

APPENDIX D

RECORDING OF CAPITALIZED LEASE PAYMENTS

A NASA Center entered into a five year lease agreement beginning October 1, 2003 for a mainframe computer with a fair value of \$900,000 and useful life of seven years.

The lease is noncancelable with payments of \$200,000 a year to be made in advance on October 1 of each year for five years. Title to the property passes to NASA at the end of the lease on September 30, 2008.

The Treasury Average Interest Rate for Marketable Interest Bearing Debt at the time of the lease is 7 percent and the lessor's implicit rate is 5 ½ percent.

The executory costs are paid by the Center and are not part of the lease payments.

This lease must be capitalized because the non cancelable term is greater than 75 percent of the estimated economic life of the property, the title passes to NASA at the end of the lease and the property has a value greater than \$100,000 and a useful life greater than 2 years.

The interest rate used to calculate the portion of the payments identified as interest expense is the implicit rate of the lessor, which is 5 ½ percent, since it is less than the Treasury rate.

The following schedule identifies the interest expense and reduction of the liability by payment.

Date	Payment	Interest Expense Acct. 6330.2000	Liability Reduction	Balance Liability Acct. 2940.0000
10/1/03	\$200,000	0	\$200,000	\$900,000
10/1/04	\$200,000	\$38,500	\$161,500	\$700,000
10/1/05	\$200,000	\$29,618	\$170,382	\$538,500
10/1/06	\$200,000	\$20,246	\$179,754	\$368,118
10/1/07	\$200,000	\$11,636	\$188,364	\$188,364
TOTAL	\$1,000,000	\$100,000	\$900,000	0

Amounts reported on the schedule were rounded, to accurately liquidate the liability balance.