

VOLUME 4, CHAPTER 26: “ACCOUNTING FOR LEASES”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated **August 2018** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer memorandum, “Implementation of Federal Financial Accounting Standard 54, Leases (FPM20-03),” dated September 25, 2020, was incorporated into this chapter and cancelled.	Cancellation
Various	The Federal Accounting Standards Advisory Board issued new accounting standards, technical releases, and a technical bulletin for leases, which required substantive changes to the policy contained in this chapter.	Revision
1.0	Updated the General section to incorporate the Statement of Federal Financial Accounting Standards 54.	Revision
2.0	Added lease-related definitions.	Addition
3.0	Revised the Accounting for Leases section.	Revision
3.4 (previous version)	Removed the Deferred Maintenance and Repair Costs section as these costs no longer apply to leases.	Deletion
4.1	Added reference for Standard Financial Information Structure webpage for United States Standard General Ledger accounts and transaction illustrations.	Addition
4.6	Added list of required supporting documentation.	Addition
Table 26-1	Added Capitalization Threshold table.	Addition

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CHAPTER 26**ACCOUNTING FOR LEASES*****1.0 GENERAL****1.1 Purpose**

This chapter prescribes the Department of Defense (DoD) accounting policy for leases. This chapter addresses lease accounting for both DoD lessees and lessors. The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards 54 ([SFFAS 54](#)) to update the financial reporting policy for Federal Agencies, including DoD. This chapter does not apply to leases (licenses) of internal use software (see Chapter 27) or leases of assets under construction. Budgetary accounting treatment of capital leases and lease purchases are found in the Office of Management and Budget Circular A-11, "Preparation, Submission, and Execution of the Budget," Appendix B, and does not fall under the scope of this chapter.

1.2 Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

1.2.1. FASAB Statement of Federal Financial Accounting Standards ([SFFAS 1](#)), "Accounting for Selected Assets and Liabilities;"

1.2.2. FASAB [SFFAS 4](#), "Managerial Cost Accounting Standards and Concepts;"

1.2.3. FASAB [SFFAS 5](#), "Accounting for Liabilities of The Federal Government;"

1.2.4. FASAB [SFFAS 6](#), "Accounting for Property, Plant, and Equipment;"

1.2.5. FASAB [SFFAS 7](#), "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;"

1.2.6. FASAB [SFFAS 21](#), "Statement of Federal Financial Accounting Standards 21: Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;"

1.2.7. FASAB [SFFAS 44](#), "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use;"

1.2.8. FASAB [SFFAS 47](#), "Reporting Entity;"

1.2.9. FASAB [SFFAS 54](#), "Leases;"

- 1.2.10. FASAB SFFAS 58, “Deferral of the Effective Date of SFFAS 54, Leases;”
- 1.2.11. FASAB SFFAS 60, “Omnibus Amendments 2021: Leases-Related Topics;”
- 1.2.12. FASAB SFFAS 61, “Omnibus Amendments 2023: Leases-Related Topics II;”
- 1.2.13. FASAB SFFAS 62, “Transitional Amendment to SFFAS 54;”
- 1.2.14. FASAB Technical Release (TR) 20, “Implementation Guidance for Leases;”
- 1.2.15. FASAB TR 21, “Omnibus Technical Release Amendments 2022: Conforming Amendments;”
- 1.2.16. FASAB TR 22, “Leases Implementation Guidance Updates;”
- 1.2.17. FASAB Technical Bulletin (TB) 2023-1, “Intragovernmental Leasehold Reimbursable Work Agreements;”
- 1.2.18. DoD Directive 5110.4, “Washington Headquarters Services;”
- 1.2.19. DoD Instruction (DoDI) 4165.14, “Real Property Inventory and Forecasting;” and
- 1.2.20. DoDI 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property.”

*2.0 DEFINITIONS

2.0.1. Consolidation Entity. An organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization: (1) is financed through taxes and other non-exchange revenues, (2) is governed by the Congress and/or the President, (3) imposes or may impose risks and rewards to the federal government, or (4) provides goods and services on a non-market basis.

2.0.2. Embedded Lease. A contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets. The lease element in the contract or agreement is an embedded lease.

2.0.3. Initial Direct Lease Costs. Initial direct lease costs are costs that are directly attributable to negotiating and arranging a lease or portfolio of leases that would not have been incurred without entering into the lease.

2.0.4. Intragovernmental Lease. An intragovernmental lease is a contract or agreement occurring within a consolidation entity (e.g., between two or more DoD Components) or between two or more consolidation entities (e.g., between DoD and one or more federal agencies), whereby one entity (lessor) conveys the right to control the use of Property, Plant, & 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.

2.0.5. Intragovernmental Leasehold Reimbursable Work Agreement. An agreement whereby one federal entity (the provider-lessor) acquires, constructs, improves, and/or alters an underlying asset that is or will be leased to another federal entity (the customer-lessee), and the customer-lessee agrees to reimburse the provider-lessor for direct and indirect costs for the acquisition, construction, improvement, and/or alteration.

2.0.6. Lease. A lease is a contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.7. Lease Asset. An expression of the economic benefit that the lessee expects to receive from the right to control the underlying asset.

2.0.8. Lease Concessions. Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. For example, lease concessions may include rent holidays/free rent periods or reduced rents.

2.0.9. Lease Incentives. Lease incentives include lessor payments made to, or on behalf of, the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee; for example, moving costs, termination fees to the lessee's prior lessor, or the lessor's assumption of the lessee's lease obligation under a different lease with another lessor.

2.0.10. Lease-Leaseback Transactions. An asset is leased by one party (first party) to another party and then leased back to the first party.

2.0.11. Lease Liability. An expression of the amount to be paid by the lessee for the right to control the underlying asset.

2.0.12. Lease Term. The lease term is the non-cancelable period plus certain periods subject to options to extend or terminate the lease. The noncancelable period is the shorter of the (1) period identified in the lease contract or agreement that precedes any option to extend the lease or (2) the period identified in the lease contract or agreement that precedes the first option to terminate the lease.

2.0.13. Leasehold Improvements. Leasehold improvements are additions, alterations, remodeling, renovations, or other changes to leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessee. Leasehold improvements may include easements and rights-of-way, buildings, structures, and linear structures utilized by the United States Federal Government.

2.0.14. Lessee. Refers to the entity receiving the right to control the use of PP&E from another entity (lessor) through a contract or agreement that qualifies as a lease.

2.0.15. Lessor. The entity that conveys the right to control the use of PP&E (underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

2.0.16. Lessor Improvements. Lessor improvements are additions, alterations, remodeling, renovations, or other changes to the leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessor rather than by the lessee.

2.0.17. Materiality. Materiality, as defined by the SFFAS 1, is 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.

2.0.18. Probable. That which can reasonably be expected or is believed to be more likely than not (greater than 50% probability) based on available evidence or logic.

2.0.19. Right to Control. To determine whether a contract or agreement conveys the right to control the use of the underlying asset, assess whether the lessee receives both: (1) the right to obtain, and (2) the right to control access to the economic benefits or services from the use of the underlying asset as specified in the contract or agreement.

2.0.20. Sale-Leaseback. The sale of an underlying asset by the owner and a lease of the property back to the seller (the original owner).

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

2.0.22. Sublease. A lease involves three parties – the original lessor, the original lessee (who is also the lessor in the sublease), and the new lessee.

2.0.23. Variable Payments. A payment where the amount is not fixed. One type may include payments based on an index or rate (e.g., Consumer Price Index), the future performance of the lessee (e.g., percentage of sales), or usage of the underlying asset.

*3.0 ACCOUNTING FOR LEASES

3.1 Short-Term Leases (Non-Intragovernmental)

3.1.1. Lessee Treatment of Short-Term Leases. A DoD Component as the lessee must recognize short-term lease payments as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The DoD Component (lessee) must recognize an asset if payments are made in advance of the reporting period to which they relate or liability for rent due and unpaid at the end of the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental expenses.

3.1.2. Lessor Treatment of Short-Term Leases. A DoD Component as the lessor must recognize short-term lease payments as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The DoD Component (lessor) must recognize a liability if payments are received in advance of the reporting period to which they relate or an asset for rent due and to be received after the reporting period to which they relate. Rental increases, rental decreases, lease incentives, and lease concessions must be recognized when incurred as increases/reductions to lease rental income.

3.2 Contracts or Agreements That Transfer Ownership

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

3.3 Intragovernmental Leases

3.3.1. Any lease, regardless of the lease term, that meets the definition of an intragovernmental lease must follow the accounting and disclosure guidance described in subparagraphs 3.3.2 – 3.3.3.

3.3.2. Lessee Treatment of Intragovernmental Leases

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

3.3.2.2. Leasehold Improvements. Leasehold improvements that meet or exceed the capitalization threshold and are placed in service at or after the beginning of the lease term must be amortized over the useful life (the normal operating life in terms of utility to the lessee) of the leasehold improvement, but no longer than the expected lease term. This recognition is consistent with PP&E capital improvements outlined in SFFAS 6, paragraph 37. Refer to paragraph 3.13 for capitalization thresholds.

3.3.2.3. Disclosures. A DoD Component as the lessee must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements; and (2) annual lease expense in total and by major underlying asset category.

3.3.3. Lessor Treatment of Intragovernmental Leases

3.3.3.1. Lease Payments. A DoD Component as the lessor must recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. Rent paid in advance, or a lease receivable must be recognized as a liability or asset, respectively, and income must be recognized in the appropriate reporting period based on the specifics of the lease provisions.

3.3.3.2. Lessor Improvements. Lessor improvements, which are elements of the leased property that meet or exceed the capitalization threshold, must be capitalized, and depreciated by the lessor over their useful life. This accounting treatment aligns with the lessor's handling of PP&E and is consistent with the capital improvement guidelines outlined in SFFAS 6, paragraph 37.

3.3.3.3. Disclosures. Lessors must disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure): (1) a general description of significant leases; and (2) future lease payments that are to be received to the end of the lease term for each of the five subsequent fiscal years and in five-year increments thereafter.

3.3.4. Other Considerations for Lessees and Lessors

3.3.4.1. Fixed Rental Increases/Decreases. Rental increases/decreases may be fixed in the lease and take place over time (for example, be based on such factors as anticipated increases/decreases in costs or anticipated appreciation/depreciation in property values, but the amount of the increase/decrease is specified in the lease), or they may be contingent on future events.

3.3.4.2. Variable Rental Increases/Decreases. Rental increases/decreases may also be variable and based on future changes in specific economic factors on which lease payments are based, for example, future sales or usage activity levels or future inflation/deflation (tied to a specific economic indicator where the specific amount of the change is not known).

3.3.4.3. Treatment of Rental Increases/Decreases, and Lease Incentives/Concessions. Rental increases/decreases and lease incentives/concessions must be recognized by the lessee and lessor when incurred as increases/reductions to lease rental expense and income, respectively. Refer to paragraph 3.6 for lease incentives and lease concessions.

3.3.4.4. Initial Direct Lease Costs. Initial direct lease costs incurred by the lessee must be expensed when incurred. Initial direct lease costs incurred by the lessor must be expensed when incurred.

3.3.4.5. Lease terminations and modifications. Refer to paragraph 3.9.

3.4 Lessee Recognition, Measurement, and Disclosure for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases

3.4.1. At the commencement of the lease term, a DoD Component as the lessee must recognize a lease liability and a right-to-use lease asset (hereinafter referred to as the lease asset), for leases other than short-term leases, contracts, or agreements that transfer ownership, and intragovernmental leases, that meet the capitalization thresholds in section 3.13. For leases that do not meet the capitalization threshold, a lease expense must be recognized in the current period.

3.4.2. Lease Liability. A lessee must initially measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability must include the following if required by a lease:

3.4.2.1. Fixed payments;

3.4.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

3.4.2.3. Variable payments that are fixed in-substance as described in 3.4.3;

3.4.2.4. Amounts that are probable of being required to be paid by the lessee under residual value guarantees;

3.4.2.5. The exercise price of a purchase option if it is probable that the lessee will exercise that option;

3.4.2.6. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) an availability of funds or cancellation clause;

3.4.2.7. Any lease incentives/concessions (see paragraph 3.6) receivable from the lessor; and

3.4.2.8. Any other payments to the lessor that are probable of being required based on an assessment of all relevant factors.

3.4.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included. Rather, these variable payments must be recognized as an expense in the reporting period in which those payments are incurred. However, any portion of these variable payments that is fixed in-substance must be included in the lease liability. An example is a lease payment based on a percentage of sales or usage but with a required minimum amount to be paid. That required minimum payment is fixed in-substance.

3.4.4. Interest Rate. The future lease payments must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the

interest rate on marketable U.S. Department of the Treasury (Treasury) securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the Treasury).

3.4.4.1. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.4.4.2. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.4.4.3. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

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

3.4.5. Remeasurement of Lease Liability. The lessee must remeasure the lease liability at subsequent financial reporting dates if one or more of the stipulated changes in subparagraphs 3.4.5.1 through 3.4.5.6 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes, and if the changes individually or in the aggregate, are expected to significantly affect the amount of the lease liability since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.4.5.1. There is a change in the lease term;

3.4.5.2. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being required to be paid has changed from probable to not probable or vice versa;

3.4.5.3. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa;

3.4.5.4. There is a change in the estimated amounts for payments already included in the liability (except as provided in subparagraph 3.4.5.7);

3.4.5.5. There is a change in the interest rate the lessor charges the lessee if used as the initial discount rate; or

3.4.5.6. A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

3.4.5.7. If a lease liability is remeasured for any of the changes in subparagraphs 3.4.5.1 through 3.4.5.6., the liability also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

3.4.5.8. The lessee also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability: (1) There is a change in the lease term or (2) An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.

3.4.5.9. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the interest rate on marketable Treasury securities.

3.4.5.10. If the discount rate is required to be updated based on the provisions in subparagraph 3.4.5.8., the discount rate must be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the interest rate on marketable Treasury securities with a similar maturity to the term of the lease at the time the discount rate is updated must be used as described in subparagraph 3.4.4.

3.4.6. Lease Asset. A lessee must initially measure the lease asset as the sum of subparagraphs 3.4.6.1 through 3.4.6.3:

3.4.6.1. The amount of the initial measurement of the lease liability, as determined by section 3.4.2;

3.4.6.2. Lease payments made to the lessor (e.g., prepaid rents) at or before the commencement of the lease term, less any lease incentives; and

3.4.6.3. Initial direct lease costs that are necessary to place the lease asset into service.

3.4.6.4 A lease asset must be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except as provided in subparagraph 3.4.6.5. For example, if the useful life for the asset is five years but the lease term is 4 years, the amortization of the lease asset is 4 years. If the useful life of the asset is five years,

but the lease term is 7 years, the amortization of the lease asset is 5 years. The amortization of the lease asset must be reported as amortization expense. Refer to Chapter 25 for more information on asset useful life.

3.4.6.5. If a lease contains a purchase option that the lessee has determined is probable of being exercised, the lease asset must be amortized over the useful life of the underlying asset. However, if the underlying asset will be capitalizable and non-depreciable in the reporting period the purchase option is expected to be exercised, the lease asset must not be amortized. If the underlying asset will be non-capitalizable in the reporting period the purchase option is expected to be exercised, the lease asset must be amortized over the remaining lease term.

3.4.6.6. The lease asset generally must be adjusted by the same amount when the lease liability is remeasured. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of lease terminations and modifications.

3.4.6.7. Leased assets are subject to SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. The presence of impairment indicators to the underlying asset may result in a change in the manner or duration of use of the lessee's rights to obtain and control access to economic benefits and services derived from the underlying asset and the application of SFFAS 44. The change in the manner or duration of use of the underlying asset is an indicator that the lease asset may be impaired. If impaired, the lease asset must be reduced first for any change in the lease liability resulting from remeasurement under subparagraph 3.4.5., or terminations or modifications under paragraph 3.9. Any remaining amount must be recognized as an impairment loss. SFFAS 44 provides criteria for testing for impairment, along with recognizing, reporting, and disclosing impairment losses. This guidance must be applied to lease assets to the extent that impairment losses exceed any reduction to the lease liability and lease asset that may stem from the impairment.

3.4.7. Lease Term. The lessee's lease term includes the noncancelable period and the following periods, if applicable:

3.4.7.1. Those periods specified in the lease contract or agreement that relate to a lessee's option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option; and

3.4.7.2. Those periods specified in the lease contract or agreement that follow a lessee's option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if it is probable, based on all relevant factors, that the lessee will not exercise that option.

3.4.8. Disclosure Requirements for Lessees

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

3.4.8.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease liability are determined;

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

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

3.4.8.4. Principal and interest requirements to the end of the lease term, presented separately, for the lease liability for each of the five subsequent years and in five-year increments thereafter; and

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

3.5 Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases

3.5.1. At the commencement of the lease term, a DoD Component as the lessor must recognize a lease receivable and unearned revenue, for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Any initial direct lease costs incurred by the lessor must be reported as an expense of the period.

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

3.5.2.1. Fixed payments;

3.5.2.2. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term;

3.5.2.3. Variable lease payments that are fixed in-substance;

3.5.2.4. Residual value guarantees that are fixed payments in-substance; and

3.5.2.5. Any lease incentives payable to the lessee.

3.5.3. Variable payments based on the future performance of the lessee or usage of the underlying asset must not be included in the measurement of the lease receivable. Rather, those payments must be recognized as revenue in the reporting period to which those payments relate. However, any portion of those variable payments that are fixed in-substance must be included in the lease receivable. For example, if a lease payment is based on a percentage of sales but has a required minimum payment, that required minimum is a fixed payment in-substance. Similarly, a residual value guarantee is an in-substance fixed payment if it stipulates the underlying asset will be sold at the end of the lease term, with the lessee assuming liability for any shortfall if the sales price is less than an agreed-upon minimum amount.

3.5.4. Amounts to be received under residual value guarantees (that are not fixed in-substance) must be recognized as a receivable and revenue when (a) a guarantee payment is required (as agreed to by the lessee and lessor) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalty for lease termination must be recognized as a receivable and revenue when those options are exercised.

3.5.5. Interest Rate. The future lease payments to be received must be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, it must be based on the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date), with a similar maturity to the term of the lease (as determined by the U.S. Department of the Treasury).

3.5.5.1. If the interest rate is based on marketable Treasury securities, it must be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or the interest rate on marketable Treasury securities on the subsequent financial reporting date).

3.5.5.2. The interest rate may be based on a recent interest rate on marketable Treasury securities or a historical average interest rate on marketable Treasury securities of similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

3.5.5.3. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities must be consistent from period to period.

3.5.5.4. DoD Components must not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, they must select the longest Treasury maturity. For example, if the longest Treasury maturity at the commencement of the lease term is 30 years, DoD Components must select the 30-year rate as the discount rate for a lease with a 75-year term.

3.5.5.5. In subsequent financial reporting periods, the lessor must calculate the amortization of the discount on the receivable and report that amount as interest revenue for the period. Any payments received must be allocated first to the accrued interest receivable and then to the lease receivable.

3.5.6. Remeasurement of Lease Receivable. The lessor must remeasure the lease receivable at subsequent financial reporting dates if one or more of the changes in subparagraphs 3.5.6.1 through 3.5.6.3 have occurred at or before that financial reporting date, based on the most recent lease contract or agreement before the changes and the changes individually or in the aggregate, are expected to significantly affect the amount of the lease receivable since the previous measurement. Changes arising from amendments to a lease contract or agreement must be accounted for under the provisions of paragraph 3.9 for lease modifications and terminations.

3.5.6.1. There is a change in the lease term;

3.5.6.2. There is a change in the interest rate the lessor charges the lessee;

3.5.6.3. A contingency, upon which some or all of the variable payments that will be received over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease receivable. For example, an event occurs that results in variable payments that are contingent on the performance or use of the underlying asset becoming fixed payments for the remainder of the lease term.

3.5.6.4. If a lease receivable is remeasured for any of the changes described in subparagraphs 3.5.6.1 through 3.5.6.3, the receivable also must be adjusted for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the receivable since the previous measurement. A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable lease payments.

3.5.6.5. The lessor also must update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease receivable: (1) there is a change in the lease term, or (2) there is a change in the interest rate the lessor charges the lessee.

3.5.7. Unearned Revenue.

3.5.7.1. A lessor must initially measure the unearned revenue to include the following: (1) the amount of the initial measurement of the lease receivable, and (2) lease payments received from the lessee at or before the commencement of the lease term that relates to future periods (for example, the final month's rent), less (3) any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

3.5.7.2. A lessor subsequently must amortize the unearned revenue, recognizing it as earned revenue, in a systematic and rational manner over the term of the lease. The unearned revenue generally must be adjusted using the same amount as the change resulting from the

remeasurement of the lease receivable. However, if the change reduces the carrying value of the unearned revenue to zero, any remaining amount must be reported in the statement of net cost as a loss.

3.5.8. Underlying Asset. A lessor must not derecognize the asset (PP&E) underlying the lease. A lessor must continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease contract or agreement requires the lessee to return the asset in its original or enhanced condition, a lessor must not depreciate the asset during the lease term.

3.5.9. Lease Term. The lessor's lease term includes:

3.5.9.1. Those periods specified in the lease contract or agreement that relate to a lessor's option to extend the lease if there is significant evidence, based on all relevant factors, that the lessor will exercise that option; and

3.5.9.2. Those periods specified in the lease contract or agreement that follow a lessor's option to terminate the lease (up until the point in time when there is another option or, if none, the end of the lease) if there is significant evidence, based on all relevant factors, that the lessor will not exercise that option.

3.5.9.3. Lease term options should be considered in chronological order - with the lessee options considered first. If a determination is made that an additional period will not be added to the lease term for an option based on the likelihood criteria listed in section 3.5.9, subsequent options will not be considered.

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

3.5.10.1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined;

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

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

3.5.10.4. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.

3.5.10.5. If a DoD Component's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the DoD Component must 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.

3.6 Lease Incentives and Lease Concessions

3.6.1. Lease incentives and lease concessions reduce the amount that a lessee is required to pay for a lease. For leases other than short-term leases and intragovernmental leases, lease incentives and lease concessions that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in the initial measurement by directly reducing the amount of the lease asset.

3.6.2. Lease incentive and lease concession payments to be provided after the commencement of the lease term must be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Those payments must be measured by lessees consistently with the lessee's lease liability and by lessors consistently with the lessor's lease receivable. Accordingly, lease incentive and lease concession payments to be provided after the commencement of the lease term are included in the initial measurement and any remeasurement if they are fixed or fixed in-substance, whereas variable or contingent lease incentive or lease concession payments are not included in the initial measurement.

3.6.3. Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee must be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions. As leasehold improvements are paid for (financed) by the lessee, leasehold improvements would not be considered a lease incentive or concession received from the lessor.

3.7 Contracts or Agreements With Multiple Elements

3.7.1. Lessors and lessees may enter into contracts or agreements that contain multiple elements, such as a contract or agreement that contains both a lease element and a non-lease element, or a lease that contains multiple underlying assets.

3.7.2. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and non-lease elements (such as maintenance services for the building), the lease and non-lease elements must be accounted for as separate contracts or agreements unless the contract or agreement meets the exception in subparagraph 3.7.5.

3.7.3. If a lease involves multiple underlying assets and the assets have different lease terms, the lessor and lessee must account for each underlying asset as a separate lease element. The provisions of paragraph 3.7 must be applied unless the contract or agreement meets an exception in subparagraph 3.7.5.

3.7.4. To allocate the contract or agreement price to the different elements, lessors and lessees must first use any prices for individual elements that are included in the contract or agreement, as long as the price allocation does not appear to be unreasonable based on the terms

of the contract or agreement and professional judgment, maximizing the use of observable information, for example, using readily available observable stand-alone prices. Stand-alone prices are those that would be paid or received if the same or similar assets were leased individually or if the same or similar non-lease elements (such as services) were contracted individually. Some contracts or agreements provide discounts for bundling multiple leases or lease and non-lease elements together in one contract or agreement. These discounts may be considered when determining whether individual element prices do not appear to be unreasonable. For example, if the individual element prices are each discounted by the same percentage from normal market prices, those element prices would not be considered unreasonable.

3.7.5. If a contract or agreement does not include prices for individual elements or if any of those prices appear to be unreasonable, lessors and lessees must use professional judgment to determine their best estimate for allocating the contract or agreement price to those elements, maximizing the use of observable information. If it is not practicable to determine the best estimate for price allocation for some or all elements in a contract or agreement, those elements must be accounted for as a single lease unit.

3.7.6. If multiple elements are accounted for as a single lease unit, the accounting for that unit must be based on the primary lease element within that unit. For example, the primary lease element's lease term must be used for the unit if the lease elements have different lease terms.

3.8 Contract or Agreement Combinations

3.8.1. Contracts or agreements that are entered into at or near the same time with the same counterparty must be considered to be part of the same lease contract or agreement if either of the following criteria is met: (1) the contracts or agreements are negotiated as a package with a single objective; and (2) the amount of consideration to be paid in one contract or agreement depends on the price or performance of the other contract or agreement.

3.8.2. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement must be evaluated in accordance with the guidance for contracts or agreements with multiple elements as described in paragraph 3.7.

3.9 Lease Terminations and Modifications

3.9.1. The provisions of a lease contract or agreement may be amended while the contract or agreement is in effect. Examples of amendments to lease contracts or agreements include changing the contract or agreement price, lengthening, or shortening the lease term, and adding or removing an underlying asset. An amendment must be considered a lease modification unless the lessee's right to use the underlying asset decreases, in which case the amendment must be considered a partial or full lease termination. By contrast, exercising an existing option, such as an option to extend or terminate the lease, is subject to the guidance for remeasurement.

3.9.2. Lease Terminations. The lessee and lessor must account for an amendment during the reporting period resulting in a decrease in the lessee's right to use the underlying asset (for

example, the lease term is shortened, or the number of underlying assets is reduced) as a partial or full lease termination.

3.9.2.1. Lessee Treatment of Lease Terminations. A lessee generally must account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing the underlying asset from the lessor, the lease asset must be reclassified to the appropriate class of owned asset.

3.9.2.2. Lessor Treatment of Lease Terminations. A lessor must account for the full or partial termination of a lease by reducing the carrying values of the lease receivable and related unearned revenue and recognizing a gain or loss for the difference. However, if the lease is terminated because of the lessee purchasing an underlying asset from the lessor, the carrying value of the underlying asset also must be derecognized and included in the calculation of any resulting gain or loss.

3.9.3. Lease Modifications. The lessee and lessor must account for an amendment during the reporting period resulting in a modification to a lease contract or agreement as a separate lease (that is, separate from the most recent lease contract or agreement before the modification) if both of the following conditions are present: (1) the lease modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease contract or agreement; and (2) the increase in lease payments for the additional lease asset does not appear to be unreasonable based on (a) the terms of the amended lease contract or agreement and (b) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

3.9.3.1. Lessee Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessee must account for a lease modification by remeasuring the lease liability. The lease asset must be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. However, if the change reduces the carrying value of the lease asset to zero, any remaining amount must be reported in the statement of net cost as a gain.

3.9.3.2. Lessor Treatment of Lease Modifications. Unless a modification is reported as a separate lease, a lessor must account for a lease modification by remeasuring the lease receivable. The unearned revenue must be adjusted by the difference between the remeasured receivable and the receivable immediately before the lease modification. However, to the extent the change relates to payments for the current period, the change must be recognized as revenue or expense for the current period.

3.10 Subleases

3.10.1. A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor must continue to apply the general lessor guidance. The DoD Component that is the original lessee and becomes the lessor in the sublease must account for the original lease and the sublease as two separate transactions,

as a lessee and a lessor, respectively. Those two separate transactions must not be offset against one another. The new lessee must apply the general lessee guidance.

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

3.11 Sale-Leaseback Transactions

3.11.1. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback must include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale must be accounted for as a borrowing by both the seller-lessee and the buyer-lessor. Refer to SFFAS 7, "Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting," paragraph 295 (with the public) and paragraphs 314-315 (intragovernmental).

3.11.2. The sale and lease portions of a sale-leaseback transaction must be accounted for as two separate transactions: (1) a sale transaction; and (2) a lease transaction, except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be reported as unearned revenue or deferred expense to be recognized in the statement of net cost systematically and rationally over the term of the lease. However, if the lease portion of the transaction qualifies as a short-term lease, any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale must be recognized immediately.

3.11.3. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between: (a) the sales price and the estimated fair value of the asset; or (b) the present value of the contractual lease payments and the estimated present value of what the lease payments for that asset would be at a market price, whichever of the two differences is more readily determinable. The difference must be reported based on the substance of the transaction (for example, as a borrowing, a non-exchange transaction, or an advance lease payment) rather than as a part of the sales-leaseback transaction.

3.11.4. A seller-lessee must disclose the terms and conditions of sale-leaseback transactions as part of the disclosures required of a lessee. A buyer-lessor must disclose the terms and conditions as part of the disclosures required of a lessor.

3.12 Lease-Leaseback Transactions

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a DoD Component) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction must be displayed in the financial statements as a net transaction. Both parties to a lease-leaseback transaction must disclose the amounts of the lease and the leaseback separately.

3.13 Capitalization Thresholds

A capitalization threshold is the amount that determines the financial reporting of an asset or expensing its cost. See Table 26-1 for capitalization thresholds. The applicable capitalization threshold for the underlying assets (PP&E) is applied to the lease assets. Refer to Chapters 4 and 25 for additional guidance on capitalization thresholds for real property and general equipment, respectively.

3.14 Intragovernmental Leasehold Reimbursable Work Agreements

3.14.1. Normally, for intragovernmental reimbursable leasehold work agreements, the customer-lessee is expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset. The customer-lessee must recognize the leasehold improvement, which is a type of PP&E asset in accordance with subparagraphs 3.3.2.2 and paragraph 3.13.

3.14.2. The provider-lessor would not be expected to derive significant residual economic benefits or services from such reimbursable work under these types of agreements. The provider-lessor must expense the costs incurred for the reimbursable work and recognize the amounts received as reimbursement as intragovernmental revenue. The provider-lessor must account for the underlying asset other than the leasehold improvement (recognized by the customer-lessee in these types of agreements) in a manner consistent with subparagraph 3.5.8.

3.14.3. However, for acquisitions, construction, improvements, and/or alterations under an intragovernmental reimbursable leasehold work agreement with an expected useful life beyond the remaining lease term and for which the provider-lessor is expected to derive a significant level of residual economic benefits and services from the reimbursable work, the customer-lessee would not be considered the predominant beneficiary. For these types of agreements, the customer-lessee and provider-lessor must follow the guidance under this subparagraph.

3.14.3.1. Customer-Lessee. The federal entity paying for the acquisition/construction of, or improvements and/or alterations to, the underlying asset provided by the provider-lessor on a reimbursable basis.

3.14.3.1.1. Customer-lessees must initially recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, construction, improvement, and/or alteration costs (in accordance with subparagraph 3.3.3.1).

3.14.3.1.2. Customer-lessees must amortize the intragovernmental reimbursable work asset systematically and rationally over the shorter of: (a) the remainder of the lease term; or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. The amortization of the intragovernmental reimbursable work asset must commence when the customer-lessee has access to economic benefits and services resulting from the reimbursable work and be reported as amortization expense.

3.14.3.1.3. Coordination with the provider-lessor on asset amount and subsequent amortization can facilitate the elimination of inter-entity balances and costs in a manner consistent with SFFAS 4 (i.e., paragraphs 108-113) when appropriate for purposes of recognizing the full cost of goods and services provided for inter-entity business-type activities, and the elimination of inter-entity balances and transactions.

3.14.3.1.4. Customer-lessees must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.3.2.3.

3.14.3.2. Provider-lessor. The federal entity providing the acquisition/construction of, or improvements and/or alterations to, the underlying asset to the customer-lessee on a reimbursable basis.

3.14.3.2.1. Provider-lessors must initially recognize an intragovernmental unearned reimbursable work revenue liability for the amount receivable for reimbursable work acquisitions, construction, improvements, and/or alterations (in accordance with subparagraph 3.3.3.1).

3.14.3.2.2. Provider-lessors must recognize the intragovernmental reimbursable work revenue systematically and rationally over the shorter of (a) the remainder of the lease term or (b) the useful life of the underlying asset acquired/constructed, or improvements/alterations thereto associated with the reimbursable work. Revenue recognition must commence when the provider-lessor provides access to the economic benefits and services resulting from the reimbursable work.

3.14.1.3.3. Coordination with the customer-lessee on revenue recognition can facilitate the elimination of inter-entity balances and earned revenues (in accordance with subparagraph 3.3.3.1).

3.14.1.3.4. Provider-lessors must disclose a general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under subparagraph 3.5.10.

4.0 ADDITIONAL CONSIDERATIONS

*4.1 Standard General Ledger Accounts

The U.S. Standard General Ledger (USSGL) accounts used to report DoD lease entries are provided in the Transaction Library and Standard Reporting Chart of Accounts available on the Office of the Deputy Chief Financial Officer Standard Financial Information Structure ([SFIS](#)) web page.

4.2 Recognition Uncertainty

4.2.1. In situations where doubt exists as to which DoD Component must record an item, the DoD Components involved must reach an agreement with the other applicable DoD Component(s) or federal agencies as to which entity will record the item.

4.2.2. If the DoD Components cannot reach an agreement, the matter must be referred to the Office of the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) for resolution. Requests for resolution must be accompanied by adequate supporting documentation to assist in the resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense Agency.

4.2.3. The DoD Component that procures an item of PP&E by entering a lease will be the DoD Component that must initially record the lease transaction. In the event a DoD Component other than the initial lessee uses and benefits from a lease asset, the recognition responsibility of the lease asset must be re-evaluated.

4.3 Bulk Acquisitions Through Leases

Other than short-term contracts or agreements that transfer ownership, and intragovernmental leases, a bulk acquisition is defined as the acquisition of like items, of which their individual value does not meet the capitalization threshold, as part of multiple leases with a single lessor within a fiscal year. Acquisitions through multiple leases with a single lessor during separate fiscal years are to be considered separately within each fiscal year. To determine proper recognition of bulk acquisitions through leases, the acquisition cost of all like items leased, under multiple leases with a single lessor within a fiscal year must be totaled, and the resulting total must be considered against the lease criteria for capitalization and the capitalization threshold prescribed by paragraph 3.13. Refer to Volume 4 Chapter 25 for additional guidance regarding Bulk Acquisitions.

4.4 Accounting for Real Property Leases Outside of the United States and Managed by the Department of State.

As used in this chapter, the term “outside of the United States” means other than the 50 States of the United States, the District of Columbia, and the commonwealths, territories, and possessions of the United States. For real property leases that are managed by the Department of the State, the Department of State’s Bureau of the Comptroller and Global Financial Services (CGFS) will provide relevant lease data to any agencies who occupy real property overseas and will allocate the residential housing pool lease balances (i.e., liability, corresponding right to use asset, and amortization) across the participating agencies. The applicable DoD Component with the assigned leases, will have to record the applicable allocation/portion in their book and records. The housing pool allocation will be based on each federal agency’s share of the estimated expenses for the next fiscal year and will be applied across the entire housing pool’s net present value calculation. For further information or assistance contact CGFS at sffas54leases-cgfs@state.gov.

4.5 Use of Canceled Treasury Account Symbol

4.5.1. The Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) is a data collection system that replaces the reporting functionalities of Federal Agencies Centralized Trial Balance System I and II, Intra-governmental Fiduciary Confirmation System, and Intra-governmental Reporting and Analysis System, as the primary means for DoD Components to report their trial balance data to Treasury. Capitalized assets are required to be reported and remain in GTAS after the original purchasing Treasury Account Symbol (TAS) has expired and been canceled. If a capitalized asset has not been moved to a canceled ("C") TAS as described in subparagraph 4.5.2; GTAS will provide a "C" TAS on the GTAS Super Master Use of Canceled Treasury Account Symbol Account File (SMAF) for each fund family represented on the SMAF. The system-generated "C" TAS will have three elements: the three-digit agency identifier, availability type "C", and a four-digit main account.

4.5.2. All DoD Components must use the "C" availability type TAS to report capitalized assets. Assets may be moved to a "C" TAS at any time from the purchase date to the date the original purchasing fund is canceled. (Refer to the [*TFM Volume 1, Part 2, Chapter 4700*](#) for additional information.)

4.5.3. To transfer an asset to a "C" TAS

4.5.3.1. Use USSGL account transaction E510 to transfer-out the asset from the purchasing fund account.

4.5.3.2. Use USSGL account transaction E606 to transfer-in the asset into the appropriate "C" TAS

*4.6 Supporting Documentation

4.6.1. Entries to record financial transactions must be supported by source documents reflecting all transactions affecting the DoD Component's investment in assets under a lease.

4.6.2. All leases must be supported as of the date the DoD Component takes custody of the asset. The documents listed in [Table 26-2](#) must be readily available to support the changes in lease asset value or physical attributes because of a new lease, leasehold improvements, impairments, modifications, and terminations:

4.6.3. Lease documents must be retained by the DoD Component in accordance with the Volume 1, Chapter 9 requirements or as otherwise stated. Documentation (original documents and/or hard and electronic copies of original documentation) must be maintained in a readily available location during the applicable retention period. The documentation must also be linked to the appropriate unique identifier(s).

4.6.4. Include sufficient lease information indicating the physical quantity, location, and unit cost of the PP&E underlying assets. The accountable property records must support

procurement and utilization decisions, including identifying potential excess PP&E for reuse, transfer to other DoD Components, or disposal.

4.6.5. Documentation must enable periodic, independent verification of the accounting and accountable property records through periodic physical counts/inventories of PP&E underlying assets (existence and completeness – “book to floor and floor to book”). Reconcile the Accountable Property System of Record (APSR) and accounting systems with the USSGL accounts and physical counts. Personal hand receipt self-validations are not acceptable. See DoDI 5000.64 (excluding real property) and DoDI 4165.14 for real property.

4.6.6. Identify and classify PP&E that was capitalized, recorded in the APSR and accounting system, and reported in the financial statements.

4.6.7. Use the same documents for the accounting and accountable property records. Property accountability records must be integrated and reconciled with the accounting system.

4.6.8. Include all PP&E possessed by the Department (to include DoD leased property held by contractors).

4.6.9. Identify and account for all leased PP&E.

4.6.10. Identify and account for improvements to PP&E lease assets.

4.7 Physical Inventories of PP&E

DoD Components must perform periodic physical inventories of real property and general equipment in accordance with DoDI 4165.14 and DoDI 5000.64, respectively.

4.8 Reporting Requirements

DoD Components with leased PP&E must reference a note on the Balance Sheet that discloses information about the reported assets. See Volume 6B for the specific reporting requirements.

4.9 Environmental Liabilities/Cleanup Costs

The lease agreement must clearly identify the party responsible for environmental liabilities/cleanup costs. The accounting policy for environmental liabilities/cleanup costs on PP&E is contained in Chapter 13.

*Table 26-1 Capitalization Thresholds

Entity	Capitalization Threshold
Army Real Property	\$1,000,000
Air Force Real Property	\$1,000,000
Air Force General Fund General Equipment	\$1,000,000
Navy Real Property	\$1,000,000
Navy General Fund General Equipment	\$1,000,000
Marine Corps Real Property	\$500,000
Army Corps of Engineers Buildings and Structures Related to Hydropower	Capitalized regardless of cost
Army Corps of Engineers General PP&E Other than Buildings and Structures Related to Hydropower	\$25,000
DoD Intelligence Community Entities (All PP&E)	\$1,000,000
All Other DoD Component General Funds and Working Capital Funds' PP&E	\$250,000

Table 26-2 Supporting Documentation

Evidence	Examples
Unique Identification	Assignment of a unique identifier
Project Approval	Work Order or similar document
Obligation on Behalf of the Government	<ol style="list-style-type: none"> For leases or lease modifications: <ul style="list-style-type: none"> Statement of Work; Dollar Amount of Lease; Location; Source of Funds; Parties to the Lease agreement; and Signature Page [Signature of All Parties]. Approved Work Order Evidence supporting asset impairment.
Payment Submitted	Approved last invoice reflecting the total amount submitted for payment to date.
Acceptance	<ol style="list-style-type: none"> DoD <i>DD Form 250</i>, Material Inspection and Receiving Report; <i>General Services Administration Form 1334</i>, Request for Transfer of Excess Real and Related Personal Property; <i>DD Form 1354</i>, Transfer and Acceptance of DoD Real Property (interim or final), with associated source documentation retained by the responsible party; Signed lease for leased property; Executed Occupancy agreement; and Transfer letter and documents for transferred assets.