

Memorandum

Leases Educational Session

January 23, 2025

To: Members of the Board
From: Ricky A. Perry, Jr., Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: Leases Educational Session: FY 2024 Reporting Results - **Topic C.1**

OBJECTIVE

SFFAS 54, *Leases*, became effective in fiscal year (FY) 2024. At the February meeting staff will present an educational session on leases reporting and audit results for FY 2024 (attachment 1). The Board will have the opportunity to discuss these results and ask questions at the meeting.

DISCLAIMER

The attached report is based on staff's review of FY 2024 federal financial reporting and is intended for discussion purposes only.

The data and analyses contained therein may contain errors and should not be relied upon for assessing accountability and conformance with the standards at the component reporting entity level, nor should it serve as a substitute for reading the component entity financial reports and independent auditor reports of interest to the reader.

REQUEST FOR FEEDBACK BY FEBRUARY 20TH

Prior to the February meeting, please review the attached educational material.

Responses to the enclosed educational materials are not requested; however, members may submit questions or comments in advance of the meeting.

NEXT STEPS

Not applicable.

ATTACHMENTS

1. Staff report on SFFAS 54 reporting and audit results

REFERENCE MATERIALS

Financial reports of CFO Act entities included in study

Department of Agriculture
 Department of Commerce
 Department of Defense
 Department of Education
 Department of Energy
 Department of Health and Human Services
 Department of Homeland Security
 Department of Housing and Urban Development
 Department of the Interior
 Department of Justice
 Department of Labor
 Department of State
 Department of Transportation
 Department of the Treasury
 Department of Veterans Affairs
 Environmental Protection Agency
 General Services Administration
 National Aeronautics and Space Administration
 National Science Foundation
 Office of Personnel Management
 Small Business Administration
 Social Security Administration
 U.S. Agency for International Development
 U.S. Nuclear Regulatory Commission

Reports of significant consolidation entities included in study

Export-Import Bank of the United States
 Federal Communications Commission
 Millenium Challenge Corporation
 Railroad Retirement Board
 Securities and Exchange Commission
 Security Assistance Accounts
 U.S. International Development Finance Corporation

Reports of additional consolidation entities included in study

Presidio Trust

Note: Staff reviewed 32 consolidation entities as part of this study, including 31 significant consolidation entities reporting under FASAB requirements, plus one additional consolidation entity with significant lessor operations.

Nine of the 40 significant consolidation entities were excluded, including eight that report under FASB requirements (ASC 842) and the Schedules of the General Fund. See scope and methodology section of attachment 1.

Fiscal Year 2024 Leases Reporting and Audit Results

Topic C.1 – Attachment 1

Context

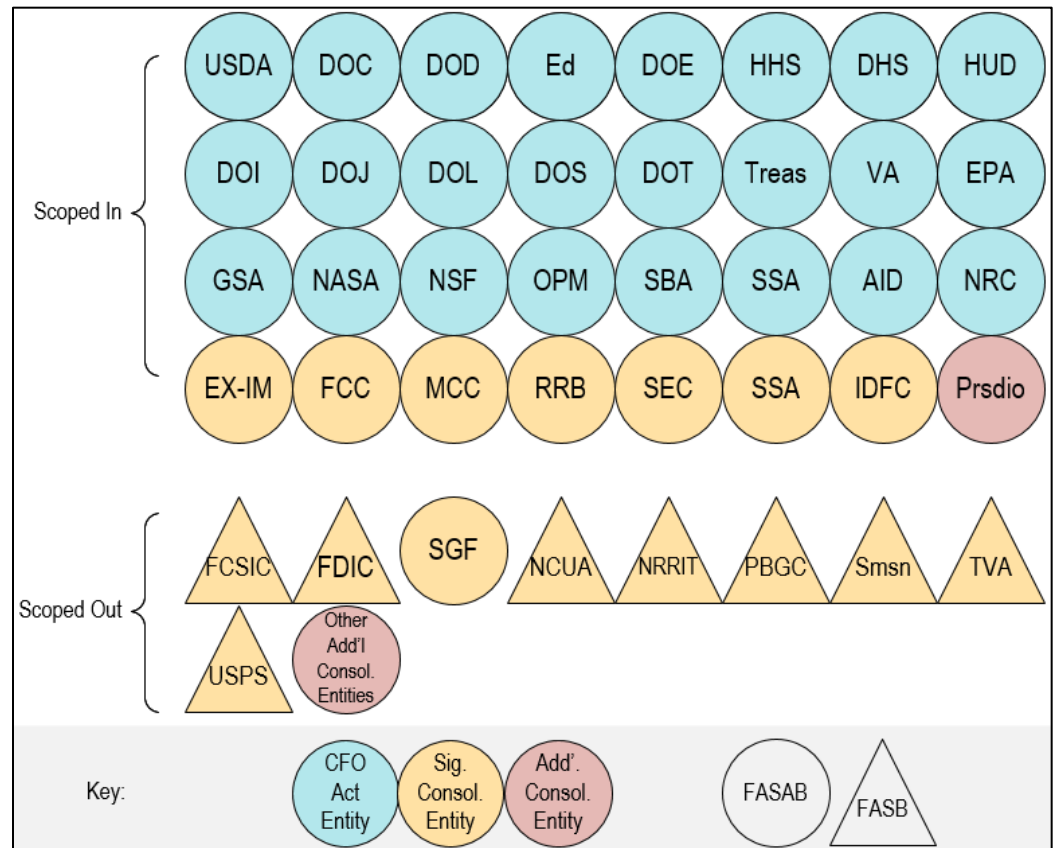
SFFAS 54, *Leases*, became effective in fiscal year (FY) 2024. The Board elected to monitor implementation of the standard. These monitoring activities allow the Board to evaluate whether SFFAS 54 and other leases-related post-issuance pronouncements are achieving their objectives. This report summarizes and analyzes FY 2024 leases federal entity reporting results based on staff observations.

Scope and Methodology

Staff reviewed 32 consolidation entities as part of this study, including 31 significant consolidation entities reporting under accounting principles promulgated by FASAB, plus one additional consolidation entity with significant lessor operations.

Of the 40 significant consolidation entities; nine were excluded from the scope of this study, including eight that report under Financial Accounting Standards Board (FASB) standards (i.e., FASB ASC® 842, *Leases*) plus the Schedules of the General Fund. SFFAS 54 does not apply to these excluded entities.

Figure 1.1 – Scope of Study



Disclaimer: The methodology employed by staff was strictly designed to gather, summarize, and analyze reporting and audit results. This generally involved review of (a) relevant financial statements line items; (b) footnotes on significant accounting policies, PP&E, leases, other assets and liabilities, and unfunded liabilities; and (c) audit reports. This report is for informational purposes only. It is designed to facilitate monitoring of implementation and inform Board discussions and assessments of reporting practices, results, and outcomes.

Results in Brief

- **Reporting results:**
 - Reporting entities successfully adopted SFFAS 54 in FY 2024.
 - Balance sheets and financial statements notes provided a wealth of information that appropriately summarized leases balances, activities, and the nature and terms of the reporting entities' respective portfolios of lease contracts and agreements.
 - Adoption of SFFAS 54 significantly enhanced transparency in financial reporting and improved information available to users.
 - The form, content, disclosure, and presentation of leases information was remarkably consistent, comparable, understandable, and navigable across the reporting entities that staff reviewed.
 - Those reporting entities with significant leases almost universally elected to apply the transitional accommodation provided for by paragraphs 96A-96E of SFFAS 54 for the maximum period of three years. The transitional amendments, therefore, appear to have facilitated adoption and met the initial objectives of SFFAS 62, *Transitional Amendment to SFFAS 54*.
- **Audit results:**
 - None of the 32 audit opinions were adversely modified or affected by implementation of SFFAS 54 in FY 2024. All 32 independent auditor reports either expressed a clean opinion or described the basis for the disclaimer or qualified opinion as being unrelated to leases.
 - Four of the 32 consolidation entities' independent auditors reported material weaknesses in internal control over financial reporting related to leases and adoption of SFFAS 54.^{1 2}
 - Three of the 32 consolidation entities' independent auditors reported significant deficiencies in internal control over financial reporting related to leases and adoption of SFFAS 54.^{3 4}

¹Additionally, four of the remaining 28 consolidation entities received material weaknesses that were entity-wide or systemic in nature. While adoption of SFFAS 54 may have been a contributing factor resulting in these material weaknesses, the reported findings were broader in nature and, therefore, not interpreted as having sufficient linkage or relevance to SFFAS 54 adoption and reporting.

²Some consolidation entity auditors were not engaged to provide an opinion on internal control over financial reporting. Their consideration of internal control was for the limited purpose of designing audit procedures that were appropriate for the purpose of expressing an opinion on the financial statements of those entities. As a result of these limitations, material weaknesses or significant deficiencies in internal control related to leases may have existed for these entities that were not identified.

³See footnote 2 above.

⁴Additionally, four of the remaining 29 consolidation entities received significant deficiencies that were entity-wide or systemic in nature. While adoption of SFFAS 54 may have been a contributing factor resulting in these significant deficiencies, the reported findings were broader in nature and, therefore, not interpreted as having sufficient linkage or relevance to SFFAS 54 adoption and reporting.

Lessees: Lease Liabilities, Lease Assets, and Disclosures

Figure 2.1 – Lessee Balances, as of September 30, 2024

Reporting Entity	Lease liability (mil)	Lease asset (mil)
General Services Administration (GSA)	27,308	26,498
Department of State (DOS)	2,879	2,852
Department of Veterans Affairs (VA)	2,006	1,969
Department of Defense (DOD)	1,083	1,142
Department of Energy (DOE)	1,035	1,084
Department of Agriculture (USDA)	872	867
Department of Homeland Security (DHS)	849	831
Department of Health and Human Services (HHS)	789	766
Department of the Treasury (Treasury)	572	552
Department of Justice (DOJ)	421	410
Environmental Protection Agency (EPA)	310	454
Agency for International Development (AID)	260	258
Department of Transportation (DOT)	252	246
Securities and Exchange Commission (SEC)	229	226
International Development Finance Corporation (IDFC)	145	142
Department of Commerce (DOC)	126	124
Department of the Interior (DOI)	117	115
Department of Labor (DOL)	75	78
National Aeronautics and Space Administration (NASA)	24	23
Millennium Challenge Corporation (MCC)	14	14
Small Business Administration (SBA)	0	0
Export Import Bank of the U.S. (EX-IM)	0	0
Federal Communications Commission (FCC)	0	0
Housing and Urban Development (HUD)	0	0
Security Assistance Accounts (SAA)	0	0
Office of Personnel Management (OPM)	0	0
Social Security Administration (SSA)	0	0
Presidio Trust (Presidio)	0	0
Nuclear Regulatory Commission (NRC)	0	0
Department of Education (Education)	0	0
Railroad Retirement Board (RRB)	0	0
National Science Foundation (NSF)	0	0

Of the 32 reporting entities reviewed, 20 reported a lease liability and lease asset on their balance sheets as of September 30, 2024, as summarized in figure 2.1 above.

Lease liabilities

- Six of the 20 reporting entities displayed a “lease liability” line item under “other liabilities” on the face of the balance sheet: DOJ, DOS, DOI, GSA, SEC, and AID.
- Fourteen of 20 reporting entities presented a total “other liabilities” amount on the face of the balance sheet and disclosed the “lease liability” portion of the amount in the related footnote.
- Reporting entities generally disclosed the funded and unfunded portions in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 86, and OMB Circular A-136, *Financial Reporting Requirements*. Some reporting entities elected to include this breakout in their other liabilities note, while others met the requirement by including the information in a separate footnote on liabilities not covered by budgetary resources (II.3.2.2, II.3.8.13).⁵
- Nineteen of 20 reporting entities used the term: “lease liability(ies)” or “lessee lease liability.” One reporting entity (EPA) used the term “capital lease liabilities” in its other liabilities footnote; however, this reporting entity used the

⁵Parenthetical references to applicable Circular A-136 sections are included in select locations throughout this report for reference. The version in effect for FY 2024 was issued on May 30, 2024.

correct term, “lease liabilities,” in its summary of significant accounting policies footnote.

Lease assets

- Nineteen of 20 reporting entities presented a total “property, plant, and equipment” amount on the face of the balance sheet and disclosed the “right-to-use lease assets” portion of the amount in the related footnote.
- Nineteen of 20 reporting entities used the term “right-to-use lease asset” or “lessee right-to-use lease asset.” One reporting entity (EPA) used the term “capital leases;” however, that reporting entity used the term “leased assets” in its summary of significant account policies footnote (II.3.2.2).
- DOS implemented a noteworthy presentation by separately displaying the portion of its right-to-use lease assets attributable to domestic and overseas leases in its PP&E footnote. Staff believes this additional information provides additional relevant context to users of DOS’s statements who may wish to further analyze and understand DOS’s right-to-use lease assets.

Capitalization thresholds

- SFFAS 6, *Property, Plant, and Equipment*, and Circular A-136 require disclosure of capitalization thresholds for each major class of PP&E. The disclosed capitalization thresholds for lease assets varied among the 20 reporting entities (II.3.8.10).
- Many significant entities with larger balance sheets disclosed capitalization thresholds ranging from \$100,000 to \$1,000,000. The highest capitalization thresholds disclosed among larger reporting entities included:
 - VA – *“recognized all right-to-use leases with unserviced, annual rent that met or exceeded \$3.6 million”*
 - DOE – *“Department’s RTU lease capitalization threshold, except as noted below, is \$5 million. The capitalization threshold for the PMAs and FERC range from \$50,000 to \$500,000 for their individual standalone financial statements.”*
 - Treasury – *“Our bureaus are diverse both in size and in operating environment ... Minimum capitalization thresholds for right-to-use lease assets generally range from \$50,000 to \$1.7 million.”*
- Significant entities with smaller balance sheets disclosed lease asset capitalization thresholds ranging from \$25,000 to \$100,000.
- Some reporting entities did not disclose a capitalization threshold specific to right-to-use lease assets. For many of those reporting entities, lease assets were not a major class of PP&E, or the described capitalization thresholds appeared to be applicable to all major classes of PP&E.
- Many reporting entities disclosed lease asset capitalization thresholds in their summaries of significant accounting policies for PP&E.
- Some reporting entities did not report lease asset balances due to immateriality. Presidio, for example, reported that non-intragovernmental lessee balances and activity was immaterial.

SFFAS 54 paragraph 54.a lessee disclosures:

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.

- All 20 reporting entities met this disclosure requirement.

Figure 2.2 – Paragraph 54.a Disclosure Excerpts

Reporting entity (top 5 lease asset balances):	Note: The below data is summarized by staff; Please refer to the respective financial notes for additional terms and conditions.																												
GSA	<p>“building space or equipment rentals”... “At implementation, 6,109 real property leases were classified as RTU leases and 1,420 leases were considered short-term leases. GSA expects that at the expiration of the short-term leases, the majority will be replaced with longer-term right-to-use leases.”</p>																												
DOS	<p>“...leases are with private and host country landlords for real property located domestically and overseas. Real property leases by major use as of September 30, 2024 is as follows:</p> <table><tr><th></th><th>No. of Leases</th><th>Disc. Rate</th><th>Avg. Term</th></tr><tr><td>Residential</td><td>8,698</td><td>0.30 (sic) – 5.00%</td><td>7 years</td></tr><tr><td>Functional</td><td>384</td><td>0.35 (sic) – 4.88%</td><td>8 years</td></tr><tr><td>Structure</td><td>108</td><td>0.36 (sic) – 4.88%</td><td>9 years</td></tr><tr><td>Office</td><td>182</td><td>0.39 (sic) – 4.88%</td><td>23 years</td></tr><tr><td>Land</td><td>138</td><td>0.35 (sic) – 4.88%</td><td>22 years</td></tr><tr><td>Total</td><td>9,510</td><td></td><td></td></tr></table>		No. of Leases	Disc. Rate	Avg. Term	Residential	8,698	0.30 (sic) – 5.00%	7 years	Functional	384	0.35 (sic) – 4.88%	8 years	Structure	108	0.36 (sic) – 4.88%	9 years	Office	182	0.39 (sic) – 4.88%	23 years	Land	138	0.35 (sic) – 4.88%	22 years	Total	9,510		
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VA	<p>“...primarily includes leases for Veterans medical facilities and clinics, where VA rents real property directly from third-party commercial property owners through GSA delegated authority. Real property leases for medical facilities and clinics with third-party commercial property owners have initial lease terms of 15 to 20 years. VA normally occupies the leased real property for the entire initial lease term without exercising termination rights that become available in the latter parts of the lease term.”</p>																												
DOD	<p>“...primarily related to land and buildings used for administration and office space. Additionally, the Department has equipment related to indefeasible right of use agreements, allowing the Department access to portions of undersea fiber optic cables.”</p>																												
DOE	<p>“...predominately for buildings and office spaces”</p>																												

- Paragraph 54.a includes a provision that the “general description of its leasing arrangements” should include “the basis terms and conditions on which variable lease payments not included in the lease liability are determined.” In general, staff found that variable payments not included in the lease liability appeared to be either immaterial or not applicable to a majority of federal lessees’ lease liabilities. For example, GSA disclosed that its leases do not typically include variable lease payments. Similarly, DOI noted that its leases were generally fixed-based rent.

While a majority of lessees did not disclose the terms of variable payments due to their non-applicability or immateriality, staff believes the requirement, as designed, provides helpful feedback to users regarding the presence or absence of variable payments in federal lessees’ non-intragovernmental lease contracts.

- Overall, staff found paragraph 54.a disclosures to be of consistent high quality, providing relevant and informative descriptions of non-intragovernmental leases for federal lessees. DOS's general descriptions of its leasing arrangements as a lessee were particularly noteworthy.

SFFAS 54 paragraph 54.b lessee disclosures:

The total amount of lease assets and the related accumulated amortization, to be disclosed separately from PP&E assets.

- Reporting entities consistently met this requirement in their PP&E footnote schedules displaying costs, accumulated amortization, and net book value, by PP&E type, including right-to-use lease assets. These schedules included a line for right-to-use lease assets (II.3.8.10).
- One reporting entity appeared to report a right-to-use lease liability for a short-term lease based on the information provided in its disclosures regarding the term of that lease (expiring in FY 2025). The reporting entity may not have initially measured the lease term in accordance with paragraph 97.b of SFFAS 54, which required leases to be initially measured based on the number of years remaining in the lease term as of the beginning of the period of implementation and not the number of years in the initial lease term.

SFFAS 54 paragraph 54.c lessee disclosures:

The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the lease liability.

- As noted above (par. 54.a) variable payments not included in the lease liability generally appeared to be either immaterial or not applicable to a majority of federal lessees' lease liabilities. A few reporting entities, such as DOC and IDFC, disclosed variable lease payments recognized as lease expense that were not previously included in the lease liability (and thus not included in the amortization of the lease asset). Variable payments tended to be more prevalent with federal lessors (par. 67.a, 67.d).

SFFAS 54 paragraph 54.d lessee disclosures:

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 five-year increments thereafter.

- Reporting entities consistently met this requirement in their leases footnote, along with OMB Circular A-136 form and content requirements for presenting this information (II.3.8.19).
- For a majority of the 20 reporting entities the total principal amounts disclosed equaled the lease liability in accordance with OMB Circular A-136. For a few reporting entities the total was slightly different due to accrued interest.
- One reporting entity appeared to report principal and interest requirements for a short-term lease based on the schedule and other information provided in its leases note regarding the term of this lease (expiring in FY 2025).
- USAID's disclosures of principal and interest requirement schedules were noteworthy. USAID presented separate schedules of principal and interest requirements for three categories of leases with the public: (1) domestic non-federal, (2) overseas housing pool – DOS allocated, and (3) overseas housing – AID dedicated. USAID included subtotals under each of the categories, along with a grand total. Other footnotes and disclosures accompanying this

schedule and in the summary of significant accounting policies provided helpful context to users of this information, including clear and understandable explanations of residential housing pool accounting policies and processes.

SFFAS 54 paragraph 54.e lessee disclosures:

The amount of the annual lease expense and the discount rate used to calculate the lease liability.

Annual lease expense

- Reporting entities met the requirement for disclosing annual lease expenses in a variety of ways. Staff viewed the forms of presentation and disclosure as generally appropriate in the context of the respective reporting entities.
 - Twelve of 20 reporting entities met this requirement through lease asset amortization disclosures in their PP&E footnotes (par. 54.b) and separate disclosures of lease expenses in their leases footnote.
 - Many of these reporting entities, such as GSA, repeated the lease asset amortization amounts (previously disclosed in their PP&E note) in their leases note and separately disclosed interest expense.
 - Some reporting entities, such as DHS, separately disclosed interest expense in their leases note and cross-referenced to their PP&E note for the lease asset amortization amount.
 - DOC and IDFC disclosures of annual lease expenses were particularly noteworthy. These reporting entities included a table in their leases footnote showing amortization expense, interest expense, and the amount of lease expense associated with variable payments not previously included in the lease liability (and thus not included in the amortization of the lease asset), along with a total annual lease expense.
 - Five of 20 reporting entities partially met this requirement through their PP&E footnote disclosures of lease asset amortization. These entities did not disclose interest expense. Materiality or other considerations may have affected these presentation and disclosure decisions. In many cases, omissions of current year interest expense disclosures would not necessarily preclude users from having a general idea of what the annual interest expense for the lease portfolio would have been due to other accompanying disclosures, including those required by paragraph 54.d.
 - Three of 20 reporting entities did not disclose annual lease expense information in their PP&E or leases notes. Materiality or other considerations may have affected these presentation and disclosure decisions.

Discount rates used to calculate the lease liability

- A majority of reporting entities disclosed a range of discount rates. The lower and upper ends of reported discount rate ranges were consistent. The variability in disclosed ranges is expected based on the variability in the lease terms among reporting entities.
 - Lower ends of reported discount rate ranges were between 3.4% (GSA) and 4.69% (NASA).
 - Upper ends of reported discount rate ranges were between 4.0% (SEC) and 6.07% (DOE).

- Although *the source* (emphasis added) of the discount rates used to calculate the lease liability is not required to be disclosed under SFFAS 54, many reporting entities (17 of 20) elected to disclose this information. Many, but not all, reporting entities cited a policy that aligned with the wording in paragraph 42 while others cited a more summarized policy (e.g., “Treasury rates”).

Noteworthy example (DHS): “*The liability is measured at the present value of the lease payments expected to be made during the lease term discounted by the relevant Treasury Certified Interest Rates at commencement of the lease term if the interest rate is not stated in the lease. Discount rates used to calculate the lease liabilities are between 4-6%.*”

Overseas residential leases disclosures

- Several reporting entities reported and disclosed international residential leases balances and activities, including DOC, DOD, DHS, DOS, USAID, and MCC. Although there are no special disclosure requirements specific to these types of leases, reporting entities with significant balances and activity would generally disclose them under the requirements of paragraph 54.
- DOS “manages overseas real property leases on behalf of other Federal entities conducting business overseas. These leases are part of a housing pool used by Department and other Federal entity personnel assigned to a U.S. mission abroad under Chief of Mission authority.”⁶ DOS provides federal agencies with quarterly reporting data for overseas real property leases and the dedicated leases used exclusively by those agencies.
- USAID and MCC disclosures of overseas residential leases were particularly noteworthy. These entities hold a significant number of international residential leases, given their global missions, and provided quality disclosures.
- These reporting and disclosure outcomes are the result of strong intragovernmental coordination and data sharing efforts, led by DOS.

Lessees: *Intragovernmental Leases Reporting and Disclosures*

Figure 2.3 – Intragovernmental Lessees

Reporting Entity	Intragovernmental Lessee Reporting?	Reporting Entity	Intragovernmental Lessee Reporting?
USDA	• Yes	NSF	• Yes
DOC	• Yes	NASA	• Yes
DOD	• Yes	SBA	• Yes
Education	• Yes	SSA	• Yes
DOE	• Yes	USAID	• Yes
HHS	• Yes	NRC	• None noted/immaterial
DHS	• Yes	EX-IM	• Yes
HUD	• Yes	FCC	• Yes
DOI	• Yes	RRB	• Yes
DOJ	• Yes	SEC	• Yes
DOL	• Yes	OPM	• Noted as immaterial or N/A
DOS	• Yes	IDFC	• Noted as immaterial or N/A
DOT	• Yes	Presidio	• Noted as immaterial or N/A
Treasury	• Yes	EPA	• None noted/immaterial
VA	• Yes	MCC	• None noted/immaterial
GSA	• Yes	SAA	• Did not implement

⁶See DOS AFR, note 1.J.

SFFAS 54 paragraph 37 lessee disclosures:

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

a. A general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements

b. Annual lease expense in total and by major underlying asset category

- Of the 32 reporting entities reviewed in this study, 26 reported intragovernmental lessee activities in their footnotes, as summarized in figure 2.3 above.
- Three entities noted that intragovernmental lessee activities were immaterial or not applicable. IDFC, for example, disclosed non-intragovernmental balances and activities for its “sole lease” in accordance with paragraph 54 requirements.
- A few reporting entities did not disclose intragovernmental lessee activities, nor are they required to do so provided that intragovernmental leases were immaterial.
- One reporting entity, SAA, did not implement SFFAS 54 in FY 2024.

Paragraph 37.a intragovernmental lessee disclosures:

- These 26 reporting entities’ descriptions of the types of significant intragovernmental leasing arrangements varied.
- Lease descriptions included: office space, buildings, structures, warehouse space, laboratories, structures, parking, land, airfields, training facilities, vehicles, and equipment. Many reporting entities referenced occupancy agreements with GSA for office space.

Paragraph 37.b intragovernmental lessee disclosures

- Of the 26 reporting entities reporting intragovernmental lessee activities, 18 reported annual intragovernmental lease expense in total and by major category. Several reporting entities (such as DOE, DOI, DOJ, DOS, and DOT) elected to use two categories: real and personal property. Others elected to use categories such as land, buildings, vehicles, and equipment.
- This disclosure requirement may have been immaterial for many of the eight reporting entities that elected not to include the amount. For at least one reporting entity, DOD, management elected not to disclose certain information because its *“Components have not fully implemented SFFAS 54 and the data would not be accurately presented. The Department continues to work towards SFFAS 54 compliance”* (see audit results section below).
- Three of the eight reporting entities that did not report paragraph 37.b information disclosed intragovernmental lessee information that is no longer required under the new standards. Specifically, these entities disclosed future minimum intragovernmental leases payments due for the next five years and in five-year increments thereafter. A few reporting entities that reported paragraph 37.b information also reported information that is no longer required under the new standards.

Disclosure of future minimum intragovernmental lessee payment information can provide helpful context to sophisticated users of the information who are familiar with both the current and prior standards and requirements; however, presentation of this information alongside future principal and interest non-intragovernmental leases information (par. 54.d) may be hazardous in certain

respects. For example, future minimum intragovernmental leases payments information is not comparable to paragraph 54.d information. Specifically, paragraph 54.d disclosures represent probable future principal and interest requirements that are measured in accordance with paragraphs 40-48. In contrast, future minimum payments are neither measured in accordance with paragraphs 40-48 nor are they included in the lease liability.

Overall, staff noted that a majority of intragovernmental federal lessees did not disclose out-year minimum payments information.

Lessors: Lease Receivables, Unearned Lease Revenue, and Disclosures

Figure 3.1 – Lessor Balances, as of September 30, 2024

Reporting Entity	Lease receivable, net (mil)	Unearned lease rev liability (mil)
NASA	697	707
Presidio	667	645
DOI	447	467
DOT	149	150
GSA	102	Not separately presented
DOD	Not separately presented	101
DOS	26	Not separately presented
Treasury	Not separately presented	3

Of the 32 reporting entities reviewed, eight separately displayed a lease receivable and/or unearned lease revenue liability on their balance sheets as of September 30, 2024, as summarized in figure 3.1 above.

Lease receivables

- Six of the eight reporting entities separately displayed a lease receivable amount in the financial statements and/or footnotes. Three of these six reporting entities displayed a “lease receivable” line item on the face of the balance sheet: the Presidio Trust, DOI, and DOS. The remaining three reporting entities presented a total “other assets” amount on the face of the balance sheet and disclosed the lease receivables portion in the related footnote (II.3.8.12).
- Five of the six reporting entities displaying a lease receivable used the term “lease receivable” or “lessor lease receivable.”
- Staff did not identify any examples of lease receivables with an allowance. These receivables were generally considered fully collectible.

Unearned lease revenue

- Six of the eight reporting entities separately displayed an unearned lease revenue in the financial statements and/or footnotes. Two of these six reporting entities displayed an “unearned lease revenue” line item on the face of the balance sheet: the Presidio Trust and DOI. The remaining four reporting entities presented a total “other liabilities” amount on the face of the balance sheet and disclosed the unearned lessor revenues in the related footnote (II.3.2.2, II.3.8.18).
- Four of the six reporting entities displaying an unearned lease revenue liability used the term “unearned lease revenue” or “unearned lessor revenue.”

SFFAS 54 paragraph 67.a disclosures:

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

Figure 3.2 – Paragraph 67.a Disclosure Excerpts

Reporting entity (top 5 lease receivable balances):	Note: The below data is summarized by staff; Please refer to the respective financial notes for additional terms and conditions.
NASA	<p><i>“NASA, as a Lessor, has lease arrangements with non-intragovernmental entities for use of NASA’s property for land, buildings, and other structures and facilities. The leases are generally executed under our enhanced use lease (51 U.S.C. § 20145), or National Historic Preservation Act (54 U.S.C. § 306121) authorities and are for land or facilities that are non-excess but underutilized. The leases have a remaining term, including probable options, that range from three years to eighty-eight years.”</i></p>
Presidio	<p><i>“As a federal lessor, the Trust manages the leasing of residential homes and office spaces within the Presidio. Leasing arrangements include a variety of housing options, from single-family homes to apartments, as well as commercial office spaces for businesses, nonprofits, and government agencies. Lease terms vary and are structured to preserve the park’s historic character while meeting tenant needs. Tenants enjoy unique access to the natural beauty and amenities of the Presidio, with leases designed to align with the Trust’s mission of sustainability and historic preservation.”</i></p>
DOI	<p><i>“The DOI manages a broad variety of leasing arrangements where DOI acts as a Lessor. These arrangements can include leases for land, real estate, office space, or equipment, as well as Right of Ways (ROW) and Concessionaires at National Parks. The Lease terms typically range from greater than 2 years to 60+ years, with lease payments generally consisting of fixed based rent.”</i></p>
DOT	<p><i>“The Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500, authorized the Secretary of Transportation to enter into a lease of the Metropolitan Washington Airports (i.e., Ronald Reagan Washington National Airport and Dulles International Airport) with the Metropolitan Washington Airports Authority. The Secretary and the Airports Authority may at any time negotiate an extension of the lease. The current lease term extends through June 6, 2100. The FAA collects the lease payments from the Airports Authority on behalf of the General Fund of the U.S. Government. Because the collections are not available to the FAA, the related lease receivable (lease asset) and unearned revenue (lease liability) are reported by the FAA as non-entity assets and liabilities.”</i></p>
GSA	<p><i>GSA leases a portion of its building space to non-Federal tenants. The majority of these types of leasing agreements, referred to as outleases, are in a small portion of the building, typically restaurants, sandwich or coffee shops at the pedestrian walkway, or are excess space not being used for government operations. As of September 30, 2024, there are 16 buildings where the outlease represents the predominant use of the building.”</i></p>

- Paragraph 67.a includes a provision that the “general description of its leasing arrangements” should include “the basis terms and conditions on which variable lease payments not included in the lease receivable are determined.”
- Overall, staff found reporting entities’ paragraph 67.a disclosures to be of consistent high quality, providing relevant and informative descriptions of leasing arrangements for federal lessors. Noteworthy disclosures were consistently provided by reporting entities with significant non-

intragovernmental lessor operations, including NASA, Presidio, DOI, DOT, and GSA. Presidio disclosures were particularly noteworthy; given the nature of its operations and its mission, paragraph 67.a disclosures were particularly helpful for enabling users to analyze the financial statements, make informed decisions and judgements, and assess accountability.

SFFAS 54 paragraph 67.b disclosures:

The carrying amount of assets on lease by major classes of assets, and the amount of related accumulated depreciation

- Practices for meeting this disclosure requirement varied among the reporting entities with significant non-intragovernmental lessor balances. Staff expected some variability due to the variability in data and lessor portfolios. For example, for some reporting entities, such as GSA, oftentimes only a small portion of the underlying PP&E is leased to the public for retail space and vendors. Other reporting entities may lease entire units of PP&E assets to the public.
 - Presidio, DOT and DOI, for example, reported lessor activities which leased entire units of PP&E with a non-intragovernmental party. For these leases, the reporting entities could more readily obtain cost and depreciation data on the underlying assets to meet this requirement. DOT and DOI disclosed this information in the non-intragovernmental lessor section of their leases footnote, while Presidio disclosed this information within their PP&E footnote.
 - GSA non-intragovernmental leases, however, are generally for a small portion of the underlying PP&E assets, such as ground-floor unit leases to retailers with the remainder of the underlying buildings being intragovernmental leases and thus not subject to paragraph 67.b. As a result, obtaining cost and amortization data would have been more challenging due to unit-of-account data and measurement issues. GSA's resulting disclosures allude to and address this very point (see excerpt below). For this reason, GSA had a noteworthy approach for meeting the disclosure requirement in a manner that was practical, accurate, informative, and consistent with the requirement.

GSA disclosure excerpt:

“GSA leases a portion of its building space to non-Federal tenants. The majority of these types of leasing agreements, referred to as outleases, are in a small portion of the building, typically restaurants, sandwich or coffee shops at the pedestrian walkway, or are excess space not being used for government operations. As of September 30, 2024, there are 16 buildings where the outlease represents the predominant use of the building. The net book value for these buildings is \$14 million as of September 30, 2024. This includes accumulated depreciation of \$50 million and historical cost of \$64 million.”

SFFAS 54 paragraph 67.c and 67.d disclosures:

The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases.

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.

Figure 3.3 – Leases Revenues, FY 2024

Reporting Entity	Disclosed lessor revenues, total (mil)	Amounts of revenue by type (mil), if disclosed / applicable
DOI •	221	25 mil fixed 196 variable
Presidio •	161	31 unearned revenue amortization 31 interest 15 variable 84 intragov. / short-term
NASA •	49	N/A; total only
GSA •	18	N/A; total only
DOT •	9	2 unearned revenue amortization 6 interest < 1 variable
DOD •	Not reported	
DOS •	Not reported; likely immaterial	
Treasury •	Not reported; likely immaterial	

- DOI and Presidio had relatively significant non-intragovernmental lessor revenues. Considerable portions of their lease revenues were variable and, therefore, not originally included in the lease receivable. Much of DOI's lease revenues were variable in nature, while much of Presidio's revenues were associated with short-term or intragovernmental leases. Presidio elected to separately disclose annual lease revenues for its short-term leases even though this was not a requirement of the standard. In Presidio's case, the amount was a material portion of its overall revenues reported in its statement of net cost (\$84 million out of \$228 million), and staff viewed this as a noteworthy reporting practice under the circumstances (see also: figure 3.3).
- Staff did not identify examples of disclosed revenue "related to residual value guarantees and termination penalties" when reviewing non-intragovernmental lessor disclosures. These types of revenues were likely not applicable or immaterial for federal lessors in FY 2024. When these types of revenues are material and recognized during a reporting period, however rarely, staff believes the disclosure requirements for this information will provide relevant information for users.

SFFAS 54 paragraph 68 disclosures:

In addition to the disclosures in paragraph 67, if a federal entity's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the federal entity should disclose a schedule of future lease payments that are included in the lease receivable, showing principal and interest, for each of the five subsequent years and in five-year increments thereafter.

- Paragraph 68 applies to federal entities whose *principal ongoing operations* (emphasis added) consist of leasing assets through the use of non-intragovernmental leases. Accordingly, this requirement is not applicable to many reporting entity lessors in the view of staff. Staff believes that some reporting entities that disclosed paragraph 68 information, such as DOT and DOS, may not meet the "principal ongoing operations" applicability criterion. Notwithstanding, the disclosure of this information was not in any way problematic or misleading in the view of staff; rather, the information provided additional relevant information to users who may wish to further analyze the lease receivable.
- Presidio, which more clearly meets the applicability criterion, disclosed this information, in accordance with paragraph 68.

Lessors: Intragovernmental Leases Reporting and Disclosures

Figure 3.4 – Intragovernmental Lessors

Reporting Entity	Intragovernmental Lessor Reporting?	Reporting Entity	Intragovernmental Lessor Reporting?
DOD	• Yes	EPA	• N/A or immaterial
DOI	• Yes	NASA	• N/A or immaterial
DOS	• Yes	NSF	• N/A or immaterial
GSA	• Yes	OPM	• N/A or immaterial
USDA	• N/A or immaterial	SBA	• N/A or immaterial
DOC	• N/A or immaterial	SSA	• N/A or immaterial
Education	• N/A or immaterial	USAID	• N/A or immaterial
DOE	• N/A or immaterial	NRC	• N/A or immaterial
HHS	• N/A or immaterial	EX-IM	• N/A or immaterial
DHS	• N/A or immaterial	FCC	• N/A or immaterial
HUD	• N/A or immaterial	MCC	• N/A or immaterial
DOJ	• N/A or immaterial	RRB	• N/A or immaterial
DOL	• N/A or immaterial	SEC	• N/A or immaterial
DOT	• N/A or immaterial	SAA	• Did not implement
Treasury	• N/A or immaterial	IDFC	• N/A or immaterial
VA	• N/A or immaterial	Presidio	• N/A or immaterial

SFFAS 54 paragraph 38 lessee disclosures:

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

a. A general description of significant leases

b. 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

- Of the 32 reporting entities reviewed in this study, only four reported intragovernmental lessor activities in their footnotes, as summarized in figure 3.4 above.

Paragraph 38.a intragovernmental lessor disclosures:

- GSA intragovernmental lessor lease descriptions included office space, furniture, and equipment. Other intragovernmental lessor description examples included properties in park areas (DOI's National Park Service); office space, vehicles, and equipment (DOD); and office space (DOS).

Paragraph 38.b intragovernmental lessee disclosures:

- Of the four reporting entities reporting intragovernmental lessor activities, three disclosed information on future lease payments that are to be received to the end of the lease term (GSA, DOS, and DOI). DOD did not. As noted above (par. 37.b), DOD management elected not to disclose certain information because its "Components have not fully implemented SFFAS 54 and the data would not be accurately presented. The Department continues to work towards SFFAS 54 compliance" (see audit results section below).
- GSA's disclosures were noteworthy and provided additional context for users analyzing paragraph 38.b information. GSA noted that the amounts included for the Fleet Leasing Program are fixed payments and that many leases "are generally used for a longer period of time" and revenues are "expected to continue beyond the 90 days" (termination notice period).

Intragovernmental Leasehold Reimbursable Work Agreements

Provider-lessors:

- GSA reported a \$486 million intragovernmental reimbursable work liability, as required by Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*.
- Presidio also reported deferred revenue related to reimbursable contract projects; however, the disclosed activity does not appear to fall within the scope of Technical Bulletin 2023-1, as the underlying asset associated with the reimbursable work was later transferred to the National Park Service. Notwithstanding, Presidio is accounting for similar reimbursable work and the related advances in a manner consistent with existing pronouncements.

Customer-lessees:

- Two reporting entities separately reported reimbursable work assets: DOS and USDA. Other reporting entity customer-lessees may have implemented the standards and recognized these assets while considering them immaterial for purposes of separate presentation and disclosure.
- DOS disclosures were particularly noteworthy. DOS recognized a \$249 million intragovernmental reimbursable work asset. Furthermore, it disclosed the nature of the changes in accounting principles in its significant accounting policies footnote and in accordance with SFFAS 21, paragraph 13.

“TB 2023-1 is prospective and early adoption was not permitted. As a result of implementing TB 2023-1, on October 1, 2023, the Department recognized \$271 million in reimbursable work agreements with intragovernmental entities and made a \$271 million upward adjustment to Cumulative Results of Operations.”

“The Department’s Intragovernmental Other Assets are primarily comprised of reimbursable work assets with GSA. The Department and GSA have five reimbursable work agreements for the acquisition, initial improvements, and occupancy of property. The Department funds the acquisitions and improvements and occupies the properties. GSA holds title to the properties, reports the assets on its financial statements, and issued occupancy agreements to the Department. The agreements are in place because of the limitations on the Department’s domestic real property authority.”

- USDA also provided noteworthy disclosures for its reimbursable work assets.

USDA disclosure excerpt:

“The Animal and Plant Health Inspection Service (APHIS) has an intragovernmental leasehold reimbursable work agreement with GSA for the Otay Mesa Land Port of Entry Modernization project which GSA is expected to derive a significant level of residual economic benefits and services from the reimbursable work. In accordance with FASAB, Technical Bulletin 2023-01, APHIS recognizes an intragovernmental reimbursable work asset for the construction costs and GSA recognizes the resulting leasehold improvement and an intragovernmental unearned reimbursable work revenue liability. APHIS amortizes the intragovernmental reimbursable work asset and GSA recognizes intragovernmental reimbursable work revenue in a systematic and rational manner over the shorter of (a) the remainder of the lease term or (b) the useful life of the underlying asset constructed.”

- According to GSA OCFO staff, unreciprocated intragovernmental balances in this area decreased by \$249 million in fiscal year 2024 due to matching reciprocal balances implemented at DOS. Other reporting entities that continue to have unreciprocating balances may not have implemented the requirements of Technical Bulletin 2023-1.

Transitional Accommodation (SFFAS 54 par. 96A-96E)

Figure 4.1 – Transitional Accommodation Elections

Reporting Entity	Election, Length	Reporting Entity	Election, Length
USDA •	Y, full 3 years	GSA •	Y, full 3 years
DOC •	Y, full 3 years	NASA •	Y, full 3 years
DOD •	None noted	NSF •	None noted
Education •	None noted	OPM •	None noted
DOE •	None noted	SBA •	Y, full 3 years
HHS •	Y, 2 or 3 years	SSA •	Y, full 3 years
DHS •	Y, full 3 years	USAID •	Y, full 3 years
HUD •	None noted	NRC •	None noted
DOI •	Y, full 3 years	EX-IM •	None noted
DOJ •	Y, full 3 years	FCC •	None noted
DOL •	Y, full 3 years	MCC •	Y, full 3 years
DOS •	Y, full 3 years	RRB •	None noted
DOT •	Y, full 3 years	SEC •	None noted
Treasury •	Y, full 3 years	SAA •	None noted
VA •	Y, full 3 years	IDFC •	Y, full 3 years
EPA •	None noted	Presidio •	Y, full 3 years

- Nineteen of the 32 entities reviewed elected to apply the transitional accommodation. Some entities with smaller leases portfolios did not disclose an election. Given the high rate of application, paragraphs 96A-96E appear to have facilitated adoption of the new standards and met the initial objectives of SFFAS 62.

Prospective Implementation and the Application of SFFAS 21

Figure 5.1 – Implementation Adjustments to Beginning Balances

Reporting Entity	PP&E Balance Reconciliations, Beg. Bal Adj. (mil)	Adj. to Beg. Bal. Cumulative Results on SCNP (mil)
USDA •	1,007	0
DOC •	111	0
DOD •	0	0
Education •	0	0
DOE •	1,049	-63
HHS •	0	0
DHS •	798	21
HUD •	0	0
DOI •	132	0
DOJ •	395	0
DOL •	87	-3
DOS •	2,259	-4
DOT •	177	-8
Treasury •	599	0
VA •	1,778	0
EPA •	0	0
GSA •	26,280	725
NASA •	27	0
NSF •	0	2
OPM •	0	0
SBA •	0	0
SSA •	0	0
USAID •	260	0
NRC •	0	5
EX-IM •	0	0
FCC •	0	0
MCC •	20	3
RRB •	0	0
SEC •	239	6
SAA •	0	0
IDFC •	156	17
Presidio •	0	-40

- SFFAS 54, paragraph 97.a, requires prospective application. Accordingly, reporting entities reported the effects of implementation in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, paragraph 13.
- To support this requirement, along with the consolidations process, OMB Circular A-136 also required significant entity lessees to report the effects of implementation as adjustments to the beginning PP&E balances (see middle column of figure 5.1 above). These adjustments were reflected within PP&E reconciliations contained in the notes (II.3.8.10). As shown above, several reporting entities lessees disclosed significant beginning balance adjustments in their PP&E reconciliations, including GSA, DOS, VA, DOE, USDA, and DHS.
- Reporting entities with significant lease receivables, such as NASA and Presidio (see figure 3.1 above), similarly disclosed the reasons for the changes in their “Other Assets” notes. Accordingly, lessees and lessors consistently disclosed reasons for significant changes resulting from SFFAS 54 implementation in their footnotes and in their MD&As, if appropriate.
- SFFAS 54 and SFFAS 21 also required reporting entities to report the cumulative effect of the change on prior periods as a “change in accounting principle” adjustment to the beginning balance of the cumulative results of operations in the statement of changes in net position (see right-most column of figure 5.1 above). Reporting entities with unamortized balances under previous requirements were reduced to zero as part of this adjustment (see SFFAS 54, par. 96-97, and TR 20, par. 98-99). Some reporting entities may not have had material unamortized balances to zero down. As a result, not all reporting entities reported changes in accounting principles adjustments in their statements of changes in net position.

Other Observations

- **CFO letters:**

Some CFOs mentioned or discussed SFFAS 54 implementation in their CFO letters, including Presidio, DOS, NASA, USAID, DOT, and SEC.

- **MD&As:**

Several reporting entities addressed leases in their MD&As. Discussion and analysis of leases information was typically included in the “financial analysis” sections, which discusses and explains significant changes in financial statement line items and results.

Presidio’s MD&A, for example, included a noteworthy explanation of the nature of the changes to its statements and analysis of the effects of those changes. Other reporting entities with significant leases balances and activities discussed and analyzed the effects of leases implementation in their MD&As, such as GSA, DOS, USAID, NASA, USDA, DOT, DOJ, and MCC.

- **Accounting, presentation, and disclosure policies and templates:**

A few of significant entities, such as SSA, HHS, EPA, and NRC, used the term “operating leases” and/or “capital leases” in their financial statements and notes.

Some of these entities were among the reporting entities that continued to disclose intragovernmental leases information that is no longer required under the new standards.

Reporting entities should consider updating their financial statements notes templates (and, if necessary, their accounting policies) to conform their reporting and disclosures with updated requirements and administrative directives.

- **Objectives and benefits:**

The intended objectives and benefits of SFFAS 54 are discussed in basis for conclusions paragraphs A17-A21 of Statement 54. These include: (a) providing relevant and comparable information for assessing operating performance and monitoring investments in PP&E and financing activities (par. A18); (b) improved accountability of resources and obligations (A19); and (c) increased comparability to allow users to make comparisons of leases information among federal entities (A21).

Staff found that these aforementioned intended objectives and benefits were successfully achieved in FY 2024 reporting. Reporting entities provided relevant and comparable information that allowed staff to make informed assessments and judgments about operating performance, investments in PP&E and financing activities, and accountability for resources and obligations. Staff was also able to make meaningful comparisons among reporting entities during the course of its review.

Staff also found that the presentation and disclosure of leases information was remarkably consistent among the reporting entities reviewed in this study. Accordingly, staff believes that the intended objectives and benefits of Treasury and OMB administrative directive updates addressing the new standards were also largely met.

Audit Results

Audit opinions:

- None of the 32 independent auditor opinions reviewed in this study were adversely modified or affected by implementation of SFFAS 54 in FY 2024. All independent auditor reports either expressed a clean opinion or described the basis for their disclaimers or qualified opinions as being unrelated to leases.

Internal control over financial reporting:

- Four of the 32 consolidation entities' independent auditors reported material weaknesses in internal control over financial reporting related to leases and adoption of SFFAS 54. DOD and DOI had material weaknesses specific to leases, while DOC and DOJ had material weaknesses that cited deficiencies related to leases adoption as contributing factors within a combination of control deficiencies comprising a material weakness.^{7 8}
- Three of the 32 consolidation entities' independent auditors reported significant deficiencies in internal control over financial reporting related to leases and adoption of SFFAS 54: USDA, DOS, and USAID.^{9 10}

⁷Additionally, four of the remaining 28 consolidation entities received material weaknesses that were entity-wide or systemic in nature. While adoption of SFFAS 54 may have been a contributing factor resulting in these material weaknesses, the reported findings were broader in nature and, therefore, not interpreted as having sufficient linkage or relevance to SFFAS 54 adoption and reporting.

⁸Some consolidation entity auditors were not engaged to provide an opinion on internal control over financial reporting. Their consideration of internal control was for the limited purpose of designing audit procedures that were appropriate for the purpose of expressing an opinion on the financial statements of those entities. As a result of these limitations, material weaknesses or significant deficiencies in internal control related to leases may have existed for these entities that were not identified.

⁹See footnote 8 above.

¹⁰Additionally, four of the remaining 29 consolidation entities received significant deficiencies that were entity-wide or systemic in nature. While adoption of SFFAS 54 may have been a contributing factor resulting in these significant deficiencies, the reported findings were broader in nature and, therefore, not interpreted as having sufficient linkage or relevance to SFFAS 54 adoption and reporting.

Emphasis-of-matter paragraphs:

- If the auditor considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor should include an emphasis-of-matter paragraph in the auditor's report.¹¹
- Eight of the 32 consolidations entities' independent auditors included an emphasis-of-matter paragraph related to adoption of SFFAS 54 in their audit reports: USDA, DOI, DOJ, DOS, GSA, NASA, SEC, and Presidio. Leases activity and balances were significant for these reporting entities.

Disclaimer

This report is based on staff's review of FY 2024 federal financial reporting and is intended for discussion purposes only.

The data and analyses contained in this report may contain errors and should not be relied upon for assessing accountability and conformance with the standards at the component reporting entity level, nor should it serve as a substitute for reading the component entity financial reports and independent auditor reports of interest to the reader.

All briefing materials are available at <https://fasab.gov>. They are prepared by staff to facilitate Board discussion at meetings and are not authoritative. Official positions of the FASAB are determined only after extensive due process and deliberations.

¹¹Provided that certain criteria are not met related to modification of the opinion or key audit matters. See AU-C 706.08.