University Accounting

Cornell University

Summary of Accounting Treatment for Leases

Complete this entire form in accordance with the procedures for leases (www.dfa.cornell.edu/accounting/topics/lease-classification). **Incomplete forms may be returned to you.** If you have questions, contact Accounting at accounting@cornell.edu.

Part I: Background Information

Date ____________

Prepared by Name and title ____________

Reviewed by Name and title ____________

Regarding ____________

Background (Please include any relevant background information to provide context for the lease transaction, including the building location and room number.)

Part II: Lease Terms

Lease Begin Date ____________ **Lease End Date** ____________ **Lease Term** # of years/months ____________ **Base Rent** ____________

Rent Payment Frequency ◯ Monthly ◯ Quarterly ◯ Yearly **For Equipment, Cost if Purchased Outright** ____________

Is this lease a renewal? ◯ Yes ◯ No **If Yes, provide terms** ____________

Location ____________

Lessor (landlord) ____________

Lessee (tenant) University department ____________

Type (e.g., triple net lease, real estate, etc.) ____________

Is there a purchase option? ◯ Yes ◯ No **If Yes, provide terms** ____________

Part III: Discussion/Analysis

Note: FASB issued new accounting guidance on February 25, 2016 that will dramatically change lease accounting beginning in fiscal year 2020. DFA will issue revised guidelines at that time.

The first step in properly accounting for a lease is to determine whether the lease is an operating lease or a capital lease. Note that the accounting guidance below is summarized and assumes simple lease terms; complex contracts should be reviewed in conjunction with the full accounting standard. If assistance is required in evaluating the terms of the lease or the criteria listed below, please contact DFA.

Reference: FASB ASC 840-10-25-1

Summary of Accounting Treatment for Leases, continued

Part III: Discussion/Analysis, cont.

If **any one** of these four criteria are met, at its inception, the lease should be considered a **capital lease:**

1. Transfer of ownership. The lease transfers ownership of property to the lessee by the end of the lease term. This criterion is met in situations in which the lease agreement provides for the transfer of title at or shortly after the end of the lease term in exchange for the payment of a nominal fee, for example, the minimum required by statutory regulation to transfer title.

Does the contract transfer ownership? ◯ **Yes** ◯ **No** Reset Answer

If Yes, indicate the relevant section of the lease contract below:

2. Bargain purchase option. A bargain purchase option is defined as a provision allowing the lessee, at its option, to purchase the leased property for a price that 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 lease inception, to be reasonably assured. For example, a $1.00 buyout at the end of the lease term.

Is there a bargain purchase option? ◯ **Yes** ◯ **No** Reset Answer

If Yes, indicate the relevant section of the lease contract below:

3. Lease term. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

The estimated economic life is defined as the 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 lease inception, without limitation by the lease term.

Cornell typically equates the estimated economic life to the useful life used for depreciation. For example, a copier is considered office equipment with an economic life of five years. If the lease term is three years, then 3/5=60%. Then the answer below is no. Equipment leases typically would meet this test.

Is the term of the lease 75% or more of the estimated economic life? ◯ **Yes** ◯ **No** Reset Answer

If Yes, indicate the estimated economic life and rationale for its use:

Summary of Accounting Treatment for Leases, continued

Part III: Discussion/Analysis, cont.

4. Minimum lease payments. The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor and expected to be realized by the lessor. If the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of its use, the criterion shall not be used for purposes of classifying the lease.

Note: If the lease involves both land and buildings, reference FASB ASC 840-10-25-38 for further guidelines.

Do the minimum lease payments exceed 90% of the fair value of the leased property? ◯ **Yes** ◯ **No** Reset Answer

Part IV: Present Value Calculation

The present value of the lease payments can be calculated using Cornell's incremental rate. Contact Accounting for this rate.

Payment Amount ____________

Present Value ____________________

Payments per Period ____________

Interest Rate ______

Total Number of Payments _______

Part V: Contacts

List the names of the units and individuals, with contact information, who were involved in the negotiation, evaluation, and monitoring of the lease.

Return this completed form to ...

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