



U.S. Fish and Wildlife Service Determination of Capital versus Operating Leases

Instructions:

A. Input the following information:

Description of Lease / Asset:

Date of Lease:

Information from the lease:

Non-cancellable Lease term (years)

Annual Lease Payment (\$)

Cost to purchase asset at end of lease

Information about the asset:

Estimated total useful life 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

Other information:

Interest Rate

Note, if the government can cancel the lease at will each year, the non-cancellable term is one year.

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

If new, enter 0

Use "Daily Treasury Yield Curve Rate" for time period closest to lease term. See www.treas.gov/offices/domestic-finance/debt-management/interest-rate/index.html

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B. Check Yes or No in response to each question. One or more "Yes" answers indicates a capital lease.

Step 1

Yes Does the lease transfer ownership of the property to the lessee by the end of the lease term?

No If yes, the lease is a capital lease.

Step 2

Yes Does the lease contain an option to purchase the leased property at a bargain price?

No

Cost to purchase asset at end of lease

Estimated asset value at end of lease

Would a reasonable person consider the purchase price to be a bargain that would almost ensure that the option to purchase is exercised? If yes, the lease is a capital lease.

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, this may or may not turn out to be a bargain and the answer would be "No." However, if the option price is \$250, this will certainly be a bargain and the lease is a capital lease. This evaluation requires judgment.

Step 3 & 4

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

Total useful life of asset

Less: Current age of asset

Remaining Useful life

Divided by total useful life of asset X 100 =

Percent of useful life remaining

Step 3

Yes

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

No

Estimated useful life (years)

X 75% = estimated economic life

Non-cancellable Lease term (years) _____

Difference

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

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Step 4

Yes Does the present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equal or exceed 90 percent of the fair value of the leased property?
No

Value of leased asset
x 90% = 90% of value of leased asset

Less: "Present Value" of lease _____
Difference

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

Note-this Present Value computation assumes equal annual payments. If this assumption is not correct, preparer is responsible for estimating present value by other means.

C. Conclusion:

Will this lease be treated as a Capital Lease? _____

Prepared by: _____

Date: _____

Comments: