

Chapter 17: Accounting and Reporting for Lease Activity

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# Introduction

This chapter of the *Accounting Principles and Standards Handbook* provides general principles and standards to ensure compliance with Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) and guidance regarding the Department of Commerce (DOC) lease activity. This policy applies to real and personal property leases and embedded leases. This policy does not apply to leases (licenses) of internal use software or leases of assets prior to the commencement of the lease term, such as during under construction periods.

This policy will remain in use until reissuance and is not intended to replace FASAB guidance but is intended to be used in conjunction with FASAB guidance regarding leases.

# Responsibilities

1. The DOC Office of Financial Management (OFM) is responsible for:
   1. Establishing Departmental lease policies and procedures and publishing these policies and procedures in the Accounting Principles and Standards Handbook.
   2. Monitoring bureau compliance with published lease policies and procedures.
   3. Completing consolidated reporting requirements in accordance with the requirements of OMB A-136 and applicable Treasury Financial Manual (TFM) guidance.
   4. Establishing and managing a department-wide capitalization threshold for Right-to-use Lease Asset items.
2. The Bureau Chief Financial Officer (CFO) is responsible for:
   1. Identifying a complete and accurate lease population with leases identified as intragovernmental, short-term, and right-to-use.
   2. Recognizing complete and accurate Right-to-Use lease asset and liability, which is supported by documentation.
   3. Recording short-term and intragovernmental lease expenses properly.
   4. Preparing and maintaining amortization schedules and recording amortization in the financial system.
   5. Maintaining and submitting documentation to OFM to include providing data and support for lease-related footnote disclosures.
   6. Establishing procedures for reviewing contracts to search for embedded leases. (*For leases entered into on or after October 1, 2026)*
   7. Establishing procedures to obtain timely information from their appropriate offices. This information should include:
      1. Any new leases or changes/modifications to existing lease agreement that are identified as meeting the materiality threshold.
      2. Impairments, termination, or other changes that could require the recalculation of lease asset or liability balances.
      3. Any other information to support complete lease population and balance calculations.
   8. Certifying the completeness of the lease population in Q3 and Q4 CFO Certification Checklists.
3. Developing and implementing procedures and internal controls to comply with this policy.

# Policy

# Proprietary Accounting and Reporting

A lease is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of Property, Plant, and Equipment (PP&E) (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. Leases are not limited to contracts or agreements that are explicitly identified as leases. A contract or agreement may contain a lease if the lessee has the right to obtain and control access to economic benefits or services from the use of the underlying asset.

The lease definition excludes contracts or agreements for services, except for those contracts or agreements that contain both a lease component (such as the right to use a building) and a non-lease component (such as maintenance services for the building), in which case, the federal entity should account for the lease and non-lease components as separate contracts or agreements, unless the contract or agreement meets the exception in SFFAS 54, paragraph 76.

Within leases, three categories have been defined by DOC for accounting and reporting purposes: right-to-use, short-term, and intragovernmental. The lease categories are defined in their related sections below. Specific accounting guidance is contained in this policy for each category of leases.

This policy does not apply to leases of assets prior to the commencement of the lease term such as during construction periods or leases (licenses) of internal use software.

### Lessee Recognition, Measurement and Disclosures for Right-to- Use Lease with the Public

A Right-to-Use lease is a lease that is not otherwise classified as a short-term or intragovernmental lease and is not a contract or agreement that transfers ownership. Examples of Right-to-Use leases include leases for real property such as a non-General Services Administration (GSA) building and non-federal personal property such as a photocopier. At the commencement of the lease term, a lessee should recognize a lease liability and a right-to-use lease asset. The following guidance applies to Right-to-Use leases meeting the Department’s materiality threshold for capitalization. As of June 2024, the materiality threshold is $1,000,000 for Right-to Use lease assets. Right-to-Use lease assets not meeting the capitalization threshold for individual items are expensed.

#### 1-1. Lessee Lease Liability

A lessee initially should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include the following items, if required by the lease:

* 1. Fixed payments.
  2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.
  3. Variable payments that are fixed in-substance. For example, a lease payment based on a percentage of usage of the underlying asset such as miles driven but with a required minimum amount to be paid. The required minimum payment is fixed in-substance.
  4. Amounts that are probable of being required to be paid by the lessee under residual value guarantees.
  5. The exercise price of a purchase option if it is probable (i.e., more likely than not) that the lessee will exercise that option.
  6. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause.
  7. Any lease incentives receivable from the lessor.
  8. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors.

In subsequent financial reporting periods, the lessee should calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.

The lessee should remeasure the lease liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes, and if the changes individually or in the aggregate, are expected to significantly affect the amount of the lease liability since the previous measurement:

1. There is a change in the lease term.
2. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being required to be paid has changed from probable to not probable or vice versa.
3. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.
4. There is a change in the estimated amounts for payments already included in the liability (except as provided in SFFAS 54, par. 45).
5. There is a change in the interest rate the lessor charges the lessee if used as the initial **discount rate**.
6. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability in paragraph 40. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

#### 1-2. Lessee Lease Asset

A lessee should initially measure the lease asset as the sum of the following:

1. The amount of the initial measurement of the lease liability.
2. Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives.
3. Initial direct lease costs that are necessary to place the lease asset into service.

A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except as provided in SFFAS 54, paragraph 51. The amortization of the lease asset should be reported as an amortization expense.

Leased assets are subject to SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.*

#### 1-3. Right-to-Use Lessee Reporting Entity Disclosures

Lessees should disclose the following regarding lease activities (which may be grouped for purposes of disclosure), for other than short-term leases, contracts or

agreements that transfer ownership, and intragovernmental leases:

1. A general description of its leasing arrangements, including the basis, terms, and conditions on which variable lease payments not included in the lease liability are determined.
2. The total amount of lease assets and the related accumulated amortization, to be disclosed separately from PP&E assets.
3. The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the lease liability.
4. Principal and interest requirements to the end of the lease term, presented separately, for the lease liability for each of the five subsequent years and in 5-year increments thereafter.
5. The amount of the annual lease expense and the discount rate used to calculate the lease liability.

Specific disclosure guidance will be updated quarterly in the Office of the Chief Financial Management, Office of Financial Reporting and Policy (OFRP) *Financial Statement Guidance and Templates.*

### Lessor Recognition, Measurement, and Disclosures for Right- to-Use Leases with the Public

At the commencement of the lease term, a lessor should recognize a lease receivable and unearned revenue for a Right-to-Use lease with the public. Any initial direct lease costs incurred by the lessor should be reported as an expense of the period.

#### 2-1. Lease Receivable

A lessor initially should measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. Measurement of the lease receivable should include the following types of payments that might be required by a lease:

* 1. Fixed payments;
  2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;
  3. Variable lease payments that are fixed in-substance;
  4. Residual value guarantees that are fixed payments in substance; and
  5. Any lease incentives payable to the lessee.

#### 2-2. Unearned Revenue

A lessor initially should measure the unearned revenue to include the following:

1. The amount of the initial measurement of the lease receivable; and
2. Lease payments received from the lessee at or before the commencement of the lease term that relate to future periods (for example, the final month’s rent), less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

A lessor subsequently should amortize the unearned revenue, recognizing it as earned revenue, in a systematic and rational manner over the term of the lease. The unearned revenue generally should be adjusted using the same amount as the change resulting from the remeasurement of the lease receivable. However, if the change reduces the carrying value of the unearned revenue to zero, any remaining amount should be reported in the statement of net cost as a loss.

#### 2-3. Lessor Reporting Entity Disclosures

Lessors should disclose the following regarding lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases:

1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined.
2. The carrying amount of assets on lease by major classes of assets, and the amount of related accumulated depreciation.
3. The total amount of revenue (e.g., lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases.
4. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.

Specific disclosure guidance will be updated quarterly in the Office of the Chief Financial Management, Office of Financial Reporting and Policy (OFRP) *Financial Statement Guidance and Templates.*

### Short-Term Leases

A short-term lease is a non-intragovernmental lease with a lease term of 24 months or less.

#### 3-1. Lessee Treatment of Short-Term Leases

A lessee should recognize short-term lease payments as an expense[1](#_bookmark0) based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The lessee should recognize an asset if payments are made in advance of the reporting period to which they relate or a liability for rent due and unpaid at the end of the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions should be recognized when incurred as increases/reductions to lease rental expense.

#### 3-2. Lessor Treatment of Short-Term Leases

A lessor should recognize short-term lease payments as revenue[2](#_bookmark1) based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The lessor should recognize a liability if payments are received in advance of the reporting period to which they relate or an asset for rent due and to be received subsequent to the reporting period to which they relate. Rental increase, rental decrease, lease incentives, and lease concessions should be recognized when incurred as increase/reductions to lease rental income.

### Intragovernmental Leases

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, *Reporting Entity*, whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or

1 United States Standard General Ledger (USSGL) account 693000, Lessee Lease Expense is used to record the amount of expenses incurred from (1) short-term lease payments paid by a lessee based on the provisions of the lease contract; (2) intragovernmental lease receipts paid by a lessee, including lease-related operating costs paid to a lessor based on the provisions of the lease agreement; and (3) variable payments based on future performance of the lessee or usage of the underlying asset in leases other than short-term, intragovernmental, and lease contracts that transfer ownership.

2 USSGL account 593000, Lessor Lease Revenue is used to record the amount of revenue earned from (1) short-term lease payments paid to a lessor based on the provisions of the lease contract; (2) intragovernmental lease receipts to a lessor, including lease related operating costs received from the lessee based on the provisions of the lease agreement; and (3) variable payments based on future performance of the lessee or usage of the underlying assets in leases other than short-term, intragovernmental, and lease contracts that transfer ownership.

agreement in exchange for consideration. An Occupancy Agreement between a DOC Bureau and GSA is an intragovernmental lease for accounting and financial reporting purposes.

#### 4-1. Lessee Recognition of Intragovernmental Leases

A lessee should recognize lease payments, including lease-related operating costs (for example, maintenance, utilities, taxes, etc.) paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. Prepaid rent or a payable for rent due should be recognized as an asset or liability, respectively, and an expense should be recognized in the appropriate reporting period based on the specifics of the lease provisions.

#### 4-2. Lessee Intragovernmental Disclosures

Lessees should disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure):

* 1. A general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements.
  2. Annual lease expense in total and by major underlying asset category.

Specific disclosure guidance will be updated quarterly in the Office of the Chief Financial Management, Office of Financial Reporting and Policy (OFRP) *Financial Statement Guidance and Templates.*

#### 4-3. Lessor Recognition of Intragovernmental Leases

A lessor should recognize lease receipts, including lease-related operating costs received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. Rent paid in advance or a receivable should be recognized as a liability or asset, respectively, and income should be recognized in the appropriate reporting period based on the specifics of the lease provisions.

#### 4-4. Lessor Intragovernmental Disclosures

Lessors should disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure):

1. A general description of significant leases.
2. Future lease payments that are to be received to the end of the lease term for each of the five subsequent fiscal years and in five-year increments thereafter.

Specific disclosure guidance will be updated quarterly in the Office of the Chief Financial Management, Office of Financial Reporting and Policy (OFRP) *Financial Statement Guidance and Templates.*

#### 4-5. Intragovernmental Reconciliation

For intragovernmental reconciliation and elimination, the lessor is the servicing agency (seller), and the lessee is the requesting agency (buyer). The lessor’s revenue will be eliminated against the lessee’s expense as a buy/sell transaction. Lessors should recognize revenue in United States Standard General Ledger (USSGL) Account 593000, Lessor Lease Revenue. Lessees should recognize expense in USSGL Account 693000, Lessee Lease Expense.

### Contracts or Agreements that Transfer Ownership

A contract or agreement that (a) transfers ownership of the underlying asset to the lessee (buyer) by the end of the contract or agreement and (b) does not contain options to terminate, but that may contain an availability of funds or cancellation clause that is not probable of being exercised should be reported as a purchase of that asset by the lessee (buyer) or as a financed sale of the asset by the lessor (seller). For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

### Lease Term

The lease term is the noncancelable period plus certain periods subject to options to extend or terminate the lease. The noncancelable period is the shorter of:

* 1. The period identified in the lease contract or agreement that precedes any option to extend the lease; or
  2. The period identified in the lease contract or agreement that precedes the first option to terminate the lease.

The lease term should include the noncancelable period and the following periods, if applicable:

1. Those periods specified in the lease contract or agreement that relate to a lessee’s option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option.
2. Those periods specified in the lease contract or agreement that follow a lessee’s option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if it is probable, based on all relevant factors, that the lessee will not exercise that option.
3. Those periods specified in the lease contract or agreement that relate to a lessor’s option to extend the lease if there is significant evidence, based on all relevant factors, that the lessor will exercise that option.
4. Those periods specified in the lease contract or agreement that follow a lessor’s option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if there is significant evidence, based on all relevant factors, that the lessor will not exercise that option.

The following specific provisions should also be applied when determining the lease term:

1. Periods for which both the lessee and lessor have an option to terminate the lease without permission from the other entity, or have to agree to extend, are considered to be cancelable periods and are thus excluded from the lease term. For example, month-to-month lease holdovers, also referred to as rolling lease extensions, or any lease that continues into a holdover period until a new contract or agreement is signed would be considered cancelable if both the lessee and the lessor have an option to terminate. Therefore, either could cancel the lease at any time. These holdover periods are cancelable periods and should be excluded from the lease term.
2. An option to terminate is an unconditional right that exists within the contract. A provision that gives a lessee or lessor the right to terminate the lease conditional upon certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the lease contract, should not be considered an option to terminate the lease for the purposes of determining the lease term. For example, provisions that allow for termination of a lease due to a violation of leases terms and conditions, such as non-payment, are not considered options to terminate the lease.
3. An availability of funds or cancellation clause allowing federal lessees to cancel a lease agreement, typically on an annual basis, if funds for the lease payments are not appropriated, should only affect the lease term when it is probable that the clause will be exercised.
4. If a lessee has the option to purchase the underlying asset during the lease term and the contract is not a contract that transfers ownership, the lease term should exclude the period, if any, after the date at which the option is probable of being exercised.

Lessors and lessees should reassess the lease term only if one or more of the following events occur:

1. The lessor or lessee elects to exercise an option that was previously presumed would not be exercised under the likelihood criteria in SFFAS 54 paragraphs 15 and 17
2. The lessor or lessee does not elect to exercise an option that was previously presumed would be exercised under the likelihood criteria in SFFAS 54 paragraphs 15 and 17
3. An event specified in the lease contract or agreement that requires an extension or termination of the lease takes place
4. A lease modification that amends the noncancelable period and results in remeasurement in accordance with SFFAS 54 paragraphs 85-86

### Embedded Leases

Leases are not limited to contracts or agreements that are explicitly identified as leases. In some cases, contracts or agreements contain embedded leases. An embedded lease exists when:

* 1. An asset is identified in the contract or agreement;
  2. The customer has the right to obtain the economic benefits or services from the use of the underlying asset throughout the period of use; and
  3. The customer has the right to direct how and for what purposes (i.e., control) the specified asset is used throughout the period of use.

Potential examples include:

* + - A contract for shuttle service which includes a vehicle.
    - A contract for information technology services which includes a server.
    - A contract for help desk services which includes laptops.

Appendix A, Embedded Lease Decision Tool, is available to help Bureaus determine if a contract may include an embedded lease.

SFFAS 62, *Transitional Amendment to SFFAS 54* amends the implementation section of SFFAS 54 in the area of embedded leases. DOC has elected the maximum transitional accommodation. This accommodation applies to contracts or agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2026. The transitional accommodation applies only to contracts or agreements that meet both of the following criteria:

1. The contracts or agreements contain non-lease Component(s) and may contain lease Component(s).
2. The purpose of the contracts or agreements is primarily attributable to the non-lease Component(s), such as service Components, based on management’s assessment of the nature of the contracts or agreements and professional judgment. The primary purpose attribution to the non- lease Component(s) should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgement.

Contracts meeting the criteria above will be accounted for as non-lease contracts or agreements in their entirety for their remaining term, unless they are subsequently modified on or after October 1, 2026, or if the modification changes the primary purpose of the contract or agreement.

Election of the transitional accommodation should be disclosed during the reporting periods covered by the accommodation period (October 1, 2023, through September 30, 2026) and the reporting period immediately following the accommodation period (period ending September 30, 2027).

### Subleases

A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor should continue to apply the general lessor guidance. The federal entity that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate transactions should not be offset against one another. The new lessee should apply the general lessee guidance.

The original lessee (and now the lessor in a sublease) should include the sublease in its disclosure of the general description of lease arrangements. Its lessor transactions related to subleases should be disclosed separately from its lessee transactions related to the original lease.

A sublease to another federal entity is treated as an intragovernmental lease and is not determined by the original lessor. In this case, the original lessee is now the lessor and will recognize lessor lease revenue when earned. The federal sublessee will recognize lessee lease expense. The federal lessor should disclose the sub-lease agreement per the requirements for intragovernmental leases.

### Lease Incentives and Lease Concessions

Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee, for example, moving costs, termination fees to lessee's prior lessor, or lessor's assumption of the lessee's lease obligation under a different lease with another lessor. Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. For example, lease concessions may include rent holidays/free rent periods or reduced rents.

For leases other than short-term leases and intragovernmental leases, lease incentives and lease concessions that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in initial measurement by directly reducing the amount of the lease asset (SFFAS paragraph 49). Lease incentive and lease concession payments to be provided after the commencement of the lease term should be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Those payments should be measured by lessees consistently with the lessee's lease liability (SFFAS paragraphs 40-48) and by lessors consistently with the lessor's lease receivable (SFFAS 54 paragraphs 56-63). Accordingly, lease incentive and lease concession payments to be provided after the commencement of the lease term are included in initial measurement and any remeasurement if they are fixed or fixed in substance, whereas variable or contingent lease incentive or lease concession payments are not included in initial measurement. Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee should be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions.

# Budgetary Accounting

DOC Bureaus should follow OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets* supplanted by the Departmental-revised instructions included in this subsection for certain OMB Circular A-11, Appendix B content.

The Departmental-revised instructions for when the lease agreement contains an option(s) to renew, for budgetary accounting, results from guidance provided to the Department’s Office of Financial Management by the Department’s Office of General Counsel, General Law Division, and are limited only to cases when there is a lease agreement that contains an option(s) to renew, and is with regard to ensuring Departmental compliance with recording budgetary obligations in compliance with 31 U.S.C. 1501, “Documentary evidence requirement for Government obligations”.

* 1. When the lease agreement contains an option(s) to renew that can be exercised with or without additional legislation, do not presume that the option(s) to renew will be exercised.
  2. When the lease agreement contains an option(s) to renew that can be exercised with or without additional legislation, exclude the option(s) to renew for the purpose of calculating the full term of the contract (lease term) and for the purpose of calculating the full term of the contract (lease term) and for the purpose of calculating the [minimum payments and other contractually required payments over the full term of the lease (lease term)].

# Procedures and Internal Controls

DOC Bureaus must develop and implement procedures and internal controls to comply with this policy. These procedures and internal controls ensure the following:

1. Lessees are properly identifying Lessee Right-to-Use Lease Assets in accordance with SFFAS 54.
2. Right-to-Use lease asset and corresponding lease liability are properly measured in accordance with SFFAS 54 and recognized in general purpose financial reports issued by DOC.
3. Lessee Right-to-Use Lease assets are amortized over the shorter of the lease term or the underlying useful life as established by DOC.
4. Lessees can separate interest expenses on leases from other types of interest such as prompt payment interest.
5. Lessors are properly identifying, measuring, and recognizing lease receivable and unearned revenue in accordance with SFFAS 54.
6. The evaluation of lease terms in contracts and agreements, especially regarding the likelihood of exercising any options to extend or terminate is documented.
7. Documentation of valuations, methodologies, key judgments to support lease calculations as well as lease classification and embedded lease identification is maintained.
8. Leases are properly reported and disclosed in the consolidated financial statements, by completing and submitting required templates, data calls, and financial submissions to OFM.

## Authorities and References

Government Accountability Office, *Standards for Internal Control in the Federal Government* (Green Book). (GAO-14-704G) (September 10, 2014)

Office of Management and Budget (OMB), Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*

Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*

SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

SFFAS No. 47, *Reporting Entity*

SFFAS No. 54, *Leases,* as amended

SFFAS No. 60, *Omnibus Amendments 2021: Leases-Related Topics* SFFAS No. 61, *Omnibus Amendments 2023: Leases-Related Topics II* SFFAS No. 62, *Transitional Amendment to SFFAS 54*

Technical Release No. 20*, Implementation Guidance for Leases*

Technical Release No. 21*, Omnibus Technical Release Amendments 2022: Conforming Amendments*

Technical Release No. 22, *Leases Implementation Guidance Updates*

Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*

Public Law 101-576, Chief Financial Officers Act of 1990

Title [6, U.S. Code, Section 453, “Use of appropriated funds](http://www4.law.cornell.edu/uscode/html/uscode06/usc_sec_06_00000453----000-.html)”

31 U.S.C. 1501, “Documentary evidence requirement for Government obligations”

OMB Circular A-11, Appendix A, *Scorekeeping Guidelines*

OMB Circular A-123, Appendix D, *Management of Financial Management Systems – Risk and Compliance*

OMB Circular A-136, *Financial Reporting Requirements*

Office of the Chief Financial Management, Office of Financial Reporting and Policy (OFRP) *Financial Statement Guidance and Templates.*

## Appendix A. Embedded Lease Decision Tool (Effective for Contracts Entered into on or after October 1, 2026)

Not applicable to Short-term or Intragovernmental contracts.

NO

Is there an asset\* identified\*\* in the contract?

No Lease

YES

NO

Does the customer have the right to obtain the economic benefits or services from use of the underlying asset throughout the period of use?

No Lease

YES

NO

Does the customer have the right to direct how and for what purpose the specified asset is used throughout the period of use?

No Lease

YES

Lease

\* Asset – property, plant, or equipment (PP&E). Physical items only: internal use software is not included.

\*\* The underlying asset typically should be identified in the contract or agreement. An asset can be identified by being explicitly specified (meaning directly stated) in a contract or agreement or by being implicitly specified (meaning implied using implication or assumption that an asset will be received as a result of the contract) at the time that the asset is made available for use by the lessee (SFFAS 54 paragraph 2). Examples of contracts with explicitly identified assets would be a transportation services contract that includes a vehicle and an information technology support services contract that includes laptops. An asset is implicitly identified when the only way the obligations of a contract can be satisfied is using a specific asset without the contract directly stating the asset, for example, servers are needed to satisfy the obligations of cloud services contracts.

## Appendix B: Sample Procedures

These are sample procedures bureaus can use in designing their processes to be compliant with SFFAS 54 in identifying and accounting for leases.

DOC bureaus will account for leases in accordance with Federal Financial Accounting Standards and DOC policies and procedures. DOC bureaus will recognize lease related assets and liabilities based on the criteria outlined in Chapter 17, “Accounting for Lease Activity.” Upon implementation, right-to-use leases will be accounted for as Property Plant & Equipment (PP&E) and amortized over the useful life.

1. Bureau Financial Staff sends data call for lease population to stakeholders at least quarterly**.**
   1. Stakeholders provide lease population to Bureau Finance Staff.
      1. Stakeholders review all contracts to identify leases, including embedded leases.
      2. Stakeholders should use the embedded lease decision tool to search for embedded leases in contracts with the public with a performance period of longer than 24 months that are over the department established materiality threshold.
      3. Stakeholders maintain documentation to support lease/no lease decision.
   2. Bureau Finance Staff reviews lease data call submission from stakeholders for changes and/or updates; then reaches out to stakeholders as necessary for clarification and to resolve discrepancies.
2. Bureaus will recognize assets and liabilities for Right-To-Use leases above the department established materiality threshold**.**
   1. DOC Bureau as Lessee: The amount to be recorded is the present value of the lease and other lease payments during the lease term.
      1. Lessee Right-To-Use Lease Asset, 195000 - This account is used to record the lessee’s right to control the use of an underlying asset during the lease term in leases other than short-term leases, lease contracts that transfer ownership, and intragovernmental leases. The asset is measured at the start of the lease term by adding the amount of the initial lease liability, any lease payments made to the lessor at or before the start of the lease term (less lease incentives,) and any indirect lease costs necessary to place the lease asset into service. This account does not close at year-end.
      2. Lessee Lease Liability, 293000 - This account is used to record the present value of lease payments required to be paid to a lessor for the lease term in leases other than short-term leases, lease contracts that transfer ownership, and intragovernmental leases. For certain payments not included in the measurement of the lessee lease liability, see SFFAS 54, Par. 41. This account does not close at year-end.
      3. Unfunded Lessee Lease Liability, 293010 - This account is used to record the present value of lease payments required to be paid to a lessor for the lease term, that will be funded by future years' budgetary resources. For certain payments not included in the measurement of the Lessee Lease Liability, see SFFAS 54, Par. 41. This account does not close at year-end.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 195000 Lessee Right-to- Use Lease Asset | XX |  |
| 293000 Lessee Lease Liability |  | XX |
| 293010 Unfunded Lessee Lease Liability |  | XX |

* 1. DOC Bureau as Lessor: A lessor initially should measure the lease receivable at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. Any initial direct lease costs incurred by the lessor should be reported as an expense of the period.
     1. Lessor Lease Receivable, 193000 - This account is used to record the amount of lease revenue expected to be received during a lease term, but on which lessees will make payments over the life of the lease term for the right-to-use an underlying asset. Lessors should record unearned revenue in leases other than short-term leases, lease contracts that transfer ownership, and intragovernmental leases only. See also SFFAS 60, Par.

26. This account does not close at year-end.

* + 1. Allowance for Loss on Lease Receivable, 193900 – This account is used to record the provision for uncollectible amounts of payments measured within the Lessor Lease Receivable. This account does not close at year-end.
    2. Unearned Lessor Revenue, 233000 - This account is used to record the amount of revenue earned from (1) Short-term lease payments paid to a lessor based on the provisions of the lease contract; (2) Intragovernmental lease receipts to a lessor, including lease-related operating costs (maintenance, utilities, taxes, etc.,) received from the lessee based on the provisions of the lease agreement; and (3) Variable payments based on future performance of the lessee or usage of the underlying asset in leases other than short-term leases, lease contracts that transfer ownership, and intragovernmental leases. For certain variable payments included in lease receivable rather than revenue, see SFFAS 54, Pars. 57-58.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 193000 Lessor Lease Receivable | XX |  |
| 193900 Allowance for Loss  on Lease Receivable |  | XX |
| 233000 Lessor Lease Unearned Revenue |  | XX |

1. Bureau Finance Office will record amortization.
   1. DOB Bureau as Lessee: A lessee will amortize Lessee Right-To- Use Lease Assets in a systematic and rational manner over the shorter of the underlying asset’s useful life or lease term.
      1. Accumulated Amortization on Lessee Lease Assets, 195900 - This account is used to record the amount of accumulated amortization charged to expense for a lessee’s leased assets. This account does not close at year-end.
      2. Lessee Lease Amortization, 671300 - This account is used to record the expense recognized from the process of allocating costs of a lease financing over the shorter of the lease term or underlying asset's useful life.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 671300 Lessee Lease Amortization | XX |  |
| 195900 Accumulated Amortization on Lessee  Lease Assets |  | XX |

* + 1. Bureau Finance Office will record lease amortization monthly. Amortization is calculated for the entire month for leases acquired from the 1st to 15th of month. Amortization begins the following month for leases acquired from the 16th to 31st of month.
  1. DOC Bureau as Lessor: A lessor will amortize Unearned Lessor revenue in a systematic and rational manner over the term of the lease.
     1. Lessor Revenue – Amortization of Lease Receivable, 593300. This account is used to record the amortized amount of a Lessor’s Lease Receivable in leases other than short-term leases, lease contracts that transfer ownership, and intragovernmental leases.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 233000 Lessor Lease Unearned Revenue | XX |  |
| 593300 Amortization of  Unearned Lessor Revenue |  | XX |

1. Bureau Finance Office will record interest.
   1. DOC Bureau as Lessee: Bureau Finance Office will accrue interest for the month. Bureau Finance Office should calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Bureau Finance Office must establish a method (such as a sub-account) for identifying lease interest expense from other interest expense.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 633000 Other Interest Expense | XX |  |
| 214000 Accrued Interest  Payable – Not Otherwise Classified |  | XX |

* 1. DOC Bureau as Lessor: Lessor Finance Office will recognize interest revenue for the amortization of the discount on the lease receivable.

|  |  |  |
| --- | --- | --- |
| Standard General Ledger Account | Debit | Credit |
| 134000 Interest Receivable – Not Otherwise Classified | XX |  |
| 214000 Accrued Interest  Payable – Not Otherwise Classified |  | XX |

1. DOC Bureau Finance Office will record full or partial lease terminations as appropriate.
   1. If the Bureau is the lessee, the Bureau Finance Office will reduce the carrying values of the lease asset, associated accumulated amortization, and lease liability and recognize a gain or loss for the difference. If the lease is terminated because the Bureau has purchased the underlying asset, the lease asset should be reclassified to the appropriate class of owned asset.
   2. If the Bureau is the lessor, the Bureau Finance Office will reduce the carrying values of the lease receivable and related unearned revenue and recognize a gain or loss for the difference. If the lease is terminated because the Bureau has sold the underlying asset to the lessee, the carrying value of the underlying asset should be derecognized and included in the calculation of any resulting gain or loss.
2. Bureau Finance Office will verify that all additions, terminations, and all other appropriate transactions have the correct supporting documentation before posting entries to the general ledger. No entries will be posted for transactions where there is no correct supporting documentation. Bureau Finance Office will coordinate with stakeholders for any transactions where supporting documents are needed. Bureau Finance Office will verify that general ledger balances have remained unchanged since last posting date. Bureau Finance Office will prepare and post entries to the general ledger.
3. Intragovernmental Leases. Based on lease information provided by stakeholders, Bureau finance office will prepare financial statement templates provided by DOC OFM and submit trial balance to OFM. DOC OFM will use this information to prepare the consolidated financial statements and footnotes.

## Appendix C: Initial Lease Liability Present Valuation Calculation

A lessee initially should measure the lease liability at the present value of the payments expected to be made during the term. The future lease payments should be discounted using the interest rate that the lessor charges the lessee. If the interest rate is not stated in the lease, the lessee should use the rate for Treasury Contant Maturities, Nominal for the date in which the lease originated with a similar maturity to the lease term. These rates are available on the Federal Reserve website[4](#_bookmark4) on the page for Selected Interest Rates Daily. From the Range of Maturities table, select the range that includes the lease term. Bureaus may round up or down to the nearest maturity if a lease contains a term not indicated in the table. For leases exceeding 30-years, bureaus should select the 30-year rate. For leases in existence on October 1, 2023, the date will be October 1, 2023.

|  |  |
| --- | --- |
| **Step 1: Calculate the sum of expected payments** |  |
| Sum of the following items: |  |
| a. Fixed Payments |  |
| b. Variable Payments that depend on an index or a rate |  |
| c. Variable payments that are fixed in- substance |  |
| d. Amounts that are probable of being required to be paid by the lessee under residual value guarantees |  |
| e. The exercise price of the purchase option if it is probable that the lessee will exercise that option |  |
| f. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause |  |
| g. Any lease incentives receivable from the lessor |  |
| h. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors |  |
| Sum of Expected Payments |  |
|  |  |
| **Step 2: Calculate the Present Value of the Sum of Expected Payments using the following information:** |  |
| Number of Lease Payments |  |
| Interest Rate (Discount Rate) |  |
| Sum of Expected Lease Payments |  |
|  |  |
| **Step 3: Record the initial lease liability for the amount calculated in Step 2.** |  |

4 https://www.federalreserve.gov/releases/h15/

*Example:*

A federal reporting entity (lessee) signs a 5-year lease with a non-federal entity (lessor) for the right to control/right to use equipment. Payments are made monthly on the last business day of the month.

|  |  |
| --- | --- |
| Monthly Lease Payment | $2,000 |
| Interest Rate | 10% |
| Lease Term | 5 years |
| Number of Payments | 60 |
|  |  |
| Present Value | $94,131 |