



United States Department of the Interior

OFFICE OF THE SECRETARY

Washington, DC 20240

JUL 22 2013

Memorandum

To: Bureau Assistant Directors for Administration
Director, Interior Business Center

From: Douglas A. Glenn *D.A. Glenn*
Deputy Chief Financial Officer and Director
Office of Financial Management

Debra E. Sonderman, Director *Debra E. Sonderman*
Office of Acquisition and Property Management

Subject: Guidance on Lease versus Purchase Analysis and
Capital Lease Determination for Equipment Leases

This memorandum provides guidance to determine the best value when acquiring equipment. It is intended to help officials decide whether leasing or purchasing is the most economical acquisition method, and where applicable, the proper leasing vehicle.

Federal Acquisition Regulation (FAR) Subpart 7.4, *Equipment Lease or Purchase*; the Office of Management and Budget (OMB) Circular A-94; and Statements of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant and Equipment*, provide that agencies should make cost-effective acquisition decisions, in part, by performing lease versus purchase analyses. The need for additional guidance was recently enforced through the Government Accountability Office (GAO) report entitled *Air Force and Interior can benefit from Additional Guidance When Deciding Whether to Lease or Purchase Equipment*, (GAO-12-281R).

Requestors of equipment valued at \$15,000 or greater shall perform a lease versus purchase analysis as part of the procurement package. The analysis will address the full range of criteria specified in the FAR 7.4, including the length of time the equipment would be needed (used) and salvage value, if any. The analysis conclusion should also include a discussion of the financial and operating advantages of alternate approaches that would help contracting officials determine the final appropriate acquisition method. Attached is a lease versus purchase analysis tool to assist in a proper analysis of the factors listed in the FAR 7.4

Use the equipment lease versus purchase tool that is provided in the attachment to make a determination on whether a lease or a purchase is the best value to the Government. If the best value is a purchase, then no further action is required. However, if the best value is a lease, then an additional analysis is required using the Capital Lease Determination Tool to determine whether the lease should be an operating or capital lease. OMB Circular A-94 and the SFFAS 6, Note #20, *Accounting for Property, Plant and Equipment*, provide guidance on making a

determination whether an equipment lease should be properly structured as an operating or capital lease.

For space leasing, the following still applies: bureaus/offices are reminded to follow the provisions of Financial Management Memorandum 2012-015, *Future Minimum Lease Payment Disclosures*; the reference states that OMB updates the inflation factors each year and directs bureaus/offices to the appropriate General Services Administration link where more information is available on Capital Lease Determination and calculating future minimum lease payments for operating leases with an initial or remaining term greater than one year.

Please note that any one of the following four conditions will cause a capital lease determination:

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

Use the Capital Lease Determination Tool for making a capital lease determination. This tool uses criteria established in OMB Circular A-94 and SFFAS 6 in order to make a determination if a lease should be classified as a capital lease. A signed and dated copy of the determination is to be included in the official contract file.

If additional information is required, you may contact Al Green, Office of Acquisition and Property Management, at (202) 513-7542 or via e-mail at Albert.Green@ios.doi.gov; or Melanie Navarro, Office of Financial Management, at (202) 208-6227 or via e-mail at Melanie_Navarro@ios.doi.gov. Questions related to space leasing may be directed to Michael Wright, Office of Acquisition and Property Management, at (202) 513-0795 or via e-mail at Michael_C_Wright@ios.doi.gov.

Attachment

cc: Heads of Bureaus and Offices

Lease versus Purchase Analysis on Equipment Acquisition of \$15,000 or More

Department of the Interior

Bureau / Office

Region

Date

Description of Equipment

Office of Acquisition & Property Mgmt	
HQ	
15 August 2012	
Large photocopying machine	
Sharp Model # XYZ123	
http://www.treasury.gov/resource-center/data-chart-center/Pages/index.aspx	
Months	Years
96	8

Program / Useful Life (Refer Value Definitions)

0.09%	1.10%
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Rate of Return

Prepared by

Telephone number

Approved by

Telephone number

M. Ed Awri
202-513-0696
Debra Sonderman
202-513-7554

A. Computation of discounted cash flow

1. Purchase price
2. Other additional associated costs

a. Maintenance	\$ Per month	\$ Per Year
b. Sales tax at		
c. other (delivery & installation)		
Subtotal (2a+2b+2c)		

3. Total Purchase Costs

- a. Estimated salvage value (Refer to Value Definitions)
- b. Present value of salvage value (Refer to Value Definitions)

5. Net purchase costs

Per month	
Per year	

7. Other additional associated costs

a. Maintenance Contract (\$/month)	
b. Sales tax at	
c. other (delivery & installation)	
Subtotal (7a+7b+7c)	

8. Total Lease Payment
9. Present value of lease payments

\$12,000.00	\$12,000.00
\$4,592.85	\$4,592.85
\$0.00	\$0.00
\$0.00	\$0.00
\$2,000.00	\$2,000.00
\$1,831.60	\$1,831.60
\$300.00	\$300.00
\$50.00	\$50.00
\$0.00	\$0.00
\$50.00	\$50.00
\$350.00	\$350.00
\$32,149.93	\$32,149.93

10. Difference between purchase and lease costs

Line 10 indicates the potential life period savings if

Purchased	\$17,388.68
Leased	(\$17,388.68)

\$17,388.68

B. Computation of Amortised Costs

11. Amortised cost of net purchase per period

\$160.70

12. Difference in periodic payment

\$189.30

Line 8 - Line 11 or Line 11 - Line 8

Purchased	\$189.30
Leased	(\$189.30)

Line 12 indicates the potential periodic payment savings if

C. Computation of break-even point

13. Net purchase costs less maintenance

\$10,168.40

Line 5 - Line 2a

14. Total Lease payment less maintenance

\$300.00

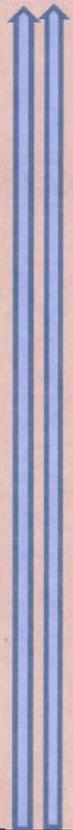
Line 8 - Line 7a

15. Break-even point in months

33.89

16. Most economical method of acquisition is to

Purchase	
Lease	



NOTE: Blue Cells Requires That You Enter Data

NOTE: Green Cells Requires No Data Entry

Enter Bureau/Office Name in Row 3 Column D.
Enter Region Name in Row 4 Column D.

Enter Date in Row 5 Column D. This Date represents DTYC rate in Row 10.

Enter Description of Equipment in Row 6 Column D.

Enter Brand and Model Number in Row 7 Column D.

Refer to Daily Treasury Yield Curve tab for example how to find DTYC percentage rate based on the number of years of program / useful life of asset.

Enter number of years of program / Useful Life of the equipment asset in Row 9 Column E.

Click on the link in Row 8 Column G to get the "Daily Treasury Yield Curve" (DTYC) percentage rate and enter in Row 10 Column E.

Enter Name of SME or Buyer in Row 12 Column D..

Enter Telephone Number in Row 13 Column D.

Enter Name of Purchaser Approver in Row 14 Column D.

Enter Telephone Number of Purchaser Approver in Row 15 Column D.

Enter the Purchase Price in Row 18 Column I.

Enter any other added costs to the purchase price in Row 19 Column I.

Either enter monthly maintenance costs in Row 20 Column F, or

Enter yearly maintenance costs in Row 21 Column F, but not both.

If required, enter sales tax percentage in Row 22 Column D. If none, enter 0%

Enter any delivery or installation fees in Row 23 Column H.

Calculates the subtotal costs of Item $2a+2b+2c$ for you.

Calculates the Total costs of $1+2a+2b+2c$ for you.

Enter Salvage or Trade-In Value or Fair Market Value in Row 27 Column H.

Calculates present value of salvage for you.

Calculates the net purchase costs

Either enter the monthly lease payment Row 31 Column I, or
The yearly lease payment in Row 32 Column I, but not both.

Enter the monthly maintenance fee for the contract in Row 34 Column H.

If required, enter sales tax in Row 35 Column D. If none, enter 0%.

Enter any delivery or installation fees in Row 36 Column H.

Calculates the Sub total costs of 7 for you.

Calculates the Total costs of 6+7 for you.

Calculates the present value of lease payments for you.

Calculates the different between lease and purchase for you.
If the value is positive, purchase, if negative, lease
If the value is negative, purchase, if positive, lease
Calculates the amortised cost of net purchase per period for you.
Calculates the difference in periodic payment for you.
If positive, value is purchase monthly savings
If positive, value is lease monthly savings
Calculates the net purchase costs less maintenance for you.
Calculates the total lease payment less maintenance.
Calculates the break-even point in months for you.
Enter purchase amount in Row 64 Column D if more economical than lease.
Or Enter lease amount in Row 65 column D if the more economical than purchase.

Capital Lease Determination Tool Instructions

The Capital Lease Determination Tool (CLDT) assists Department of the Interior (DOI) (i.e.- the Departmental Offices and Bureaus) with identifying whether a prospective lease for equipment is a capital lease. The DOI offices should use the CLDT when addressing the requirements in the DOI Capital and Operating Lease Policy.

Note: DOI discourages the use of capital leases and lease purchase agreements due to their increased risk over operating leases and their associated budgetary requirements.

However, if entering into a lease, the DOI office will need the following information to complete the CLDT:

- Term (months or years)
- Lease payment
- Cost to purchase the asset at the end of the lease
- Estimated total economic life¹ of the asset (years)
- Age of asset at lease inception (years)
- Dollar value of leased asset at lease inception
- Estimated value of asset at end of lease

The DOI office requesting the lease completes the CLDT tab that applies to the lease payment arrangements.

CLDT - Equal Annual Payments	Use this tab if equal lease payments are made annually (i.e., the same amount once a year).
CLDT - Equal Monthly Payments	Use this tab if equal lease payments are made monthly (i.e., the same amount each month).
CLDT - Varying Payments	Use this tab if lease payments vary during the lease term (i.e., the payments are not the same).

The following tabs provide additional guidance for completing the CLDT

Present Value Guidance	Provides guidance for manually calculating the present value of future lease payments (required when using the CLDT - Varying Payments tab) and examples of present value calculations.
Daily Treasury Rate	Provides guidance for identifying the applicable Daily Treasury Rate from the Treasury website (required for all CLDT tabs)

After completing the CLDT, the DOI office submits the completed CLDT to its Finance Office (FO) for review. The DOI office lessee maintains a copy of the CLDT signed by the FO in the lease file.

¹ OMB Circular A-11 uses the term "economic life," while General Accepted Accounting Principles (GAAP) refers to the phrase "unseful life." The two expressions are interchangeable.

Capital Lease Determination Tool Equal Annual Lease Payments

Instructions: Before starting to fill out this tool, refer to the "Instructions" tab for guidance on completing the tool.

USE THIS TAB IF EQUAL LEASE PAYMENTS ARE MADE ANNUALLY (I.E., THE SAME AMOUNT ONCE A YEAR). IF EQUAL PAYMENTS ARE MADE MONTHLY, USE THE "CLDT - Equal Monthly Payments" TAB, OTHERWISE, USE THE "CLDT - Varying Payments" TAB.

Note: Only cells shaded yellow require input. The cells shaded blue indicates formulas. Do not change these cells.

Generally, DOI discourages entering into capital leases due to the increased risk over operating leases and since the present value of future capital lease payments must be obligated in the first year of the lease.

A. Input the following information:

Description of Lease / Asset:		Make/Model/Lease Number
Date of Lease:		Proposed lease start date

Information from the lease:

Non-cancellable Lease term (years)		Enter the lease term in years. If the lease term is in months, convert the number of months to years by dividing the total number of months by 12.
Annual Lease Payment (\$)		Enter the annual lease payment. If equal payments are made monthly, STOP and use the "CLDT - Equal Monthly Payments" tab. If payments are made annually and the annual payments are not equal for every year of the lease term, STOP and use the "CLDT - Varying Payments" tab.
Cost to purchase asset at end of lease		If lease does not contain a purchase arrangement, enter "N/A". Otherwise enter a \$ amount.

Information about the asset:

Estimated total economic life ¹ of the asset (years)		Enter the economic life ¹ of the asset. The economic life ¹ should correspond with the standard DOI economic life ¹ for the respective type of asset. Note that the economic life ¹ may not correspond with the lease term.
Age of asset at lease inception (years)		Enter whole numbers only. If new or less than 1 year old, enter "0".
Value of leased asset at lease inception (\$)		Enter the current price to purchase the asset outright.
Estimated value of asset at end of lease (when non-cancellable term is up)		Enter an estimate of the dollar value of the asset at the end of the lease.

DOI Capitalization Threshold Assessment

Is the lease for software or equipment (select one)?		Select the type of asset that will be leased - software or equipment.
Value of leased asset at lease inception (\$) - from "Information about the asset" above	\$ -	This cell will automatically populate.
DOI Capitalization Threshold	#N/A	This cell will automatically populate.
Difference	#N/A	The DOI capitalization thresholds are 2 years or greater useful life and \$100,000 for software and \$15,000 for equipment. Leases for software or equipment below these thresholds are automatically classified as operating leases. This cell will automatically populate.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

#N/A

Other information:

Interest Rate	
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Enter the applicable Daily Treasury rate. Use "Daily Treasury Yield Curve Rate" for time period closest to lease term. See <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield> See the "Daily Treasury Rate" tab for more information. Maintain a copy of the Daily Treasury Yield Curve Rate for the lease file.

B. Select Yes or No from the drop down boxes in response to steps 1 and 2. One or more "Yes" answers indicates a capital lease.

Step 1

Does the lease transfer ownership of the property to the lessee by the end of the non-cancellable lease term?

Select Yes or No

No

Go to Step 2

If yes, the lease is a capital lease - skip to section C. If no, go to step 2.

Step 2

Does the lease contain an option to purchase the leased property at a bargain price² (the answer to this question is subjective)? For example, if the estimated value of the asset at the end of the lease is \$25,000 and the lease contains an option to purchase the asset for \$22,000, purchasing the asset for \$22,000 may not turn out to be a bargain and the answer would be "No." However, if the option price to purchase the asset is \$250, this will certainly be a bargain and the lease is a capital lease. This evaluation requires judgment.

(from Section A above)

Cost to purchase asset at end of lease	-
Estimated asset value at end of lease	-

This cell will automatically populate.
This cell will automatically populate.

If a reasonable person would consider that the optional purchase price at the end of the lease is a bargain compared to the estimated asset value at the end of the lease, the lease should be considered a capital lease.

Select Yes or No. If "cost to purchase at end of lease" is "N/A", select No.

No

Go to Step 3

If yes, the lease is a capital lease - skip to section C. If no, go to step 3.

Step 3

(No user input required. The information for Step 3 will automatically populate with information from Section A above)

Total economic life ¹ of asset	-
Current age of asset	-
Remaining Economic Life ¹	-

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.

Percent of economic life ¹ remaining	#DIV/0!
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#DIV/0!

Steps 3 and 4 do not apply if asset is in the last 25% of its economic life¹.

Step 4

Is the lease term greater than or equal to 75% of the estimated economic life¹ of the leased property?

(from Section A above)

Estimated economic life ¹ (years)	-
multiplied by 75%	75%
= 75% of estimated economic life ¹	-
Non-cancellable Lease term (years)	-
Difference	-

This cell will automatically populate.
Go to Step 5

If yes, the lease is a capital lease - skip to section C. If no, go to step 5.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

² For DOI, the term "bargain price" is defined as "at least 30% less than residual value."

Step 5

Does the present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost (e.g. maintenance, insurance, and taxes), equal or exceed 90 percent of the fair value of the leased property?

Value of leased asset (What is the asset worth today?)	\$ -
multiplied by 90%	90%
= 90% of value of leased asset (at lease inception)	\$ -
"Present Value" of lease	\$ -
Difference	\$ -

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.
This Present Value computation assumes equal annual payments. If this assumption is not correct, STOP and use the "CLDT - Varying Payments" tab.
Go to Section C

If the difference is negative, the lease is a capital lease.

C. Conclusion:

Is the lease a Capital Lease (Select Yes or No)?
Prepared by:
Date:

Comments:

Reviewed by:
Title:
Signature

Comments:

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Capital Lease Determination Tool Equal Monthly Lease Payments

Instructions: Before starting to fill out this tool, refer to the "Instructions" tab for guidance on completing the tool.

USE THIS TAB IF EQUAL LEASE PAYMENTS ARE MADE MONTHLY (I.E., THE SAME AMOUNT EACH MONTH). IF EQUAL PAYMENTS ARE MADE ANNUALLY, USE THE "CLDT - Equal Annual Payments" TAB, OTHERWISE, USE THE "CLDT - Varying Payments" TAB.

Note: Only cells shaded yellow require input. The cells shaded blue indicates formulas. Do not change these cells.

Generally, DOI discourages entering into capital leases due to the increased risk over operating leases and since the present value of future capital lease payments must be obligated in the first year of the lease.

A. Input the following information:

Description of Lease / Asset:		Make/Model/Lease Number
Date of Lease:		Proposed lease start date

Information from the lease:

Non-cancellable Lease term (months)		Enter the lease term in months. If the lease term is in years, convert the number of years to months by multiplying the total number of years in the lease term by 12.
Monthly Lease Payment (\$)		Enter the monthly lease payment. If equal payments are made annually (i.e., only once a year), STOP and use the "CLDT - Equal Annual Payments" tab. If payments are made monthly and the monthly payments are not equal for every month of the lease term, STOP and use the "CLDT - Varying Payments" tab.
Cost to purchase asset at end of lease		If lease does not contain a purchase arrangement, enter "N/A". Otherwise enter a \$ amount.

Information about the asset:

Estimated total economic life ¹ of the asset (years)		Enter the economic life ¹ of the asset. The economic life ¹ should correspond with the standard DOI economic life ¹ for the respective type of asset. Note that the economic life ¹ may not correspond with the lease term.
Age of asset at lease inception (years)		Enter whole numbers only. If new or less than 1 year old, enter "0".
Value of leased asset at lease inception (\$)		Enter the current price to purchase the asset outright.
Estimated value of asset at end of lease (when non-cancellable term is up)		Enter an estimate of the dollar value of the asset at the end of the lease.

DOI Capitalization Threshold Assessment

Is the lease for software or equipment (select one)?		Select the type of asset that will be leased - software or equipment.
Value of leased asset at lease inception (\$) - from "Information about the asset" above	\$ -	This cell with automatically populate.
DOI Capitalization Threshold	#N/A	This cell with automatically populate.
Difference	#N/A	The DOI capitalization thresholds are 2 years or greater useful life and \$100,000 for software and \$15,000 for equipment. Leases for software or equipment below these thresholds are automatically classified as operating leases. This cell with automatically populate.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

#N/A

Other information:

Interest Rate	
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Enter the applicable Daily Treasury rate. Use "Daily Treasury Yield Curve Rate" for time period closest to lease term. See <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield> See the "Daily Treasury Rate" tab for more information. Maintain a copy of the Daily Treasury Yield Curve Rate for the lease file.

B. Select Yes or No from the drop down boxes in response to steps 1 and 2. One or more "Yes" answers indicates a capital lease.

Step 1

Does the lease transfer ownership of the property to the lessee by the end of the non-cancellable lease term?

Select Yes or No

No

Go to Step 2

If yes, the lease is a capital lease - skip to section C. If no, go to step 2.

Step 2

Does the lease contain an option to purchase the leased property at a bargain price² (the answer to this question is subjective)? For example, if the estimated value of the asset at the end of the lease is \$25,000 and the lease contains an option to purchase the asset for \$22,000, purchasing the asset for \$22,000 may not turn out to be a bargain and the answer would be "No." However, if the option price to purchase the asset is \$250, this will certainly be a bargain and the lease is a capital lease. This evaluation requires judgment.

(from Section A above)

Cost to purchase asset at end of lease	-
Estimated asset value at end of lease	-

This cell will automatically populate.
This cell will automatically populate.

If a reasonable person would consider that the optional purchase price at the end of the lease is a bargain compared to the estimated asset value at the end of the lease, the lease should be considered a capital lease.

Select Yes or No. If "cost to purchase at end of lease" is "N/A", select No.

No

Go to Step 3

If yes, the lease is a capital lease - skip to section C. If no, go to step 3.

Step 3

(No user input required. The information for Step 3 will automatically populate with information from Section A above)

Total economic life ¹ of asset	-
Current age of asset	-
Remaining Economic Life ¹	-

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.

Percent of economic life ¹ remaining	#DIV/0!
---	---------

#DIV/0!

Steps 3 and 4 do not apply if asset is in the last 25% of its economic life¹.

Step 4

Is the lease term greater than or equal to 75% of the estimated economic life¹ of the leased property?

(from Section A above)

Estimated economic life ¹ (years)	-
multiplied by 75%	75%
= 75% of estimated economic life ¹	-
Non-cancellable Lease term (months)	-
Difference	-

This cell will automatically populate.

Go to Step 5

If yes, the lease is a capital lease - skip to section C. If no, go to step 5.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

² For DOI, the term "bargain price" is defined as "at least 30% less than residual value."

Step 5

Does the present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost (e.g, maintenance, insurance, and taxes), equal or exceed 90 percent of the fair value of the leased property?

Value of leased asset (What is the asset worth today?)	\$ -
multiplied by 90%	90%
= 90% of value of leased asset (at lease inception)	\$ -
"Present Value" of lease	\$ -
Difference	\$ -

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.
This Present Value computation assumes equal annual payments. If this assumption is not correct, STOP and use the "CLDT - Varying Payments" tab.
Go to Section C

If the difference is negative, the lease is a capital lease.

C. Conclusion:

Is the lease a Capital Lease (Select Yes or No)?
Prepared by:
Date:

Yes

Comments:

Reviewed by:
Title:
Signature

Comments:

Capital Lease Determination Tool Varying Lease Payments

Instructions: Before starting to fill out this tool, refer to the "Instructions" tab for guidance on completing the tool.

USE THIS TAB IF LEASE PAYMENTS VARY DURING THE LEASE TERM (I.E., THE PAYMENTS ARE NOT THE SAME) IRREGARDLESS OF WHETHER THE PAYMENTS ARE MADE MONTHLY OR ANNUALLY. IF EQUAL PAYMENTS ARE MADE MONTHLY, USE THE "CLDT - Equal Monthly Payments" TAB, IF EQUAL PAYMENTS ARE MADE ANNUALLY, USE THE "CLDT - Equal Annual Payments" TAB.

Note: Only cells shaded yellow require input. The cells shaded blue indicates formulas. Do not change these cells.

Generally, DOI discourages entering into capital leases due to the increased risk over operating leases and since the present value of future capital lease payments must be obligated in the first year of the lease.

A. Input the following information:

Description of Lease / Asset:		Make/Model/Lease Number
Date of Lease:		Proposed lease start date

Information from the lease:

Non-cancellable Lease term (years)	
Cost to purchase asset at end of lease	

Enter the lease term in years. If the lease term is in months, convert the number of months to years by dividing the total number of months in the lease term by 12.

If lease does not contain a purchase arrangement, enter "N/A". Otherwise enter a \$ amount.

Information about the asset:

Estimated total economic life ¹ of the asset (years)	
Age of asset at lease inception (years)	-
Value of leased asset at lease inception (\$)	\$ -
Estimated value of asset at end of lease (when non-cancellable term is up)	\$ -

Enter the economic life¹ of the asset. The economic life¹ should correspond with the standard DOI economic lives¹ for the respective type of asset. Note that the economic life¹ may not correspond with the lease term.

Enter whole numbers only. If new or less than 1 year old, enter "0".

Enter the current price to purchase the asset outright.

Enter an estimate of the dollar value of the asset at the end of the lease.

DOI Capitalization Threshold Assessment

Is the lease for software or equipment (select one)?	
Value of leased asset at lease inception (\$) - from "Information about the asset" above	\$ -
DOI Capitalization Threshold	#N/A
Difference	#N/A

Select the type of asset that will be leased - software or equipment.

This cell with automatically populate.

This cell with automatically populate.

The DOI capitalization thresholds are 2 years or greater useful life and \$100,000 for software and \$15,000 for equipment. Leases for software or equipment below these thresholds are automatically classified as operating leases.

This cell with automatically populate.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

#N/A

Other information:

Interest Rate	
---------------	--

Enter the applicable Daily Treasury rate. Use "Daily Treasury Yield Curve Rate" for time period closest to lease term. See <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield> See the "Daily Treasury Rate" tab for more information. Maintain a copy of the Daily Treasury Yield Curve Rate for the lease file.

B. Select Yes or No from the drop down boxes in response to steps 1 and 2. One or more "Yes" answers indicates a capital lease.

Step 1

Does the lease transfer ownership of the property to the lessee by the end of the non-cancellable lease term?

Select Yes or No

No

Go to Step 2

If yes, the lease is a capital lease - skip to section C. If no, go to step 2.

Step 2

Does the lease contain an option to purchase the leased property at a bargain price² (the answer to this question is subjective)? For example, if the estimated value of the asset at the end of the lease is \$25,000 and the lease contains an option to purchase the asset for \$22,000, purchasing the asset for \$22,000 may not turn out to be a bargain and the answer would be "No." However, if the option price to purchase the asset is \$250, this will certainly be a bargain and the lease is a capital lease. This evaluation requires judgment.

(from Section A above)

Cost to purchase asset at end of lease	-
Estimated asset value at end of lease	-

This cell will automatically populate.
This cell will automatically populate.

If a reasonable person would consider that the optional purchase price at the end of the lease is a bargain compared to the estimated asset value at the end of the lease, the lease should be considered a capital lease.

Select Yes or No. If "cost to purchase at end of lease" is "N/A", select No.

No

Go to Step 3

If yes, the lease is a capital lease - skip to section C. If no, go to step 3.

Step 3

(No user input required. The information for Step 3 will automatically populate with information from Section A above)

Total economic life ¹ of asset	-
Current age of asset	-
Remaining Economic Life ¹	-

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.

Percent of economic life ¹ remaining	#DIV/0!
---	---------

#DIV/0!

Steps 3 and 4 do not apply if asset is in the last 25% of its economic life¹.

Step 4

Is the lease term greater than or equal to 75% of the estimated economic life¹ of the leased property?

(from Section A above)

Estimated economic life ¹ (years)	-
multiplied by 75%	75%
= 75% of estimated economic life ¹	-
Non-cancellable Lease term (years)	-
Difference	-

This cell will automatically populate.

Go to Step 5

If yes, the lease is a capital lease - skip to section C. If no, go to step 5.

¹ OMB Circular A-11 uses the term "economic life," while GAAP refers to the phrase "useful life." The two expressions are interchangeable.

² For DOI, the term "bargain price" is defined as "at least 30% less than residual value."

Step 5

Does the present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost (e.g. maintenance, insurance, and taxes), equal or exceed 90 percent of the fair value of the leased property?

Value of leased asset (What is the asset worth today?)
 multiplied by 90%
 = 90% of value of leased asset (at lease inception)
 "Present Value" of lease
 See Next tab - **Present Value Guidance**

\$	-
	90%
\$	-
Difference	\$ -

This cell will automatically populate.
This cell will automatically populate.
This cell will automatically populate.
Manually calculate the present value of the future lease payments and enter the result. Maintain a copy of the present value calculation with the CLDT. See the "Present Value Guidance" tab for guidance.
See the DOI office Finance Officer for assistance with calculating present value.
Go to Section C

If the difference is negative, the lease is a capital lease.

C. Conclusion:

Is the lease a Capital Lease (Select Yes or No)?
Prepared by:
Date:
Comments:
Reviewed by:
Title:
Signature
Comments:
