The Birth of NCOPA!

The Inventors of NCOPA:

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Daniel Badran is a lifelong entrepreneur and visionary who has a passion for life and giving. By creating Proper Public/Private Partnerships grounded in the transparency of monitored and verified energy usage.

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A highly experienced Wall Street executive with an MBA from Columbia University and Accountancy and Engineering degrees from Georgia Tech, his experience in Financial Innovation helped develop the No Capital Outlay financial model.

Accounting Treatment of the Guaranteed Monthly Payment (GMP) of the No Capital Outlay Partnership Agreement

What is the GMP?

Minimise Global offers the Client a simple value proposition: Minimise will install energy saving and renewable energy generating equipment, and the Client shall pay a fixed amount not to exceed the savings produced by this agreement on the utility bill.

Although the GMP is derived by the calculations for energy savings produced by the equipment, it is not actually a savings payment in so far as the actual savings may fluctuate due to weather conditions, changes in utility rates, energy cost inflation, etc. Hence, the average savings calculated serve mainly as an upper bound to the GMP. The GMP itself is a conservative figure that remains well below the full savings achieved.

Nevertheless, the GMP is paying for the energy produced and saved by the equipment, in the same way as the Client may pay its utility company for receiving approximately the same energy. The lack of collateral or threat of repossession in the event of default, precludes classifying the equipment as a "lease asset" per ASC 842 or as a loan on an asset.

Hence, the Client would treat these payments as a utility payment impacting the income statement as a utility expense.

The GMP is the same as a Utility Expense:

Although the Client does have an ongoing liability to make these payments for a period of years, possibly requiring a footnote statement in the financials, this liability does not impact the balance sheet no more than would a contractual agreement with a utility company to pay a fixed monthly utility payment for an agreed upon usage of electricity. Without balance sheet treatment, the GMP payments do not affect gearing and leverage ratios and nor do they reduce the Client's ability to take on other unrelated debt.

Furthermore, the GMP is secured only by its ***pari passu*** treatment equal to that of a utility payment. In other words, if the Client can make its utility payment, then it can make its GMP payment both of which come ahead in seniority to other payees such as suppliers, bond interest, or dividends.

In addition, the GMP is NOT secured by any collateral and therefore none of the equipment can be repossessed due to lack of payment of the GMP or default by the Client. This particular point highlights why the GMP cannot be anything other than a utility payment in its accounting treatment (see below). Without collateral, the Client "constructively" owns the equipment, even if Minimise may temporary claim the equipment for the purpose of tax depreciation when the Client (typically a government entity with no profits against which to apply depreciation) cannot tax depreciate. Title to the equipment is NEVER used for collateralization purposes and equipment ownership can occur either at the end of the term, or before the term of the contract has ended, if the equipment has been fully tax depreciated (i.e. with bonus or accelerated depreciation). This unique ownership

characteristic also plays an important role in determining the GMP accounting treatment (see below). What is the GMP NOT?

The GMP is NOT an Operating Lease:

ASC 842 states that if the Client obtains substantially all of the economic benefits from the use of a lease asset, then the agreement must be a lease. However, lease treatment also requires a tangible lease asset subject to collateralization, which can be repossessed by the lessor if the Client defaults on a lease payment. With no collateral, there is no tangible asset, and therefore, the NCOPA is not a lease.

An operating lease requires no ownership of the equipment by the Client and the possibility of repossession of the equipment as collateral if the Client defaults on its operating lease payments. However, the equipment with regard to the GMP is owned by the Client since there is no collateralization of the equipment and no threat of repossession if the Client defaults on payments. Furthermore, the Client will often receive title to the equipment soon after the tax depreciation is complete and before the term of the contract has ended. Hence, it would be inappropriate to treat the GMP as an operating lease.

The GMP is NOT a Capital or Finance Lease

The criteria for a Capital Lease are as follows:

1. Ownership - The ownership of the asset is shifted from the lessor to the lessee by the end of the lease period; or *With no collateral, even a default by the Client would not result in repossession of the equipment. Hence, the ownership of the equipment never shifts from a lessor to a lessee. Minimise may tax depreciate the equipment, for the purpose of shifting tax depreciation benefits from an entity which has no profit against which to depreciate the equipment (such as a government entity) to Minimise. Minimise in this case is simply acting to service the depreciation, but no real shift in ownership has occurred, and in some cases, with bonus depreciation, this could occur more or less immediately (within a year).*

2. Bargain purchase option - The lessee can buy the asset from the lessor at the end of the lease term for a below-market price; or There is no actual "purchase of the equipment". The Client is simply paying for the electricity saved and generated by the equipment, which it would otherwise have to pay to a utility company.

3. Lease term - The period of the lease encompasses at least 75% of the useful life of the asset (and the lease is noncancellable during that time); or The contract requires maintenance of the equipment throughout the term of the contract, in essence, ensuring that the equipment will continue to perform long after the end of the term, thereby ensuring a lease of less than 75% of the useful life of the equipment. But even this is moot point if the equipment is not a lease asset.

4. Present value - The present value of the minimum lease payments required under the lease is at least 90% of the fair value of the asset at the inception of the lease. While the present value GMP payments do exceed the fair value of the equipment at the inception of the contract, because those payments must cover both the equipment and the profit for Minimise, the Client is paying for energy generation and

savings and not for the equipment, by virtue of the fact that the payments never exceed the utility budget, come out of the utility budget, and are at least equal to the reduction of payment to the utility company. No collateral or threat of repossession due to Client default means that the equipment is not a lease asset.

The GMP is NOT a factoring payment:

Factoring requires an intermediary agent to provides cash or financing to companies by purchasing their accounts receivables**.** GMP payments by the Client go directly to the funding entity, which in turn provides a present value payment for those GMP payments to Minimise to purchase the equipment and book its profit. In some ways, the GMP may appear to be accounts receivable which has been sold to the funding entity for cash to pay Minimise for its project costs including the equipment and its profits on the project.

However, a factoring accounting treatment would be inappropriate. Factoring financing seldom run past 90 days let alone a 20-year contract which is typical of Minimise NCOPA contracts.

The GMP is NOT an installment sale:

When Minimise receives its present value payment from the funding entity, it can then immediately recognize the revenue on the project, deduct the equipment costs through completed contract method accounting, and therefore book its profits. An installment sale requires incremental revenue and profit recognition, which is not the case here. Furthermore, if the Client defaults on an installment payment, the supplier has recourse to repossess the equipment. But in this model, there is no repossession of equipment, because there is no collateral.

Hence, the GMP is NOT an installment sale.

The GMP is not a subscription such as Software as a Service (SaaS) per ASC 842:

In effect, a subscription service is a form of lease, wherein one of the most important considerations is whether the Client obtains all economic benefits from the equipment during the term of the contract. But as with any lease, collateral and the possibility of repossession is required in the event of default for the GMP payments to be classified as lease payments.

The GMP is not a Power Purchase Agreement (PPA) lease per ASC 842:

Per ASC 842, *a PPA is accounted for as a lease if the off-taker (1) agrees to buy all, or substantially all, of the output(s) of a specified generating asset and (2) pays for the output(s) at pricing terms that are neither fixed per unit nor equal to the current market price per unit at the time of delivery. However, the new definition of a lease focuses on whether the off-taker has control of the right to use the specified generating asset. That is, an arrangement is not considered a lease solely on the basis of the pricing, and the extent, of outputs purchased under the contract. Rather, entities have to determine whether a PPA gives the off-taker control of an identified generating asset because the off-taker has the right to direct, and obtain substantially all of the economic benefits from, the use of the asset*.

While the Client does agree to purchase all the energy generated by the underlying asset, the GMPs are fixed and conservatively below the cost of purchasing the same consumption of power from the utility company.

Conclusion:
The GMP must therefore be treated as a utility payment, with Minimise acting as a second utility provider.

Source: Minimise Global & Price Waterhouse Coopers