased property. (Fair market value is the cost or selling price of the asset, which should include installation costs and exclude executory costs.) Use Appendix C to document any calculations used to determine fair market value.

If the total lease payments (excluding executory costs) are equal to or greater than $75,000, then an appraisal is required to determine the fair market value of the leased property.

However, if the total lease payments (excluding executory costs) are less than $75,000, the fair market value of the leased property should be determined using one of the following hierarchy of documentation sources.

1. A signed and dated appraisal performed by an independent party as of the inception date of the lease.
2. A letter from the lessor stating the fair market value of the leased property as of lease inception or sufficient information to determine fair market value.
3. Tax records may be used to determine FMV.
4. An income approach is acceptable to use to determine the FMV unless the capacity of the rental space/tower is one. Additionally, information must be obtained on the range of rates being charged by the lessor in order to calculate the FMV using the income approach.

Maintain and attach supporting documentation of how the fair market value was estimated or calculated (e.g. appraisal). Exclude features or enhancements that were built or added for the Government’s unique needs or special purposes. Also consider the percentage of the building/structure that is being leased if it is not the entire building/structure.

In cases where NOAA leases part of a larger building, obtain the fair market value of the entire building and apply a percentage to obtain the fair market value of the leased space. For example, if NOAA rents 10,000 gross square feet in a building with 50,000 gross square feet, and the building has a fair market value of $9,000,000, the fair market value of the leased space would be $1,800,000. (10,000 SF / 50,000 SF times $9,000,000 = $1,800,000)

Continue to Question 13.

13. Complete Appendix D.

Appendix D will calculate the present value of the lease payments.

First, determine which Appendix D should be used. There are six versions of Appendix D. Two versions calculate present value for monthly lease payments – one for ordinary annuity and one for annuity due. Two versions calculate present value for quarterly lease payments – one for ordinary annuity and one for annuity due. The last two versions calculate present value for annual lease payments – one for ordinary annuity and one for annuity due. Contact NOAA RPMD – Silver Spring if none of the versions of Appendix D will work for the lease.

The top portion of Appendix D is automatically linked to data that was already entered into the worksheet such as lease number, complex ID, property ID, property name, address, city and state, brief description of leased property, date lease signed, lease start date, lease end date, interest rate, and fair market value. Enter the number of months in the first year of the lease.

For the bottom portion of Appendix D, the lease payments, executory costs, and month-year information will be populated based on the information entered into Appendix A. Appendix D will calculate the present value of the lease and the percentage of fair market value.

Hints:

- ⇒ The remaining balance should equal zero for the last payment.
- ⇒ The total of the principal payments should equal the present value.

Once the spreadsheet has calculated the present value, create formulas (sums) in the "Outlays" section to determine the costs by fiscal year. Enter the applicable fiscal year (i.e. 2005, 2006).

Continue to Question 14.

14. The present value of the minimum lease payments, based on Appendix D of the lease determination worksheet.

The worksheet is linked to Appendix D; therefore, the amount that appears should be the present value that was calculated in Appendix D.

Continue to Question 15.

15. Present value of the minimum lease payments as a percentage of the fair market value of the leased property.

The worksheet automatically calculates this percentage by taking the present value of the leased property (Section A.3, Question 14) divided by the fair market value of the leased property (Section A.3, Question 12).

Continue to Question 16.

16. Is the present value of the minimum lease payments equal to or greater than 90% of the fair market value of the leased property?

This question is one of the six criteria used to determine the type of lease. If the percentage calculated in Section A.3, Question 15 is equal to or greater than 90%, the answer to this question is Yes. If the percentage is less than 90%, the answer is No.

Continue to Section A.4.

SECTION A.4 - Capital or Operating Lease Determination

17. Does the lease transfer ownership of the lease property to NOAA at or shortly after the end of the lease term?

Leases, for budget purposes, are generally of three types–straight lease, lease with option to purchase, and lease to ownership. A straight lease would be an arrangement whereby the lessee has no known intention of ever purchasing the property being leased. None of the lease costs would be accruing toward an eventual purchase. If this is a straight lease, the answer to this question would be **no**.

A lease with option to purchase (LWOP) is an arrangement whereby a percentage of the lease cost is credited toward purchase. The percentage may vary depending on the point in time at which a purchase decision may be made. If this is a lease with option to purchase, the answer to this question would be **no**.

A lease to ownership (LTOP) is similar to buying on credit. The purchase cost and the interest for financing over the specified period are divided into payments for a stated period of time. When the last payment is made, the Government assumes ownership of the equipment. If the arrangement is a lease to ownership plan, the answer to this question would be **yes**.

Continue to Question 18.

18. Is there an option to purchase the property at a bargain purchase option?

If the terms of the lease would permit the Government at some point in time to purchase the item(s) for a price less than the expected fair market price of an item, as in the lease with option to purchase scenario, the answer to this question would be **yes**. If the lease does not include these specific terms, the answer to the question would be **no**.

Continue to Question 19.

19. Is the leased property new construction?

This test for capital lease determination is only relevant to new construction, built-to-suit for NOAA occupancy.

19a. Is the lease for a special purpose of NOAA or was it built to the unique specification of NOAA?

For this test, it is important to distinguish between the physical characteristics of the building and the build-out requirements of the interior space occupied by NOAA. For example, if NOAA were to vacate the premises and the building cannot be converted to a private sector use, the answer to this question would be **yes**. However, if the build-out specification required by NOAA can be removed and the property can be converted to a use where there is demand by the private sector, then the answer would be **no**.

If the asset is constructed or located on Government land (in this case, it refers to Federal government land, not state or local government land), then it is presumed to be for a special purpose of the Government.

Continue to Question 20.

20. Does the asset not have a private sector market?

If there would be a private-sector market for the asset, the risk falls back on the lessor. When an asset has a “private sector market,” it can be leased to other parties besides the government and therefore was not specifically constructed for the government. If it does have a private sector market, then the answer to this question is No. However, if the leased asset does not have a private sector market, then the answer to this question is Yes.

Continue to Question 21.

21. Is the lease term equal to or greater than 75% of the estimated economic useful life of the property?

If the lease term is greater than the 75% of the remaining economic life of the property, the answer is **yes**. Otherwise, the answer will be **no**. The answer to this question should be the same as Section A.2, Question 7.

Continue to Question 22.

23. Is the present value of the minimum lease payments <u>equal to or greater than 90%</u> of the fair market value of the leased property?

If the net present value (NPV) of the minimum lease payments is equal or greater than 90% of the fair market value (FMV), then the answer is **yes**. Otherwise, the answer is **no**. The answer to this question should be the same as Section A.3, Question 16.

If the answers to <u>all</u> the questions in Section A.4 are <u>No</u> (even if Question 19 is <u>Yes</u>, as long as 19a is <u>No</u>), the lease does not meet the OMB capital lease requirements; therefore, the lease is classified as an **<u>operating lease</u>**. Skip Section A.5 through A.7 and continue to Section A.8.

If the answer to Question 17 or 18 is <u>Yes</u>, the lease meets the OMB **<u>lease-purchase</u>** requirements. Continue to Section A.5.

If the answer to Question 19a, 20, 21, or 22 is <u>Yes</u>, the lease meets the OMB **<u>capital lease</u>** requirements. Skip Section A.5 through Section A.8 and continue to Section A.9.

<u>SECTION A.5 – Lease-Purchase with or without substantial risk</u>

Complete this section only if the lease was identified as a lease purchase in Section A.4.

Once it is determined that the lease is a lease purchase, the next step is to determine if the lease purchase is with or without substantial risk. According to OMB A-11, Appendix B, "risk is defined in terms of how governmental in nature the project is. That is, if the project is less governmental in nature, the private sector risk is considered to be higher."

The following questions are to determine whether the project is "less governmental".

23. Is there no provision of Government financing or guarantee of third-party financing?

Check to see if the lease provides for any clauses that imply an explicit or implicit guarantee by the government or a third-party guaranteed by the government that the developer of the property will be guaranteed any amount of money other than the lease payments as outlined in the lease.

Answer <u>Yes</u> if there is no provision. Answer <u>No</u> to Question 1 if there is a provision of Government financing.

Continue to Question 24.

24. Does the risks incident to ownership of the asset (e.g. financial responsibility for destruction or loss of the asset) remain with the lessor unless the Government was at fault for such losses?

The risk needs to be evaluated on a lease by lease basis, but as a general rule, more risk remains with the lessor with a full-service lease, and less risk remains with the lessor in an absolute triple-net lease.

Continue to Question 25.

25. Is the asset a general-purpose asset (rather than being for a special purpose of the Government) and is not built to the unique specification of the Government as the lessee?

Please refer to Section A.4, Question 19a for the answer.

Continue to Question 26.

26. Is there a private-sector market for the asset?

Please refer to Section A.4, Question 20 for the answer.

Continue to Question 27.

27. Is the project constructed on land not owned by the Government?

Government land, in this case, refers to Federal government land, not state or local government land.

If the answer to any of the above questions is Yes, then the lease is a **lease-purchase with substantial private risk**. Go to Section A.6.

If the answer to all the above questions is No, then the lease is a **lease-purchase without substantial private risk**. Go to Section A.7.

SECTION A.6 – Budgeting for Lease-Purchase with Substantial Private Risk

Complete this section only if the lease was as a lease-purchase with substantial private risk in Section A.5.

28. Do the executory costs identified in the lease include property taxes?

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.

If the answer to Question 29 is Yes, go to Question 2. If the answer is No, then go to Question 30.

29. Enter the amount of property taxes.

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.

Continue to Question 30.

30. Calculate the up-front budget authority.

The up-front budget authority for a lease-purchase is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, the worksheet will use Appendix E of the Lease Determination Worksheet to determine the up-front budget authority.

Continue to Question 31.

31. Calculate the outlays.

The middle section of Appendix D or E calculates the outlays. The principal payments column is the outlay schedule for the up-front budget authority. The interest (considered Treasury's cost of financing) and executory costs columns will be recorded on an annual basis over the lease term.

Continue to Section A.10.

SECTION A.7 – Budgeting for Lease-Purchase without Substantial Private Risk

Complete this section only if the lease was as a lease-purchase without substantial private risk in Section A.5.

Contact NOAA RPMD – Silver Spring. Due to the complexity of the calculations for a lease-purchase without substantial private risk, NOAA RPMD – Silver Spring will assist in completing this section of the worksheet.

32. Do the executory costs identified in the lease include property taxes?

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.

If the answer to Question 32 is Yes, go to Question 33. If the answer is No, then go to Question 34.

33. Enter the amount of property taxes.

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.
Continue to Question 34.

34. Calculate the up-front budget authority.

The up-front budget authority for a lease-purchase is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, the worksheet will use Appendix E of the Lease Determination Worksheet to determine the up-front budget authority.

Continue to Question 35.

35. Calculate the outlays.

According to OMB A-11, Appendix B, the outlays for a lease-purchase without substantial private risk is the "amount equal to asset cost scored over the construction period in proportion to the distribution of the contractor's costs."

NOAA RPMD – Silver Spring will help with the calculation of the outlays.

36. Calculate the agency debt.

According to OMB A-11, Appendix B, "agency debt accumulates during the period of construction, manufacture, or purchase of the asset." Agency debt increases each year by the amount of outlays and is subsequently redeemed over the lease payment period according to an amortization schedule.

NOAA RPMD – Silver Spring will help with the calculation of agency debt.

Continue to Section A.10.

SECTION A.8 – Budgeting for Operating Leases

Complete this section only if the lease was identified as an operating lease in Section A.4.

37. Calculate the up-front budget authority.

The budget authority is an amount sufficient to cover the annual lease payment. (calculated in Appendix D).

Continue to Section A.10.

SECTION A.9 – Budgeting for Capital Leases

Complete this section only if the lease was identified as a capital lease in Section A.4.

38. Do the executory costs identified in the lease include property taxes?

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.
If the answer to Question 38 is Yes, go to Question 39. If the answer is No, then go to Question 40.

39. Enter the amount of property taxes.

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.

Continue to Question 40.

40. Calculate the up-front budget authority.

The up-front budget authority for a capital lease is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, then use Appendix E of the Lease Determination Worksheet to recalculate the present value and determine up-front budget authority.

Continue to Question 41.

41. Calculate the outlays.

The middle section of Appendix A or B calculates the outlays. The principal payments column is the outlay schedule for the up-front budget authority. The interest (considered Treasury's cost of financing) and executory costs columns will be recorded on an annual basis over the lease term.

Continue to Section A.10.

Section A.10 – Type of Lease

At this point, a conclusion should have been reached about the type of lease. Review the table to verify that the lease is being classified correctly and that the budget authority and outlays were calculated accurately.

Continue to Section A.11

Section A.11 – Submission to OMB

Per OMB A-11, Appendix B, agencies are required to submit to their OMB representative certain types of leasing and other non-routine financing proposals for review of the scoring impact. The questions in this section of the worksheet determine if this lease needs to submitted to OMB.

42. Does the total Government payments (over the full term of the lease) for this lease exceed $50 million?

43. Does this lease include any outlease-leaseback mechanisms?

44. Does this lease establish public private partnerships or limited liability corporations?

45. Does this lease include the issuance of debt by a third party that includes an explicit "full faith and credit" guarantee of debt repayment by the Government or an implicit guarantee of repayment from Federal funds that removes a substantial amount of the investor's risk?

46. Is this lease a lease of special purpose assets for which there is no real private sector market?

47. Is this lease an enhanced use lease with leasebacks with annual payments above the following threshold levels: a) 2007 - $2,540,000; b) 2008 - $2,590,000; c) 2009 - $2,800,000?

48. Is the leased property constructed or located on Government land?

49. Is the lease for service contracts that require the contractor to acquire or construct assets valued above $50 million?

50. Does the lease include a share in savings proposals that result in the acquisition of real property?

51. Does the lease raise issues about the governmental/non- governmental status of the asset or the entity that holds the title of the asset?

62. Does the lease include any financing proposal for which a statute requires OMB approval of the scoring or compliance with OMB Circular No. A-11?

63. Does the lease include arrangements that convey special tax status to the project by virtue of the Government's participation?

64. Does the lease include arrangement that involve options that can be conveyed to a third party in exchange for future consideration?

65. Does the lease include any unique or unusual concepts or characteristics not already mentioned?

If the answer to any of the above questions is Yes, then the lease will need to be submitted to OMB during the conceptual, developmental stage. Contact NOAA RPMD – Silver Spring immediately.

If the answer to all the above questions is No, then the lease does not need to be referred to OMB.

Continue to Section A.12.

Section A.12 – Lease Type Determination

Check the appropriate block for Operating, Lease-Purchase with Substantial Risk, Lease-Purchase without Substantial Risk, or Capital Lease based on the conclusion reached by completing the worksheet. Enter the amount of budget authority required for this lease.

The document should be signed by the preparer and submitted to the Real Property Management Division (RPMD) – Silver Spring for review. The reviewer at RPMD - Silver Spring will return all comments to the realty specialist and appropriate branch chief for review and action. After the comments have been addressed and RPMD - Silver Spring has provided e-mail notification of concurrence with the results of the LDW, the branch chief will sign it. If the lease is determined to be capital for budget purposes, the signature of the headquarters line office budget officer must be obtained.

Make sure to attach the appropriate appendices and supporting documentation to the lease determination worksheet.

Chapter 4 – Preparation of the Lease Determination Worksheet: Part B

To be completed.

Leases involving Land only			
Meets criterion to transfer ownership	**Meets Bargain Purchase Option Criterion**	**Meets One of Two Criterion**	**Lessee's Lease**
		Yes	Capital
		No	Operating
Leases involving Land and Building(s)			
Meets criterion to transfer ownership	**Meets Bargain Purchase Option Criterion**	**Meets One of Two Criterion**	**Lessee's Lease**
		Yes	Land and building are separately capitalized. Present value of minimum lease payments (less executory costs) is allocated between land and building in proportion to their fair values at lease inception. Building is amortized
If the lease meets neither the criteria for ownership transfer or bargain purchase option:			
Fair value of Land is less than 25% of total fair value	**Meets estimated economic life or fair value criteria**		**Lessee's Lease**
Yes	Yes		Capital
Yes	No		Operating
No	Building – Yes		Building is capital lease; land is operating
No	Building – No		Building and land – operating lease.

Source: FASAB, *Capital and Operating Leases: A Research Report*, October 2003

Chapter 5 – Modification to a Lease Determination Worksheet

When there is a modification or supplemental lease agreement (SLA) to the lease that changes the financial structure of the lease, a revised lease determination worksheet will be required. Examples of changes in financial structure include changes to the base rent, change in the asset being leased (e.g. increase/decrease in space leased), and change in the lease term.

On page one of the revised lease determination worksheet, provide an explanation as to the reason for the revision. Also include the date of the revision.

The section most affected by modifications or SLAs is Section A.3, Question 4a.

According to OMB A-11, Appendix B, "when an agency modifies or amends an existing capital lease or lease-purchase contract, any remaining budgetary resources prior to modification should be used to offset the cost of the new contract. The amount scored will be the difference in the net present value of the Government's total estimated legal obligations between the new contract and the remaining term of the original contract. (Both net present values should be calculated using the Treasury borrowing rates at the time the contract is amended.) There would be no remaining budgetary resources if funds equal to the lease payments or the present value of the lease payments were not scored up front at the time the lease was signed. In this case, the full cost of the new contract should be scored, consistent with the rules for scoring lease-purchases and capital leases. Similarly, when an agency modifies or amends an existing operating lease contract, the impact of the changes needs to be evaluated. If the lease no longer meets the criteria for an operating lease, the modified lease should be rescored."

If the lease was previously classified as a lease-purchase or a capital lease and there are remaining budgetary resources, then the previous lease's present value will need to be recalculated using the interest rate for the modification. The modification's present value will need to be calculated. The new budget authority will be the difference between the previous lease's present value and the modification's present value.

If the lease was previously classified as an operating lease, re-evaluate the lease by completing the lease determination worksheet to determine if the lease is still operating.

Chapter 6 – Preparation of Financial Statement Presentation of Leases

To be completed.

Attachment A: Glossary of Terms

Acquisition cost: Costs incurred to acquire property, plant, and equipment (PP&E) and to bring the PP&E to a form and location for its intended use.

Acquisition date: The date the property is acquired or accepted by NOAA; the date that the lease begins.

Agency debt: (Only applies to lease-purchase without substantial private risk.) Debt that accumulates during the period of construction, manufacture, or purchase of the asset and that is subsequently redeemed over the lease payment period.

Annuity due: Payments made in advance or at the beginning of the payment period (e.g. before use of the asset for a set period of time).

Appraisal: An informed estimate of value, reached by a systematic analysis of data.

Assets: Tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by a Federal Government entity. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Asset cost: Equal to the present value of the lease payments. (OMB Circular A-11, Appendix B – *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

Bargain purchase option or bargain-price purchase option: A provision allowing the lessee the option to purchase the leased property for a price that is lower than the expected fair market value of the property at the date the option can be exercised. (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

A provision allowing the lessee, at his option, to purchase the leased property for a price which is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable that exercise of the option appears, at the inception of the lease, to be reasonably assured. (FASB FAS No. 13, *Accounting of Leases*)

Base term: Fixable, noncancelable, original term of the lease (before inclusion of any option periods).

Beneficial occupancy date: The date that a facility or asset is ready for use by NOAA.

Book value: The net amount at which an asset or liability is carried on the books of account also referred to as carrying value or amount). It equals the gross or nominal amount of an asset or liability minus an allowance or valuation amount. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Budget authority: The authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. (OMB Circular A-11, Section 20, *Terms and Concepts*)

Budget Object Class Code: The budget object class code for buildings or storage leases is 3230. The code for land leases is 3231.

Cancellation clause: Language in the lease that provides for the ability to cancel the lease.

Capital assets: Land, structures, equipment, intellectual property (e.g., software) and information technology that are used by the Federal Government and has an estimated useful life of two years or more. Capital assets do not include items acquired for resale in the ordinary course of operations or items that are acquired for physical consumption, such as operating materials and supplies. The full cost of a capital asset includes both its purchase price and all other costs necessary to make it suitable for its intended use.

Capital assets include:

- Additions; improvements; replacements; rearrangements and reinstallations; and major repairs (but not ordinary repairs and maintenance) to existing assets;
- Leasehold improvements and land rights;
- Assets owned by the Federal Government but located in a foreign country or held by others (such as Federal contractors, state and local governments, or colleges and universities); and
- Assets whose ownership is shared by the Federal Government with other entities.

Capital assets may be acquired in different ways:

- Through purchase, construction, or manufacture;
- Through a lease-purchase or other capital lease (regardless of whether title has passed to the Federal Government);
- Through an operating lease for an asset with an estimated useful life of two years or more; or
- Through exchange.

Capital assets may or may not be capitalized depending on the agency's capitalization threshold.

Capital lease:
Budget – Any lease other than a lease-purchase that does not meet the criteria of an operating lease. (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

Accounting – Lease that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease terms contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory costs, equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.
(FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Capitalize: To record and carry forward into one or more future periods any expenditure the benefits or process from which will then be realized.
(FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment)*

Capitalization threshold: The acquisition cost threshold or dollar amount that is used to determine which assets are recorded. NOAA has a capitalization threshold of $200,000; therefore, assets that are capital and have an acquisition cost equal to or greater than $200,000 would be capitalized by NOAA. However, assets with acquisition costs below $200,000 would not be capitalized even if they are capital assets.

Capitalized lease: A capital lease that meets NOAA's requirements for capitalization. NOAA's requirements are the acquisition cost (lesser of the present value or fair market value) is equal to or greater than $200,000 and the useful life to NOAA is greater than two years.

Depreciation accounting: The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Disclosure</u>: Reporting information in notes regarded as an integral part of the basic financial statements. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Discount rate</u>: The interest rate used to adjust for the time value of money. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Economic useful life</u>: The period during which a fixed asset is capable of yielding services of value to its owner; the normal operating life in terms of utility to the owner. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Executory costs</u>: Those costs such as insurance, maintenance, and taxes incurred for leased property, whether paid by the lessor or lessee. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Fair market value</u>: The estimated amount that can be realized by disposing of an item through arm's length transactions in the marketplace; the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

The price for which the property could be sold in an arm's-length transaction between unrelated parties. (FASB FAS No. 13, *Accounting for Leases*)

<u>Fiscal Funding Clause</u>: A clause in a lease that provides that the lease is cancelable if the government does not appropriate the funds necessary to fulfill its obligations under the lease agreement. The lease is considered a noncancelable, for budgetary purposes, if the likelihood of exercise of the fiscal funding is assessed as remote; otherwise, the lease is considered cancelable. (FASB Technical Bulletins (FASTB) 79-10, *Fiscal Funding Clauses in Lease Agreements*)

<u>Funded</u>: Budget authority sufficient to complete a useful segment of a capital project.

<u>General purpose asset</u>: An asset that does not have a special purpose to the government.

<u>Government financing</u>: Paid for by the government.

<u>Governmental unit/authority</u>: Federal, state or local government.

<u>GSA space assignment</u>: Lease agreements with General Services Administration (GSA) for use of building space and/or land. These lease agreements are considered operating leases.

<u>Holdover term</u>: Term after the lease ends that the lessee still possesses the leased property. Usually a month-to-month lease after the official lease term ends.

<u>Imputed interest</u>: The financing costs that Treasury would have incurred if it had financed the project by borrowing. (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)
<u>Interest</u>: The service charge for the use of money or capital, paid at agreed intervals by the user, commonly expressed as an annual percentage of outstanding principal. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

<u>Income approach</u>: An approach to value estimation that is based on the premise that the value of real estate is equal to the present worth of the anticipated future benefits to be derived from the ownership rights in that real estate.

<u>Installation costs</u>: Costs incurred to bring the PP&E to a form and location suitable for its intended use (e.g. transportation charges to the point of initial use; handling and storage costs; preparation costs of buildings and other facilities).

<u>Interest rate</u>: The cost of borrowing money, expressed as a percentage, usually over a period of one year.

<u>Lease</u>: An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time. (FASB FAS No. 13, *Accounting for Leases*)

<u>Lease-purchase</u>: A type of lease (for budgetary purposes) in which ownership of the asset is transferred to the Government at, or shortly after the end of the lease term. Such lease may, or may not contain a bargain-price purchase option. There are two types of lease-purchases: lease-purchase with substantial risk and lease-purchase without substantial risk. (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

<u>Lease term</u>: The base period of the lease plus any option periods and holdover term, if applicable. The term cannot extend beyond the date a bargain purchase option becomes exercisable.

<u>Lessee</u>: The party that is granted the right to use the property for a stated period of time.

<u>Lessor</u>: The party that is granting the right to lease the property for a stated period.

<u>Liability</u>: For Federal accounting purposes, a probable future outflow or other sacrifice of resources as a result of past transactions or events. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Minimum lease payments: Payments that the lessee is obligated to make or can be required to make in connection with the leased property. (FASB FAS No. 13, *Accounting for Leases*)

Modification: Also referred to as a Supplemental Lease Agreement (SLA). It amends the contract.

Nominal discount rate: The interest rate used to adjust the time value of money for the calculation of the present value of money. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Option years/terms: A provision allowing the lessee, at their option, to renew the lease for a period of time beyond the base term.

Operating lease: A lease that meets all the criteria listed below.

- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term.
- The lease does not contain a bargain-price purchase option.
- The lease term does not exceed 75 percent of the estimated economic life of the asset.
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term.
- The asset is a general purpose asset rather then being for a special purpose of the Government and is not build to the unique specification of the Government as lessee.
- There is a private market for the asset.

(OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

An agreement conveying the right to use property for a limited time in exchange for periodic rental payments. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Ordinary annuity: Payments made in arrears or at the end of the payment period (e.g. after the use of the asset for a set period of time).

Outlays: The payment to liquidate an obligation (other than the repayment of debt principal). Outlays are generally equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the subsidy cost of direct loans or loan guarantees, and interest accrued on public issues of public debt. Outlays are the measure of the Government spending. (OMB Circular A-11, Section 20, *Terms and Concepts*)

Payment periods: The number of payments over the lease term. For example:
Lease term = 10 yrs. with 12 payments per year = 120 payment periods, or
Lease term = 5 yrs. with 4 quarterly payments = 20 payment periods

Personal property: Anything tangible that is not real property. Personal property includes equipment, machine tools, test equipment, and vehicles. It also includes temporary improvements to land such as trailers, garages, modular buildings, and generators.

Post award: After the lease has been signed or awarded.

Pre-award: Before the lease has been signed or awarded.

Present value: The value of future cash flows discounted to the present at a certain interest rate, assuming compound interest. It is the principal amount that must be invested today to produce a future value. For example, the present value of minimum lease payments = today's cost that will increase to a future amount based on a given interest rate over a stated period of time.

Private sector market: Consumers or market outside the Federal government.

Property Name: The property name is user defined.

Property ID: This number is system generated when the property record is entered into the system.

Property, plant, and equipment (PP&E): Tangible assets that (1) have an estimated useful life of 2 or move years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. (FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*)

Real property: Land and improvements to the land such as buildings and structures. Trailers, garages, modular buildings, and generators, which are prefabricated structures or items, should be classified as personal property because they are considered temporary improvements to land.

Remaining estimated economic useful life: The remaining period during which the property is expected to be usable by the lessee for the purpose for which it was intended at the inception of the lease.

<u>Risk</u>: The level of private-sector risk. Lease-purchase agreements are scored as with or without substantial private risk depending on the level of private-sector risk. (OMB Circular A-11, Appendix B)

<u>Score</u>: Measures the budget effects of legislation, generally in terms of budget authority, receipts, and outlays. (Also referred to as scorekeeping.)

<u>SLA</u>: Supplemental Lease Agreement. An agreement that amends or modifies the original lease agreement.

<u>Structure</u>: Property that is not a building but is a permanent improvement to land. Examples include towers, docks and/or piers, antennas, bridges, transmitters, roof space, ASOS sites, river or water gauges, and improvements to land such as pavement.

<u>Substantial private risk</u>: The absence of substantial government risk. Risk is defined in terms of how governmental in nature the project is. That is, if the project is less governmental in nature, the private sector risk is considered to be higher. (Relates to Lease-Purchases.) (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

<u>Unfunded</u>: Total budget authority needed less the amount funded.

<u>Up-front Budget Authority</u>: Asset cost. (OMB Circular A-11, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*)

Attachment B: Laws and Regulations

The following is a summary of authoritative pronouncements impacting leases.

FASAB Statements of Federal Financial Accounting Standards
http://www.fasab.gov/standards.html
http://www.fasab.gov/reports.html

- SFFAS 1 Accounting for Selected Assets and Liabilities
- SFFAS 5 Accounting for Liabilities of the Federal Government
- SFFAS 6 Accounting for Property, Plant, and Equipment
- Capital and Operating Leases: A Research Report, October 2003

FASB Statements of Financial Accounting Standards
http://www.fasb.org/st/

- FAS 13 Accounting for Leases
- FAS 23 Inception of the Lease
- FAS 29 Determining Contingent Rentals
- FAS 71 Accounting for the Effects of Certain Types of Regulation (leases in regulated operations)
- FAS 91 Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases
- FAS 98 Accounting for Leases
- FAS 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

FASB Interpretations
http://www.fasb.org/st/

- FIN 19 Lessee Guarantee of the Residual Value of Leased Property
- FIN 23 Leases of Certain Property Owned by a Governmental Unit or Authority
- FIN 24 Leases Involving only Part of a Building
- FIN 26 Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease

FASB Technical Bulletins

- FTB 79-10 Fiscal Funding Clauses in Lease Agreements
- FTB 79-12 Interest Rate Used in Calculating the Present Value of Minimum Lease Payments
- FTB 79-17 Reporting Cumulative Effect Adjustment from Retroactive Application of FASB Statement No. 13
- FTB 79-18 Transition Requirement of Certain FASB Amendments and Interpretations of FASB Statement No. 13
- FTB 85-3 Accounting for Operating Leases with Scheduled Rent Increases
- FTB 88-1 Issues Relating to Accounting for Leases

FASB Statements of Financial Accounting Concepts
http://www.fasb.org/st/

- CON 7 Using Cash Flow Information and Present Value in Accounting Measurements

OMB Circulars
http://www.whitehouse.gov/omb/circulars/index.html

- OMB Circular A-11, Preparation, Submission and Execution of the Budget
- OMB Circular A-11, Appendix B - Budgetary Treatment of Lease-Purchases and Leases of Capital Assets
- OMB Circular A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs