

**LEASE CLASSIFICATION FORM (to determine if the lease is operating or capital)**

*This form must be completed by any tub or department leasing property from an outside party (i.e., not from another Harvard department) where annual payments are more than \$1,000,000 per unit and the term of the lease is at least 3 years.*

*Leases with annual cash payments between \$250,000 and \$999,999 and a lease term of at least 3 years may be assessed for capitalization at the tubs' discretion.*

*Leases with less than \$250,000 in per unit annual payments or terms of less than 3 years must be classified as operating leases.*

**Tub or department:** \_\_\_\_\_

**Lease inception date:** \_\_\_\_\_

**Instructions on how to fill the form:**

- All boxes highlighted in yellow are required fields (i.e., information must be input in these boxes).
- All boxes highlighted in grey are updated automatically (i.e., no input is necessary).
- For the first and second criteria below, respond "Yes" or "No" directly in the "Status" column (highlighted in yellow).
- For the third and fourth criteria below, answer the questionnaire included at the bottom of this document.  
The status column (highlighted in grey) will be automatically updated with a "Yes" or "No" answer, based on the information provided.
- Further information regarding these criteria may be found in the Facilities and Equipment Lease Procedures.

**Capital versus Operating lease conclusion:**

- If at least one of the four capitalization criteria is met (i.e., if at least one of the status boxes below says "Yes"), the lease is considered a capital lease. The "CONCLUSION BOX", at the bottom of the capitalization criterion, will automatically indicate the classification of the lease.
- This form must be maintained for the life of the asset or lease.

Capitalization Criteria	Status	
1. The lease transfers ownership of the facilities or equipment to the lessee by the end of the lease term.		<b>REQUIRED: ENTER Yes or No</b>
2. The lease contains a bargain purchase option.		<b>REQUIRED: ENTER Yes or No</b>

If the answer to criterion 1 or 2 above is "Yes," then conditions 3 and 4 are not required to be tested, since the lease is classified as capital.

**If the answer to both criteria 1 and 2 is "No," then, continue to answer criteria 3 and 4.**

3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. (Need to complete criterion #3 questionnaire included below.)	No
4. The present value of the minimum lease payments at the beginning of the lease term equals or exceeds 90 percent of the fair value of the leased property. (Need to complete criterion #4 questionnaire included below.)	No

<p><b>Based on the information included in above this lease is classified as a/an:</b></p> <div style="border: 1px solid black; background-color: #cccccc; padding: 5px; text-align: center; margin: 5px auto; width: 50%;"> <p><b>OPERATING LEASE</b></p> </div>	<p><b>CONCLUSION BOX</b></p>
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**Criterion #3 questionnaire:**

a. Provide the lease term in years

  

*not required*  
*not required*

b. Provide the lease asset economic life

c. Provide a brief description on how the term of the lease was calculated (e.g., indicate whether there are additional periods covered by options):

*not required*

d. Provide a brief description on how the economic life of the asset was calculated (e.g., University's useful life for equipment)

*not required*

**Lease term percentage of the economic life of the asset**

**Criterion #4 questionnaire:**

a. Average lease payment per month

*not required*

b. Incremental borrowing rate (from OTM)

*not required*

c. Lease term in years (in accordance with the number of lease payments, including options to renew)

*not required*

d. Indicate when are the lease payments due:

-Type "0" if lease payments are due at the end of each period

-Type "1" if lease payments are due in advance (i.e., at the beginning of each period)

*not required*

**Total present value of the minimum lease payments**

e. Provide the fair value of the lease asset.

*not required*

f. Include a description of the methodology used to determine the fair value of the lease asset:

*not required*

**Present value of the lease payment percentage of the fair value of the lease asset**