

# NOAA Personal Property Lease Handbook

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# NOAA PERSONAL PROPERTY LEASE HANDBOOK

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# **NOAA PERSONAL PROPERTY LEASE HANDBOOK**

## **CHAPTER 1 – INTRODUCTION**

What is a lease? A lease, according to Financial Accounting Standards Board (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 personal property leases. This handbook is intended to assist in the understanding and preparation, distribution, and modification of the Personal Property Lease Determination Worksheet (LDW) and related appendices (see Attachment C). The Personal Property LDW 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 A-11, Preparation and Submission of Annual Budget Estimates, explains the measurement of budget authority, outlays, and debt for lease-purchases and capital leases.

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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. The three main types of leases<sup>1</sup> are lease-purchase, capital lease, and operating lease. Lease-purchase can be broken down further into lease-purchase with substantial risk and lease-purchase without substantial risk.

**Lease-purchase** 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.

**Capital lease** means any lease other than a lease-purchase that does not meet the criteria of an operating lease.

**Operating lease** 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.

## **Accounting**

There are two main types of leases for accounting: operating and capital. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government, (See Appendix B and SFFAS No. 6, Accounting for Property, Plant, and Equipment (See Appendix B cover the Federal Accounting Standards Advisory Board (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 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.

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<sup>1</sup> Office of Management and Budget Circular A-11, Appendix B, Budgetary Treatment of Lease-Purchases and Leases of Capital Assets

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- 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.

### Summary

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.

	<b>Budgetary (OMB A-11)</b>	<b>Accounting (FASAB/FASB)</b>
Types of Leases	<ul style="list-style-type: none"> <li>• Capital</li> <li>• Lease-Purchase</li> <li>• Operating</li> </ul>	<ul style="list-style-type: none"> <li>• Capital</li> <li>• Operating</li> </ul>
Criteria for classification of leases	<ul style="list-style-type: none"> <li>• Transfer of Ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Transfer of Ownership</li> </ul>
	<ul style="list-style-type: none"> <li>• Bargain Purchase Option</li> </ul>	<ul style="list-style-type: none"> <li>• Bargain Purchase Option</li> </ul>
	<ul style="list-style-type: none"> <li>• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life</li> </ul>	<ul style="list-style-type: none"> <li>• Lease Term is equal to or greater than 75% of the estimated remaining economic useful life</li> </ul>
	<ul style="list-style-type: none"> <li>• Present Value of the Minimum Lease Payments equals or is greater than 90% of the fair value of the asset.</li> </ul>	<ul style="list-style-type: none"> <li>• Present Value of the Minimum Lease Payments equals or is greater than 90% of the fair value of the asset.</li> </ul>
	<ul style="list-style-type: none"> <li>• Asset is a special purpose asset.</li> </ul>	
	<ul style="list-style-type: none"> <li>• Asset does not have a private sector market.</li> </ul>	

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

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	<b>Budgeting (OMB A-11)</b>	<b>Accounting (FASAB/FASB)</b>
Interest Rate (for net present value calculation)	Treasury rate as of lease award (date lease was signed).	Temporary rate or contractor rate (whichever is lower) as of lease start date or beneficial occupancy date (whichever is later)
	Treasury rate is always used.	<p>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).</p> <p>If NPV is less than or equal to FMV, then the Treasury or contractor rate (whichever is lower) is used.</p>
Lease Term	Base term plus <u>all</u> option terms.	Base term plus option terms (may not be all the option terms)
Bargain Purchase Option	If exists, it will be presumed to be exercised.	<p>Option must be sufficiently lower than the expected FMV of the property at the date the option becomes exercisable.</p> <p>Determine if reasonable assurance, at inception date, that the option will be exercised.</p>

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.

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## **CHAPTER 2 – GENERAL INFORMATION**

### **Required Documentation**

In order to complete the LDW, it is important to have the correct documentation available. The documentation required to complete the LDW 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 terms 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 a CD-435 prepared by the requestor. In addition, an actual copy of the lease and any modifications to the lease would need to be obtained. Documentation supporting the acceptance 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 Chapters 3 & 4.

Documentation that is required to be filed with the LDW 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 LDW.

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 Personal Property personnel related to the lease determination worksheet.

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In accordance with the NOAA Personal Property Management Branch Policy and Procedures and the Department of Commerce Personal Property Manual, all borrowed or leased personal property is considered accountable property, and must be entered into the Sunflower system of accountability.

Accountable Personal Property includes:

- Equipment with an original acquisition cost of \$5,000 or more with a normal life expectancy exceeding one year, a self-contained unit, which is not consumed in use, and does not lose its identity when put into use. Component parts of major equipment (e.g. a computer), such as keyboards, internal drives, etc., are NOT separately accountable under the inventory system. Please refer to the Object Classification Code manual and guidance for appropriate accountable property OCC use:

<https://sites.google.com/a/noaa.gov/ocao/lod/noaa-personal-property-management-branch/personal-property-forms-guides-and-training/guides-tools/accountable-property-object-classes>

- Sensitive property (regardless of acquisition cost) which can easily be converted to private use or that has high potential for theft. Please refer to the accountable property and OCC guidance (link above) for a list of sensitive items.

Parts A and B of the lease determination worksheet shall be completed for every lease NOAA enters into except gratuitous leases or “no cost” leases. Part A and B shall be prepared by the Requisitioner and/or Contracting Officer’s Representative.

Parts A and B shall be reviewed and signed by the following:

1. The Preparer (Requisitioner or COR)
2. Program Office Reviewer
3. Headquarters Reviewer

Once reviewed and signed, the NOAA Line Office Property Officials shall submit to NOAA Personal Property Management Branch the following to be entered into Sunflower:

1. Copy of the completed Lease Determination Worksheet
2. Copy of the Lease Agreements
3. Copy of the Lease Payment Schedule for creation of an agreement record in Sunflower.

NOAA Personal Property Management Branch will report lease information (future minimum lease payments, acquisition cost, depreciation, etc.) to the Finance Office monthly and quarterly.



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## **CHAPTER 3 – PREPARATION OF THE LEASE DETERMINATION WORKSHEET: PART A**

Below are the detailed instructions, including examples, for completing Part A of the Personal Property LDW. Part A should be completed for all leases regardless of lease term or total lease payments.

The cells highlighted in yellow are the areas of the worksheet to be filled in. When the question requires a *YES* or No answer, place an “X” in the applicable cell.

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.

Requisition Number:

Solicitation Number:

Description of Lease Property: At a minimum, describe the general purpose of the lease. Include the Manufacturer and model number. 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.

In the next section, if revising the previous worksheet, provide the reason for the revision. Examples include a Modification or Supplemental Lease Agreement to original lease or previous modification 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 LDW.

### **SECTION A.I – General Information**

This section is to verify that the correct LDW is being used. In addition, it determines if the lease is with another federal agency.

The leased asset is either classified as real property or personal property. Question 1 and 2 determine which type of asset is being leased and verify the use of the correct LDW.

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## **1. Is the lease a personal property lease?**

Personal property is defined as any property except real property. Personal property includes equipment, machine tools, test equipment, and vehicles. Personal property also includes temporary improvements to land such as trailers, garages, modular buildings, and generators.

- If the answer to Question 1 is *YES*, proceed to Question 3.
- If the answer to Question 1 is *NO*, continue to Question 2.

## **2. Is the lease a real property lease?**

To determine whether the asset to be leased is real property, consider whether it constitutes a temporary or permanent improvement to land. Real property is defined as land and permanent improvements to land such as buildings and structures. Structures include towers, docks and/or piers, bridges, roof space, sites for equipment such as ASOS and river or water gauges, and improvements to land such as pavement.

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. In addition, NEXRAD Towers and Upper Air Inflation Buildings are classified as personal property because they are prefabricated and can be disassembled and relocated if necessary.

- If the answer to this question is *YES*, complete the LDW.
- If the answer to Question 2 is *NO*, go back to Question 1 and re-evaluate the lease. Reconsider the type of asset and whether it is a temporary or permanent improvement to the land.

*Note:* There is some question about whether towers are real or personal property. If the towers are prefabricated and can be reasonably disassembled and relocated, then they are considered personal property (i.e. NEXRAD towers). However, if they are relatively permanent in nature, then they are real property because they represent improvements to land.

## **3. 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 3 is *YES*, contact the Federal agency to determine if the Federal agency recorded the full cost of the asset when acquired. If they did, then go to Section A.11, check “Other”, and provide the following explanation: “This lease is with xyz (Federal agency), and therefore, NOAA does not need to budget for this lease.”
- However, if they did not or it is unknown whether they did or did not, then the answer to Question 3 is *NO* and continue to Section A.2.

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## **SECTION A.2- Economic Useful Life**

### **1. Are there multiple assets in the lease?**

This question relates to leases that have several assets and each asset has a different “delivery” date (or acceptance dates). An example would be a lease for two supercomputers with an acceptance date for Supercomputer A of January 1, Year 1 and an acceptance date for Supercomputer 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 copiers. The proposed acceptance date for the first lease is June Year 1. The second lease has a proposed acceptance 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 acceptance 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 acceptance dates or acquisition dates of each asset. Continue to Question 2.
- If there are not multiple assets in the lease, continue to Question 2.

### **2. 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.

#### **2a. Lease term beginning date or date of first payment, whichever is occurs first.**

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

#### **2b. Date the contract/lease was signed by the Government.**

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.

#### **2c. Lease end date.**

Enter the date that the lease ends. In determining the end date, include option periods.

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### **2d. 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.

### **2e. 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.

### **2f. Total lease term (including option periods).**

This is the sum of the base lease term and the option periods.

*Continue to Question 3.*

## **3. Complete the following information:**

### **3a. Enter NOAA's suggested economic useful life.**

NOAA has established a suggested economic useful life based on the type of asset. Use Attachment A of the FY16 Property Bulletin #001 to find the appropriate useful life, which can be found at this web address:

<https://drive.google.com/file/d/1NVoiybKpzdqGZoE4Vx-aDL4pZlgW27Vn/view>

### **3b. Have there been any major improvements/renovations to the leased asset(s)?**

Identify any major improvements or upgrades, if any, when they occurred, and how much they cost. This question is not applicable if the asset is new at the beginning of the lease. Only major improvements or renovations that extend the useful life of the asset should be identified.

### **3c. Enter a description of the improvements/upgrades of the leased asset(s)?**

Include in the description the date and costs of the upgrades.

### **3d. Enter the number of years that the improvements/upgrades (identified in Section A.2, Question 3c) extend the useful life.**

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 over NOAA's recommended useful life.

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### **3e. Proposed useful life of the leased asset.**

The worksheet includes a formula that automatically calculates this number. The formula is the number of years per Section A.2, Question 3a plus the number of years per Section A.2, Question 3d. The amount calculated identifies the total possible economic useful life (in years) for the asset.

### **3f. Enter the date that the asset was manufactured.**

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.

### **3g. Lease beginning date or date of first payment, whichever is occurs first.**

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

### **3h. Age of the leased asset at the beginning of the lease.**

The worksheet automatically calculates this amount by taking the date that the asset was manufactured and subtracting the date that the lease began. If the asset is new, then the amount calculated should be zero. However, the asset was manufactured on July 1, 2004 and the lease began on October 1, 2005, then the asset is a year and 3 months old when the lease began.

*Continue to Question 4.*

### **4. Enter the estimated remaining useful life of the asset after improvements and/or upgrades.**

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 asset is new when the lease begins, then the remaining useful life will equal the proposed 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 ship is 7 years when NOAA begins its lease. The recommended economic useful life for a ship (acquired before October 1, 2002) is 20 years. The ship did not have any improvements or upgrades that would extend its useful life beyond the 20 years. Therefore, the remaining economic useful life is 13 years.

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Total economic useful life of building	20 years
<u>Less: Age of Building</u>	<u>7 years</u>
Remaining economic life	13 years

Another example would be the same facts as above; however, the ship had a new haul 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. Therefore, the remaining economic useful life is 25 years.

Total economic useful life of building	30 years
Less: Age of Building	15 years
<u>Plus: Economic life extension through renovations</u>	<u>10 years</u>
Remaining economic life	25 years

*Continue to Question 5.*

## **5. Total lease term (including option years) as a percentage of the estimated remaining useful life.**

The worksheet automatically calculates this percentage by taking the lease term (Section A.2, Question 2f) divided by the estimated remaining economic useful life (Section A.2, Question 4).

<b>Lease Term</b>	<b>Estimated Remaining Economic Life</b>	<b>Percentage</b>	<b>Answer to Question 5</b>
5 years	10 years	50%	No
8 years	10 years	80%	Yes

*Continue to Question 6.*

## **6. 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 5 is equal to or greater than 75%, then the answer to this question is *YES*. If the percentage is less than 75%, then the answer is *NO*.

*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.

### **1. 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

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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 2.*

### **2a. Are the lease payments an annuity due (i.e. payment in advance or payments are due at the beginning of the period)?**

“Annuity due” indicates that the payments are made in advance or at the beginning of the period.

### **2b. Are the lease payments an ordinary annuity (i.e. payment in arrears or payment due at the end of the period)?**

“Ordinary annuity” indicates that payments are made in arrears or at the end of the payment period. Since the Government normally only pays for services and supplies after they are acquired with a few exceptions, “ordinary annuity” is most common.

If the lease does not identify in the lease when the payments are due, assume that the payments are an “ordinary annuity”.

*Continue to Question 3.*

### **3. Enter the scheduled payment terms and amount, excluding executory costs and including all option years.**

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. In addition, the amount of executory costs should be identified.

Appendix A is a template to document the payment amounts. It is currently is sent up for monthly payments. It includes columns for the total lease payments and the executory costs. The last column calculates the net lease payments (total lease payments less the executory costs). This template should be modified if additional calculations are needed to show how the lease payments are determined.

*Continue to Question 4.*

### **4. Enter the Treasury’s interest rate effective at 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. <https://www.whitehouse.gov/omb/information-for-agencies/circulars/>

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Use the year that the base contract/lease was signed and the length of the lease term (including option years) 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 Appendix B 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 from 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.

**4a. 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 5.*

### **5. Enter the fair market value of the leased property.**

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.

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.

*Continue to Question 6.*

### **6. Complete Appendix D to calculate the present value of the lease payments.**

The top portion of Appendix D identifies the following information from the Lease Determination Worksheet: 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. All these cells are linked to cells in the worksheet where this information has already been entered or calculated.

In the second half of the worksheet, enter the total lease payments (from the Appendix A) in Column C. Enter the executory costs in Column D. Enter the month-year (or quarter-year or year) in Column A.

Based on the data entered, Appendix D will calculate the present value of the lease and the percentage of fair market value.



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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 middle section to determine the costs by fiscal year. Enter the applicable fiscal year (i.e. 2005, 2006).

*Continue to Question 7.*

## **7. 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 in this cell should be the present value that was calculated in Appendix D.

*Continue to Question 8.*

## **8. Present value of the minimum lease payments as a percentage of the fair market value of the lease property.**

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

*Continue to Question 9.*

## **9. 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 9 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**

### **1. 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.

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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 2.*

### **2. 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 3.*

### **3. Is the lease new manufactured?**

This test for capital lease determination is only relevant to newly manufactured assets.

- If the answer to Question 3 is *YES*, then an answer is required for Question 3a.
- If the answer is *NO*, then move to Question 4.

### **3a. 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 asset. For example, if NOAA were to vacate the property and the property cannot be used for private sector use, the answer to this question would be *YES*. However, if the property 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 4.*

### **4. 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

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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 5.*

### **5. 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 6.

*Continue to Question 6.*

### **6. Is the present value of the minimum lease payments equal to or greater than 90% 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 9.

If the answers to all the questions in Section A.4 are *NO*, the lease does not meet the OMB capital lease requirements; therefore, the lease is classified as an operating lease. Skip Section A.5 through A.7 and continue onto Section A.8.

If the answer to Question 1 or 2 is *YES*, the lease meets the OMB lease-purchase requirements. Continue to Section A.5.

If the answer to Question 3a, 4, 5, 6, or 7 is *YES*, the lease meets the OMB capital lease requirements. Skip Section A.5 through Section A.8 and continue to Section A.9.

### **SECTION A.5 – Lease-Purchase with or without substantial risk**

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”.

#### **1. 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

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will be guaranteed any amount of money other than the lease payments as outlined in the lease.

- Answer *YES* if there is *NO* provision.
- Answer *NO* to Question 1 if there is a provision of Government financing.

*Continue to Question 2.*

### **2. 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 3.*

### **3. 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 IV, Question 3a for the answer.

*Continue to Question 4.*

### **4. Is there a private-sector market for the asset?**

Please refer to Section IV, Question 4 for the answer.

*Continue to Question 5.*

### **5. 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.

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## **1. Calculate the up-front budget authority.**

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

## **2. Calculate the outlays.**

The middle section of Appendix D 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.

Due to the complexity of the calculations for a lease-purchase without substantial private risk, it is recommended to contact the respective Budget Office to assist in completing this section of the worksheet.

## **1. Calculate the up-front budget authority.**

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

*Continue to A.7, Question 2.*

## **2. 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.”

The Personal Property Management Division can assist with the calculation of the outlays.

## **3. 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. It is recommended to contact the respective Budget Office for assistance 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.

According to OMB A-11, Appendix B, budget authority for operating leases is required for the estimated total payment expected to arise under the full term of the lease unless there is a cancellation clause. If a cancellation clause exists, then budget authority is required for the first year's lease payment plus an amount sufficient to cover the costs associated with cancellation of the lease.

**1. Does the lease have a cancellation clause?**

A cancellation clause is any clause in the lease that allows the lessor to exit the lease before the full term (question 2d) of the lease is complete.

A fiscal funding clause is commonly found in government lease agreements and provides that the lease is cancelable if the government does not appropriate the funds necessary to fulfill its obligations under the lease agreement. If the lease has this clause, assess the likelihood of the lease cancellation through exercise of the fiscal funding clause. The lease is considered a non-cancelable lease if the likelihood of exercise of the fiscal funding clause is assessed as remote; otherwise, the lease is considered cancelable. NOAA considers the likelihood of exercising any fiscal funding clause to be remote.

- If the answer to Question 1 is *YES*, proceed to Question 2.
- If the answer is *NO*, go directly to Question 5.

**2. Enter the amount of lease payments for the first year.**

*Continue to Question 4.*

**3. Enter the cost associated with the cancellation clause.**

A cancellation clause may either be without penalty or with penalty. If the lease provides for a cancellation clause without penalty, input \$0. If the lease provides for a cancellation clause with a penalty, input the dollar amount of the penalty.

*Continue to Question 4.*

**4. Calculate the budget authority (with cancellation clause)**

If there is a cancellation clause, then the budget authority is an amount sufficient to cover the lease payments for the first year (calculated in Appendix D) plus amount sufficient to cover the costs associated with cancellation of the contract.

- If there is a cancellation clause, go to Question 6.

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## **5. Calculate the budget authority (without cancellation clause)**

If there is no cancellation clause, then the budget authority includes the estimated total payments expected to arise under the full term of the contract (calculated in Appendix D).

- If there is no cancellation clause, go to Section A.10.

## **6. Calculate the outlays.**

The middle section of Appendix D 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.9 – Budgeting for Capital Leases**

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

### **1. Calculate the up-front budget authority.**

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

*Continue to Question 4.*

### **2. Calculate the outlays.**

The middle section of Appendix D 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 – Lease Type Determination**

Check the appropriate block for Operating, Lease-Purchase with Substantial Risk, Lease-Purchase without Substantial Risk, Capital Lease, or Other based on the conclusion reached by

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completing the worksheet. This section should also identify the budget authority for the lease. The document should be signed by the preparer and reviewed at a level above the preparer. In addition, the document should be forwarded to the applicable line office's budget office for signature. Make sure to attach the appropriate appendices and supporting documentation to the lease determination worksheet.

## **CHAPTER 4 - PREPARATION OF THE WORKSHEET: PART B**

Below are the detailed instructions, including examples, for completing Part B of the Personal Property Lease Determination Worksheet. Part B should be completed for all leases regardless of lease term or total lease payments.

The cells highlighted in yellow are the areas of the worksheet to be filled in. When the question requires a *YES* or *NO* answer, place an "X" in the applicable cell.

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.

Requisition Number:

Purchase Order/Contract Number:

Description of Lease Property: At a minimum, describe the general purpose of the lease. Include the Manufacturer, model number, serial number(s), and property identification number(s) or Barcode numbers(s). 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.

In the next section, if revising the previous worksheet, provide the reason for the revision. Examples include a Modification or Supplemental Lease Agreement to original lease or previous modification 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 B.I – General Information**

This section is to determine if the lease has an indeterminable lease term.



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## **1. Is the total lease term indeterminable?**

If the ending date of the lease is not known, then the answer to this question is *YES*. For example, the lease is renewable annually for an unknown number of years such as software licenses, postage meters, pagers, and cell phones. Consider all potential terms in the lease agreement in making this determination (including contract modifications or amendments).

If the answer to this question is *YES*, the lease is classified and recorded as an operating lease. Complete Sections B.5 and B.6 of this worksheet. A separate worksheet should be completed for each renewal of the lease agreement. If the answer to Question is *NO*, go to Section B.2.

## **SECTION B.2- Economic Useful Life**

### **1. Complete the following information:**

This information should come from the lease.

#### **1a. Lease term start date or acceptance date, whichever is the later date.**

Enter the later of either the date of the start of the lease term or acceptance date.

#### **1b. Lease end date.**

Enter the date that the lease ends. In determining the end date, include option periods.

#### **1c. 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.

#### **1d. 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.

#### **1e. Total lease term (including option periods).**

Sum of the base lease term and the option periods.

*Continue to Question 2.*

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## **2. Complete the following information:**

### **2a. Enter NOAA's suggested economic useful life.**

NOAA has established a suggested economic useful life based on the type of asset. Use Attachment A of the FY16 Property Bulletin #001 to find the appropriate useful life, which can be found at this web address: <https://drive.google.com/file/d/1NVoiybKpzdqGZoE4Vx-aDL4pZIgW27Vn/view>

### **2b. Have there been any major improvements/upgrades to the asset(s)?**

Identify any major improvements or upgrades, if any, when they occurred, and how much they cost. This question is not applicable if the asset is new at the beginning of the lease. Only major improvements or renovations that extend the useful life of the asset should be identified.

### **2c. Enter the number of years that the improvements/upgrades (identified in Section A.2, Question 2b) extend the useful life.**

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 over NOAA's recommended useful life.

### **2d. Proposed useful life of the leased asset.**

The worksheet includes a formula that automatically calculates this number. The formula is the number of years per Section B.2, Question 2a plus the number of years per Section B.2, Question 2c. The amount calculated identifies the total possible economic useful life (in years) for the asset.

### **2e. Enter the date that the asset was manufactured.**

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.

### **2f. Lease start date or acceptance date, whichever is later.**

The worksheet automatically obtains this information from where it is located previously in the worksheet (Section B.2, Question 1a).

### **2g. Age of the leased asset at the beginning of the lease.**

The worksheet automatically calculates this amount by taking the date that the asset was manufactured and subtracting the date that the lease began. If the asset is new, then the amount calculated should be zero. However, the asset was manufactured on July 1, 2004 and the lease began on October 1, 2005, then the asset is a year and 3 months old when the lease began.

*Continue to Question 3.*

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### **3. Enter the estimated remaining useful life of the asset after improvements and/or upgrades.**

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 asset is new when the lease begins, then the remaining useful life will equal the proposed 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 ship is 7 years when NOAA begins its lease. The recommended economic useful life for a ship (acquired before October 1, 2002) is 20 years. The ship did not have any improvements or upgrades that would extend its useful life beyond the 20 years. Therefore, the remaining economic useful life is 13 years.

Total economic useful life of building	20 years
<u>Less: Age of Building</u>	<u>7 years</u>
Remaining economic life	13 years

Another example would be the same facts as above; however, the ship had a new haul 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. Therefore, the remaining economic useful life is 25 years.

Total economic useful life of building	30 years
Less: Age of Building	15 years
<u>Plus: economic life extension through renovations</u>	<u>10 years</u>
Remaining economic life	25 years

*Continue to Question 4.*

### **4. Total lease term (including option years) as a percentage of the estimated remaining useful life.**

The worksheet automatically calculates this percentage by taking the lease term (Section B.2, Question 1f) divided by the estimated remaining economic useful life (Section B.2, Question 3).

*Continue to Question 5.*

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### **5. Remaining estimated economic useful life as a percentage of the total estimated economic useful life.**

The worksheet automatically calculates this percentage by taking the remaining estimated economic useful life (Section B.2, Question 3) divided by the total estimated remaining economic useful life (Section B.2, Question 2d).

*Continue to Question 6.*

### **6. 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 B.2, Question 4 is equal to or greater than 75%, then the answer to this question is *YES*. If the percentage is less than 75%, then the answer is *NO*.

*Continue to Question 7.*

### **7. Does the beginning of the lease fall within the last 25% of the estimated economic useful life?**

If the percentage calculated in Section B.2, Question 5 is equal to or greater than 25%, then the answer to this question is *YES*. If the percentage is less than 25%, then the answer is *NO*.

*Continue to Section B.3.*

## **SECTION B.3 – Present Value Calculation**

### **1. 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 2.*

### **2a. Are the lease payments an annuity due (i.e. payment in advance or payments are due at the beginning of the period)?**

“Annuity due” indicates that the payments are made in advance or at the beginning of the period.

### **2b. Are the lease payments an ordinary annuity (i.e. payment in arrears or payment due at the end of the period)?**

“Ordinary annuity” indicates that payments are made in arrears or at the end of the payment

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period. Since the Government normally only pays for services and supplies after they are acquired with a few exceptions, “ordinary annuity” is most common.

If the lease does not identify in the lease when the payments are due, assume that the payments are an “ordinary annuity”.

*Continue to Question 3.*

### **3. Enter the scheduled payment terms and amount, excluding executory costs and including all option years.**

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. In addition, the amount of executory costs should be identified.

Appendix E is a template to document the payment amounts. It is currently is sent up for monthly payments. It includes columns for the total lease payments and the executory costs. The last column calculates the net lease payments (total lease payments less the executory costs). This template should be modified if additional calculations are needed to show how the lease payments are determined.

*Continue to Question 4.*

### **4. Enter the lower of the Treasury’s interest rate or the Contractor’s interest rate, if known, effective at the beginning of the lease term or at the acceptance date.**

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. <https://www.whitehouse.gov/omb/information-for-agencies/circulars/>

Use the year that the lease was accepted and the length of the lease term (including option years) 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 Appendix B to figure out the appropriate interest rate. Enter into the Appendix F the 3-year, 5-year, 7-year, 10-year, and 30-year interest rates from 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.

*Continue to Question 5.*

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## **5. Enter the fair market value of the leased property.**

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 G to document any calculations used to determine fair market value.

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.

*Continue to Question 6.*

## **6. Complete Appendix H to calculate the present value of the lease payments.**

The top portion of Appendix H identifies the following information from the Lease Determination Worksheet: solicitation number, requisition number, contract number, lease start date, lease end date, interest rate, and fair market value. All these cells are linked to cells in the worksheet where this information has already been entered or calculated.

In the second half of the worksheet, enter the total lease payments (from the Appendix A) in Column C. Enter the executory costs in Column D. Enter the month-year (or quarter-year or year) in Column A.

Based on the data entered, Appendix H 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 middle section to determine the costs by fiscal year. Enter the applicable fiscal year (i.e. 2005, 2006). Continue to Question 7.

## **7. Present value of the minimum lease payments, based on Appendix H of the Lease Determination Worksheet.**

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

*Continue to Question 8.*

## **8. Present value of the minimum lease payments as a percentage of the fair market value of the lease property.**

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

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*Continue to Question 9.*

## **9. 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 B.3, Question 9 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 B.4.*

## **SECTION B.4 – Determination of Type of Lease**

### **1. 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 2.*

### **2. 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 3.*

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### **3. 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 B.2, Question 7.

*Continue to Question 4.*

### **4. Is the present value of the minimum lease payments equal to or greater than 90% 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 B.3, Question 9.

If the answers to all the questions in Section B.4 are *NO*, the lease does not meet the FASAB capital lease requirements; therefore, the lease is classified as an operating lease. Skip Section B.5 and continue to Section B.6.

Otherwise, the lease has met the capital lease requirements.

*Continue to Section B.5.*

## **SECTION B.5 – NOAA Capitalization Determination**

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

### **1. Did the lease meet the criteria of transfer of ownership to NOAA or has a bargain purchase option (Section B.4, Question 1 and 2)?**

If the answer is *YES*, then the useful life of the asset is the remaining estimated economic useful life as determined in Section B.2, Question 3. Continue to Question 3.

If the answer is *NO*, continue to Question 2.

### **2. Did the lease meet either of the other two criteria (Section B.4, Question 3 and 4)?**

If the answer is *YES*, then the useful life of the asset is the lease term as determined in Section B.2, Question 1f.

*Continue to Question 3.*

### **3. Is the depreciable useful life less than or equal to two years?**

Determine if the useful life identified in either Question 1 or Question 2 is less than or equal to two years.



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*Continue to Question 4.*

## **4. Is the acquisition cost of the asset less than \$200,000?**

The acquisition cost is the less of the present value (Section B.3, Question 7) or the fair market value (Section B.3, Question 5).

If the answer to either Question 3 or 4 is *YES*, then the lease does not meet NOAA's capitalization threshold. Therefore, it is a capital lease that is not capitalized by NOAA. Skip Question 5 and continue to Section B.6.

If the answer to both Question 3 and 4 is *NO*, then the lease meets the requirements for a capital lease and NOAA's requirements for capitalization. Therefore, it should be treated as a capital lease that is capitalized. Continue to Question 5.

## **5. Determine the major class of the asset.**

*Continue to Section B.6.*

### **SECTION B.6 – Future Minimum Lease Payment Schedule**

Complete this schedule based on the information in the table towards the top of Appendix H.

*Continue to Section B.7.*

### **SECTION B.7 – NOAA's Lease Classification and Reporting Requirements Matrix**

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.

*Continue to Section B.8.*

### **SECTION B.8 – Lease Type Determination**

Check the appropriate block for Operating, Lease-Purchase with Substantial Risk, Lease-Purchase without Substantial Risk, Capital Lease, or Other based on the conclusion reached by completing the worksheet. This section should also identify the budget authority for the lease. The document should be signed by the preparer and reviewed at a level above the preparer. In addition, the document should be forwarded to the applicable line office's budget office for signature. Make sure to attach the appropriate appendices and supporting documentation to the lease determination worksheet.

## **CHAPTER 5 – MODIFICATION TO LEASE DETERMINATION WORKSHEET**

When there is a modification or supplemental lease agreement (SLA) to the lease that changes

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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.

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## APPENDIX

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## **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, non-cancelable, 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,

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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 leaseterm.
- The lease terms contains an option to purchase the leased property at a bargainprice.

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- 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)

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

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

**Economic useful life:** 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)

**Executory costs:** 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)

**Fair market value:** 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

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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)

**Fiscal Funding Clause:** 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 non-cancelable, 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)

**Funded:** The budget authority sufficient to complete a useful segment of a capital project.

**General purpose asset:** An asset that does not have a special purpose to the government.

**Government financing:** Paid for by the government.

**Governmental unit/authority:** Federal, state or local government.

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

**Holdover term:** 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.

**Imputed interest:** 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)

**Interest:** 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)

**Income approach:** 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.

**Installation costs:** 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).

**Interest rate:** The cost of borrowing money, expressed as a percentage, usually over a period of one year.

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**Lease:** 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)

**Lease-purchase:** 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)

**Lease term:** 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.

**Lessee:** The party that is granted the right to use the property for a stated period of time.

**Lessor:** The party that is granting the right to lease the property for a stated period.

**Liability:** 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 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 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)



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**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 Identification (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 more 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.

**Risk:** 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)

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

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**Supplemental Lease Agreement (SLA)**: An agreement that amends or modifies the original lease agreement.

**Structure**: 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.

**Substantial private risk**: 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)

**Unfunded**: Total budget authority needed less the amount funded.

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

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## **Attachment B: Laws and Regulations**

The following is a summary of authoritative pronouncements impacting leases.

FASAB Statements of Federal Financial Accounting Standards

<https://fasab.gov/accounting-standards/document-by-chapter/>  
<https://fasab.gov/resources/other-reports-documents/>

- 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 Accounting Standards Codification

<https://asc.fasb.org/>

- 840-10 Leases
- 840-10-55-2 Inception of the Lease
- 840-10-55-38 & 39 Determining Contingent Rentals
- 980-842 Accounting for the Effects of Certain Types of Regulation (leases in regulated operations)
- 310-20 Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases
- 840-40 Accounting for Leases

FASB Interpretations

<https://asc.fasb.org/>

- 840-10-25 Lessee Guarantee of the Residual Value of Leased Property
- 840-10-25-25 Leases of Certain Property Owned by a Governmental Unit or Authority
- 840-10-25-23 Leases Involving only Part of a Building
- 840-30-35-14 Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease

FASB Technical Bulletins

<https://asc.fasb.org/>

- 840-10-25-3 Fiscal Funding Clauses in Lease Agreements
- 840-20-25-2 Accounting for Operating Leases with Scheduled Rent Increases
- 840-10-55 & 840-20-55 Issues Relating to Accounting for Leases