



IMPLEMENTATION GUIDANCE FOR LEASES

Federal Financial Accounting Technical Release

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from [FASAB's website](#).

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Federal Accounting Standards Advisory Board

ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Leases* are requested. You are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your response will be most helpful to the Committee if you explain the reasons for your positions, the paragraph number(s) and/or topic areas of this proposal that are related to your positions, and any alternatives you propose. Responses are requested by **DUE DATE**.

All comments received by the AAPC are considered public information. Those comments will be posted to the [FASAB website](#) and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to (202) 512-7366. Alternatively, you may mail your comments to:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
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We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. **or** A public hearing has been scheduled at **TIME** on **Month Day, Year**, in room **7C13** at the Government Accountability Office, 441 G Street, NW, Washington, D.C. 20548.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

Monica R. Valentine
AAPC Chair

EXECUTIVE SUMMARY

This Technical Release (TR) would assist reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*.

Soon after SFFAS 54 was issued in April 2018, the Accounting and Auditing Policy Committee (AAPC)—which operates under the general oversight of the Board—undertook a project to develop this proposed implementation guidance. This proposed guidance

Questions and answers are included in this proposed Technical Release—organized by topic areas—to address issues raised by the Board’s stakeholders through

- technical inquiries posed to the FASAB, the AAPC, and FASAB staff during and prior to the inception of this project;
- comments submitted in response to FASAB due process documents; and
- an AAPC-established task force;

Still others address issues identified by the FASAB and its staff in anticipation of questions that could arise during implementation of SFFAS 54.

The provisions of this proposed TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

TABLE OF CONTENTS

| | |
|--|----|
| Executive Summary | 6 |
| Questions for Respondents..... | 8 |
| Introduction..... | 9 |
| Purpose..... | 9 |
| Proposed Technical Guidance | 10 |
| Scope..... | 10 |
| Scope and definitions | 10 |
| Lease Term..... | 13 |
| Short-Term Leases | 15 |
| Contracts or Agreements that Transfer Ownership..... | 17 |
| Intragovernmental Leases | 17 |
| Lessee Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases | 18 |
| Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases | 18 |
| Financial Report of the U.S. Government Disclosures..... | 19 |
| Lease Incentives and Lease Concessions..... | 19 |
| Contracts or Agreements with Multiple Components | 19 |
| Contract or Agreement Combinations | 19 |
| Lease Terminations and Modifications..... | 19 |
| Subleases | 19 |
| Sale-Leaseback Transactions | 19 |
| Lease-Leaseback Transactions..... | 19 |
| Implementation | 19 |
| Effective Date | 20 |
| Appendix A: Basis for Conclusions | 21 |
| Project History | 21 |
| Appendix B: Illustrations..... | 22 |
| Appendix C: Abbreviations..... | 23 |
| Appendix D: Glossary | 24 |

QUESTIONS FOR RESPONDENTS


The Accounting and Auditing Policy Committee (AAPC or “the Committee”) encourages you to become familiar with the proposed guidance in the Technical Release (TR) before responding to the questions in this section. In addition to the questions below, the Committee also welcomes your comments on other aspects of the proposed TR. Because the proposed guidance may be further modified before a final TR is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated. All responses are requested by [insert date].

The Committee believes that this TR would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. In responding, please consider the expected benefits and challenges and communicate any concerns that you may have regarding this proposed implementation guidance.

Because this proposed TR may be modified before it is cleared as a final TR, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the Committee should consider. Please include references to the related paragraph numbers in your responses.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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New Question 

INTRODUCTION

PURPOSE

1. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*, provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports (GPFFR) and includes appropriate disclosures.
2. Questions and answers in this TR provide guidance for applying the requirements of SFFAS 54.

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PROPOSED TECHNICAL GUIDANCE

SCOPE

3. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.

SCOPE AND DEFINITION

4. **A reporting entity obtains the right to use a building, which has a market rent of \$500,000 per year, for \$100 per year. Should the reporting entity apply the requirements in SFFAS 54 to that transaction?**

Yes. The definition of a lease in paragraph 2 of SFFAS 54 specifies that a lease is 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. In addition, to the extent that the consideration provided is less than full cost, the receiving entity should determine whether to recognize the difference (\$490,900 per year) in its accounting records as a financing source based on SFFAS 4, *Managerial Cost Accounting Standards and Concepts* paragraphs 108-113A.

5. **A reporting entity enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility four months per year. Other parties use the facility on the other eight months. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility?**

No. In determining whether a contract conveys control of the right to use an underlying asset, the reporting entity should assess whether it has both (a) the right to obtain economic benefits or services from use of the underlying asset as specified in the contract or agreement and (b) the right to control access to the economic benefits or services of the underlying asset as specified in the contract or agreement (paragraph 3 of SFFAS 54). If the contract specifies that the government has control of those rights during four months of each year, the control criterion is met. The provision in the lease definition that the contract be for a period of time does not require uninterrupted control of the right to use the facility.

6. **A reporting entity enters into separate and distinct agreements, each with a private party, for the right to use public lands, each for a period of 10 years, in exchange for consideration. Do these agreements meet the definition of a lease?**

- a. **An underground pipeline to transmit and distribute electricity for commercial purposes. The agreement does not convey the right to control access to the economic benefits derived from agricultural uses of that land.**

Yes. The agreement conveys the right to control the use of the underlying asset as provided for in paragraph 3. The agreement gives the lessee both of the following: (a) the right to obtain economic benefits or services from use of the right-of-way (the underlying asset) as specified in the contract or agreement, and (b) the right to control access to the economic benefits or services derived from the underlying asset as specified in the contract or agreement. Although other economic benefits or services can be derived from use of the public land, such rights are not relevant in establishing the right to control the use of this particular underlying asset: the underground right-of-way for transport and distribution of electricity.

- b. **Public lands for livestock grazing. These lands must by law be managed for multiple uses, including public access and enjoyment, wildlife habitat conservation, wilderness, watershed protection, and other uses under various federal statutes. The terms and conditions, such as stipulations on forage use and seasons of use, for grazing on the lands are set forth in permits.**

Yes. Although other economic benefits or services may be derived by other parties from use of the public land, such rights are not relevant in establishing the right to control the use of this particular economic benefit derived from the underlying asset: the grazing rights associated with the public land conveyed to the rancher in exchange for consideration.

7. **Do easements meet the definition of a lease?**

Some easements meet the definition of a lease, while other easements do not.

Paragraph 2 of SFFAS 54 states that, among other things, a lease is defined as a contract or agreement whereby the *“right to control the use of property, plant, and equipment (underlying asset) is conveyed to another entity for a period of time as specified in the contract or agreement in exchange for consideration.”*

Land rights easements meet the PP&E definition criteria (see paragraph 2; and SFFAS 6 paragraph 18 and footnote 18) and, therefore, may meet the definition of a lease.

Permanent easements which last indefinitely without cancellation options would not meet the “period of time” criterion and, therefore, may not meet the definition of a lease.

In addition, easements obtained without consideration do not meet the “in exchange for consideration” criterion.

Paragraph 3 provides other criteria that may be relevant in determining whether an easement meets the definition of a lease. For example, the lessor may retain certain rights that may limit the rights of the lessee to control economic benefits or services derived from using the use of the underlying asset. The lessor may also retain the right to control access the economic benefits or services of the underlying asset.

8. **A reporting entity enters into a contract with a private party wherein the private party will design and build a solar farm based on the reporting entity's specifications. The solar farm will be located on the reporting entity's property, but per the agreement the private party will not pay for the use of the land. During this time, the title to the solar equipment will be retained by the private party. The contract requires the reporting entity to purchase power generated from the solar farm and make payments at prevailing market rates based solely on the amount of power generated. The private party is not precluded from selling any remaining power generated to other private parties. The contract also requires the private party to dismantle and remove the solar farm at the end of the contract. Does this contract result in a lease?**

No. To meet the definition of a lease, a contract is required to convey control of the right to use the underlying asset. Paragraph 3 of SFFAS 54 provides two criteria that should be present for a contract to convey control. In this example, the reporting entity has the right to obtain economic benefits from the solar farm but does not have the right to control access to the economic benefits. Therefore, the component of the contract that provides the reporting entity with the right to the power generated by the solar farm does not convey control and does not meet the definition of a lease. Furthermore, the component of the contract that allows the private party to use the reporting entity's property is not a lease because there is no exchange for consideration as required by paragraph 2 of SFFAS 54 to meet the definition of a lease. (See also: Question # regarding equipment placed on reporting entity's property, question # regarding the removal of assets, and question # regarding public-private partnerships.)

9. **Are cell phone tower or antenna placement agreements leases?**

It depends. If the agreements meet the definition of a lease in paragraphs 2-4 of SFFAS 54, including the control criterion, then such agreements are leases. The control criterion generally is met if a cell phone tower or antenna placement agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed.

10. **A contract allows the vendor to replace the underlying asset with an essentially identical asset. Does that substantive right of substitution affect the evaluation of whether the contract conveys control of the right to use the asset?**

A—No. A lease conveys control of the *right to use* another entity's asset. That right is distinct from the underlying asset. That is, the right-to-use relates to the *economic benefits or services from use of* an underlying asset, rather than the underlying asset itself. Substitution with an essentially identical asset allows the lessee to maintain control of the economic benefits or services from use of another entity's underlying asset and is consistent with the definition of a lease in paragraphs 2-4 of SFFAS 54.

11. **A reporting entity enters into a lease agreement that conveys control of the right to use a parcel of federal land to a company that engages in oil and gas exploration, development, and production. Is this lease excluded from SFFAS 54?**

A—In this example, the company has control of the right to use the parcel of land itself. As such, the transaction meets the definition of a lease insofar as it relates to the right to use the parcel of land.

If the agreement also conveys the right to explore, develop, and/or produce oil and gas on federal land, those rights would not meet the definition of a lease. Although such agreements may be referred to as “leases” in practice,¹ they do not convey an underlying asset that meets the definition of PP&E (see paragraph 2; and SFFAS 6 paragraph 18 and footnote 18). Therefore, in such a case, the oil and gas exploration and exploitation component of the agreement would not meet the definition of a lease under SFFAS 54, and the reporting entity would account for any non-lease component separately (see also: Contracts or Agreements with Multiple Components section below). SFFAS 38, *Accounting for Federal Oil and Gas Resources*, provides accounting principles to guide preparers of GPFFR in accounting for federal oil and gas resources under lease, while Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*, provides guidance for preparers of GPFFR in accounting for other federal nature resources other than oil and gas under lease.

12. **A reporting entity (lessee) enters into a lease agreement with a company which will commence on October 1, 20X5. The underlying asset is under construction and scheduled to be completed on the date of lease commencement. The reporting entity is required to make payments to the lessor on October 1, 20X3 and October 1, 20X4 during the construction period in contemplation of the future receipt of the right-to-use asset. How should the reporting entity (lessee) account for these payments, given that leases of assets under construction are scoped out of SFFAS 54 (paragraph 5.a)?**

The reporting entity (lessee) would account for payments during the construction of the underlying asset as advances paid in contemplation of the future receipt of the right-to-use asset. These advances would be accounted for in a manner consistent with SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraphs 57-61, prior to the lease commencement date. Advances and prepayments paid out are considered assets of the reporting entity. At lease commencement, the asset would be reclassified and included in the lease asset in accordance with SFFAS 54 paragraph 49 (also see question # below).

LEASE TERM

13. **A developer builds and leases a building to a reporting entity (lessee). The reporting entity is required to make payments during the three-year construction period. The reporting entity does not have access to the building until occupancy is established at the end of the construction period. When does the lease term begin?**

The lease term begins when occupancy is established because that is when the reporting entity has the right to control the use of the underlying asset. Paragraph 3 of SFFAS 54 explains that control of the right to use the underlying asset is the right to both (a) obtain the economic benefits or services from its use as specified in the contract or agreement and (b) control access to the economic benefits or services as specified in the

¹ 30 CFR § 250.105

contract or agreement. Thus, the lease term commences when the lessee establishes occupancy and attains access to use the building.

14. **A lease contract has a noncancelable period of five years and specifies that at the end of the five years, both the lessor and lessee have the right to cancel the lease or may continue the lease, using the same terms on a month-to-month basis. Is the month-to-month holdover period included in the initial assessment of the lease term?**

It depends. During the holdover period, the lessee does not have a noncancelable right to use an underlying asset, and the lessor is not required to continue providing the asset. That is, the holdover period is cancelable by either party and, therefore, is considered, along with economic incentives of the lessor and lessee and other relevant factors that may provide significant evidence that it would be misleading to exclude certain cancelable periods, when determining the lease term, as specified in paragraph 19.a of SFFAS 54. There may not be significant evidence at the commencement of the lease term to reach such a conclusion when performing the initial measurement, however.

15. **How does a bargain renewal option, such as a 20-year lease at a market rate with a lessee option to renew the lease for an additional 5 years at a 30 percent discount, affect the lessee's initial assessment of the lease term?**

Paragraph 20 of SFFAS 54 requires that, at the commencement of the lease term, a reporting entity assess all factors relevant to the likelihood that the lessee or the lessor will exercise lease extension or termination options identified in paragraphs 15-19. Relevant factors include significant economic incentives and disincentives, such as the cost of exercising the renewal option. In this example, if the reporting entity (lessee) determines that it is probable that the option will be exercised, the lease term would be 25 years.

16. **A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that there is significant evidence that neither party will terminate the lease. Should the cancelable periods be included in the lease term?**

Yes. Paragraph 19.a of SFFAS 54 states that periods for which *both* the lessee and the lessor have an option to terminate the lease without permission from the other party are typically excluded from the lease term as cancelable periods. However, the presence of cancellation penalties affects that conclusion. In this example, both parties have significant evidence that the lease will not be terminated; therefore, the cancelable periods should be included in the lease term, as it would be misleading to exclude such periods.

17. **A lease contract allows only the lessee to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that there is significant evidence that the lessee will not terminate the lease. Should the cancelable periods be excluded from the lease term by the lessor and by the lessor?**

Paragraphs 15 and 17 of SFFAS 54 requires that periods covered by *either* a lessee or a lessor option to terminate the lease be included in the lease term if it is reasonably certain,

based on all relevant factors, that the lessee or lessor will not exercise the option. In determining whether it is reasonably certain that the lessee will not exercise the option to terminate the lease, the lessee (or in the case in which the government is the lessor—the lessor) should assess all factors relevant to the likelihood that the lessee will not exercise the option. Those factors include significant economic disincentives, such as cancellation penalties, as discussed in paragraph 20. (See also Question xx)

18. A lease contract has a 20 year noncancelable period and a 5 year renewal option (exercisable only by the lessee) with below-market rates. How does the lessee determine if the renewal option should be included in the lease term?

The lessee must assess whether the renewal option is probable of being exercised in accordance with paragraph 15.a of SFFAS 54. “Probable” is defined elsewhere in FASAB literature as “more likely than not” (>50% probability); reporting entities should continue to consistently apply the FASAB definition here. In light of the discussion in paragraph A35—although not authoritative in and of itself—this paragraph reflects the basis for the use of the term “probable” and the intended definition that should be applied. In this example, the renewal option offers below-market rates, which would make it more likely of being exercised by the lessee. However, the lessee must assess all relevant factors identified in paragraphs 15-20 of SFFAS 54.

19. A lease contract has a 20 year noncancelable period and a 5 year renewal option (exercisable only by the lessor) with below-market rates. How does the lessee determine if the renewal option should be included in the lease term?

The lessee would need to determine if there is significant evidence that the renewal option will be exercised in accordance with paragraph 15.c of SFFAS 54. Determining whether or not significant evidence exists is a matter of professional judgment. In this example, the renewal option offers below-market rates, which may make it less likely to be exercised by the lessor. Without knowing the additional relevant factors of the lessor (e.g., potential economic incentives or disincentives of terminating this lease and signing a new lease), it may be challenging to gain the significant evidence needed to include this option in the lease term. However, counterevidence that the lessor will exercise the renewal option can also be considered. For example, perhaps the economic benefits derived from the underlying asset are of limited value to other parties and uniquely suited to the lessee.

SHORT-TERM LEASES



20. A reporting entity (lessee) enters into a 24-month noncancelable lease in which the lessee has options to renew for 12 months at a time, up to 3 times. Is this agreement a short-term lease under SFFAS 54?

It depends. According to paragraph 22 of SFFAS 54, a short-term lease is required to be 24 months or less, including any options to extend if those options are probable to be exercised (paragraphs 14-21). If the probability of the lessee exercising first renewal option were assessed as probable, then the lease term would be greater than 24 months and this would not be a short-term lease. However, if it is not probable that the first renewal option will be

exercised by the lessee, then the lease term would be 24 months and this would be considered a short-term lease under paragraph 22.

21. **A reporting entity (lessee) enters into a lease with a lessor for 36 months. The reporting entity can cancel the lease at any time after 6 months. The lessor does not have the option to cancel the lease. Would this be considered a short-term lease?**

It depends. According to paragraph 22 of SFFAS 54, a short-term lease is defined as a lease with a term of 24 months or less. The lease term must be determined in accordance with paragraphs 14-21, which includes consideration of the period beyond a lessee's option to terminate the lease.

If the lessee is likely to exercise the option to terminate the lease, then the period following that option would be excluded from the lease term. If the remaining lease term is 24 months or less, this would be considered a short-term lease.

22. **A reporting entity (lessee) signs a contract for a lease beginning January 1, 20X2, and ending December 31, 20X3. During the negotiations of that contract, a second contract with the same lessor for a lease of the same asset was also being negotiated. Near the same time that the first contract was signed, the reporting entity signs the second contract with a term beginning January 1, 20X4, and ending December 31, 20X4. The amount of consideration in each contract is independent of the other contract. Can the reporting entity account for both contracts as short-term leases?**

Although each contract individually would meet the definition of a short-term lease, the reporting entity should consider whether either of the criteria for contract combinations in paragraph 78 are met. If so, these contracts would be considered part of the same lease contract and result in a three-year lease term; it would not be a short-term lease.

23. **A reporting entity enters into a lease with a noncancelable term of 24 months and a 12 month option to extend. At the commencement of the lease term, it is determined that the reporting entity will not exercise the option. However, 6 months into the lease the reporting entity elects to exercise the option. Is this a short-term lease?**

From the commencement of the lease term up until the time that the election is made to exercise the option, this was a short-term lease because the lease term, at that time, was determined to be 24 months or less.

Six months into the lease, when the reporting entity elects to exercise the option, the lease term should be reassessed (paragraph 21 of SFFAS 54). The remaining noncancelable term is 18 months and the exercised option period is 12 months. Therefore, the remaining lease term is 30 months. For reporting periods beginning after the election is made, the lease should no longer be considered a short-term lease.

24. **A reporting entity (lessee) enters into a lease with a 24 month noncancelable term. The lease payment is \$10,000 per month in months 1-12 and \$15,000 per month in months 13-24. Is straight-lining of the related expenses necessary?**

It depends. If the reduced payments in months 1-12 are meet the definition of a lease concession to entice the lessee to sign, these should be straight-lined as reductions to lease rental expenses (see paragraphs 10, 23-24). Given the significant increase in rent (50% increase), absent other justifying factors, there appears to be compelling economic evidence that this was a lease concession in months 1-12.

However, for a less significant rent increase between months 12 and 13 (for example, 5%) lessees may recognize the expense in the period of the increase in accordance with SFFAS 54 paragraph [pending omnibus]. Professional judgment may be required in certain instances when it is not clear whether a contract includes rent increases or lease concessions. In the absence of significant evidence to the contrary, lessees would not treat rent increases as embedded lease concessions.

CONTRACTS OR AGREEMENTS THAT TRANSFER OWNERSHIP

25. **A vendor installs equipment in a reporting entity's building to increase energy efficiency. The reporting entity will own the equipment at the end of the agreement, and the contract does not contain a termination option. For financial reporting purposes, should this transaction be reported as a lease or a financed purchase?**

This transaction should be reported as a purchase by the reporting entity. If title to the equipment will transfer to the lessee at the end of the contract, the transaction is not accounted for as a lease for financial reporting purposes. Rather, the transaction is a financed purchase, as discussed in paragraph 25 of SFFAS 54.

26. **A reporting entity (lessee) leases medical equipment from a manufacturer (lessor) and distributes them to hospitals for use. At the end of the reporting entity's lease term, hospitals are given the option to purchase the medical equipment from the reporting entity. Regardless of whether or not the hospitals purchase the equipment, the reporting entity is required to purchase the equipment from the lessor. The hospital does not have a termination option. Should this arrangement be reported as a lease or a financed purchase of the medical equipment by the reporting entity?**

This arrangement should be reported as a financed purchase. Paragraph 25 of SFFAS 54 states that one criterion of a financed purchase is that the contract transfers ownership of the underlying asset to the lessee by the end of the contract. In this example the lessee is the reporting entity, not the hospitals. The contract transfers ownership of the medical equipment because the purchase by the reporting entity is required. The sale of the equipment to the hospitals is a separate transaction.

INTRAGOVERNMENTAL LEASES

27. **A reporting entity leases spaces to another reporting entity for \$50,000/year in years 1-5 and \$45,000/year in years 6-10. Should this rent decrease be treated as a lease concession or should it be recognized in the period in which it occurs in a manner similar to step rent decreases?**

Both the lessee and lessor should treat this as a rent concession in accordance with paragraph 31 of SFFAS 54 unless there is evidence that the decreased rate meets the definition of a lease concession. Paragraph 10 states that lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits. Although years 6-10 meet the definition of reduced rent when compared to years 1-5, the reporting entity would also need to have knowledge that the reduction was made to induce the reporting entity to sign.

28. A reporting entity leases space to another reporting entity for \$50,000/year in years 1-5 and \$53,000/year in years 6-10. Should this rent increase be straight-lined over the lease term?

No. According to paragraph 31 of SFFAS 54, if the lease provides for rental increases, a lessee should recognize the expense in the period of the increase. Examples of rent increases, including those that are fixed in nature based on anticipated increases in costs or appreciation in property values (which appears to be the case in this example), contingent on future events (not applicable in this example), or variable in nature (not applicable in this example) are described in paragraphs 29-30.

Lease concessions, however, should be recognized by the lessees as straight-lined reductions to rental expense in accordance with paragraph 33 (see question 24 above). There are no indications of lease concessions in this example. Absent economic / pricing indicators or other evidence that there are lease concessions in the contract or agreement, it is appropriate that contracts or agreements similar to this example be treated as rent increases rather than lease concessions.

29. A reporting entity (lessor) pays the moving costs for another reporting entity (lessee) prior to the commencement of a lease. Are the moving costs considered a lease incentive?

Yes. Paragraph 70 of SFFAS 54 states that lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. In this example, the moving costs paid by the lessor would be considered a lease incentive and should be accounted for by the lessee and the lessor in a manner consistent with paragraph 32 of SFFAS 54.

LESSEE RECOGNITION, MEASUREMENT, AND DISCLOSURES FOR LEASES OTHER THAN SHORT-TERM LEASES, CONTRACTS OR AGREEMENTS THAT TRANSFER OWNERSHIP, AND INTRAGOVERNMENTAL LEASES

30. ...

LESSOR RECOGNITION, MEASUREMENT, AND DISCLOSURES FOR LEASES OTHER THAN SHORT-TERM LEASES, CONTRACTS OR

AGREEMENTS THAT TRANSFER OWNERSHIP, AND INTRAGOVERNMENTAL LEASES

31. ...

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

32. As you go into each section – use the style code for outline numbers to continue the format

LEASE INCENTIVES AND LEASE CONCESSIONS

33. It should

CONTRACTS OR AGREEMENTS WITH MULTIPLE COMPONENTS

34. As you go into each section – use the style code for outline numbers to continue the format

CONTRACT OR AGREEMENT COMBINATIONS

35. It should

- a. Still give you multiple
- b. Levels to work with

LEASE TERMINATIONS AND MODIFICATIONS

36. As you go into each section – use the style code for outline numbers to continue the format

SUBLEASES

37. It should

SALE-LEASEBACK TRANSACTIONS

38. It should

LEASE-LEASEBACK TRANSACTIONS

39. It should

IMPLEMENTATION

40. It should

EFFECTIVE DATE

29. This Technical Release is effective upon issuance.

The provisions of this Technical Release need not be applied to immaterial items.

DRAFT

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses factors considered significant by Committee members in reaching the conclusions in this guidance. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Technical Releases. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Technical Releases that amend this Technical Release. The authoritative sections of the Technical Releases are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Technical Release for the rationale for each amendment.

PROJECT HISTORY

A1. A new paragraph style for this appendix.

- a. Works for multi-levels
- b. Test
 - i. Works

A2. Test

A3. Test

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the proposed provisions of this Technical Release to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Technical Release or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the proposed provisions of this Technical Release may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Technical Releases.

DRAFT

APPENDIX C: ABBREVIATIONS

| | |
|--------------|--|
| CFR | Consolidated Financial Report of the U.S. Government |
| ED | Exposure Draft |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |
| GASB | Governmental Accounting Standards Board |
| GPFFR | General Purpose Federal Financial Report |
| IPSASB | International Public Sector Accounting Standards Board |
| OMB | Office of Management and Budget |
| SFAS | Statement of Financial Accounting Standards (FASB) |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| SFFAS | Statement of Federal Financial Accounting Standards |

APPENDIX D: GLOSSARY

DRAFT

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