



## OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1100

September 25, 2020

MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS  
(FINANCIAL MANAGEMENT AND COMPTROLLERS)  
COMPTROLLER OF THE JOINT STAFF  
CHIEF FINANCIAL EXECUTIVES OF THE COMBATANT  
COMMANDS  
CHIEF FINANCIAL EXECUTIVE OF THE DEPARTMENT OF  
DEFENSE OFFICE OF INSPECTOR GENERAL  
CHIEF FINANCIAL EXECUTIVES OF DEFENSE AGENCIES  
CHIEF FINANCIAL EXECUTIVES OF DOD FIELD ACTIVITIES

SUBJECT: Implementation of Statement of Federal Financial Accounting Standards 54,  
Leases (FPM 20-03)

This memorandum establishes financial reporting policy for all DoD components regarding implementation of Statement of Federal Financial Accounting Standards (SFFAS) 54, “Leases.” This policy is applicable only to financial reporting and does not alter, supersede, or replace General Property, Plant, and Equipment (GPP&E) asset accountability requirements established by law or in any DoD Instructions. All lease assets<sup>1</sup> must continue to be recognized for asset accountability purposes in accordance with existing law and policy.

The Federal Accounting Standards Advisory Board issued SFFAS 58, “Deferral of the Effective Date of SFFAS 54,” on June 19, 2020, to defer the effective date of SFFAS 54 to reporting periods beginning after September 30, 2023. Earlier implementation is not permitted.

SFFAS 54 will replace and rescind the measurement and reporting requirements for lease accounting established in SFFAS 5, paragraphs 43-46, and SFFAS 6, paragraphs 20 and 29. SFFAS 54 will be applied prospectively to unexpired leases at the beginning of the reporting period in which the standard is effective.

DoD components are directed to begin preparatory SFFAS 54 implementation efforts immediately to be fully prepared to comply by the effective date. SFFAS 54 establishes a new framework applicable to leases granting the right to control the use of GPP&E other than internal use software and assets under construction. Implementation of the new framework will require substantial effort including engagement and training of cross-functional implementation teams; significantly improved internal controls and systems to support establishing and maintaining a complete universe of leases and related data; extensive data capture; consideration of materiality including potential effects on the appropriate lease asset capitalization recognition threshold; additional disclosure requirements; and documentation.

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<sup>1</sup> “Lease asset” is the new term in SFFAS 54 for capitalized GPP&E under a lease (similar to capital lease accounting under SFFAS 5 and 6).

SFFAS 54 addresses lease accounting standards by both lessees and lessors. For financial reporting purposes, all lease transactions must be recognized in accordance with SFFAS 54 when it becomes effective. Recognition requires the proper financial accounting treatment and reporting of lease assets, lease liabilities, lease receivables, lease expenses, lease revenue, and other amounts related to all types of leases.

The DoD component that procures an item of GPP&E by entering into 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 reevaluated.

For assets leased and DoD is the lessor, the DoD component that reported the underlying GPP&E should continue to report the item under lease. The DoD component responsible for collecting payments from the lessee should report the lease receivable and deferred revenue in accordance with SFFAS 54.

Note that SFFAS 54 does **not** alter budgetary treatment of lease-purchases and leases of capital assets. The Office of Management and Budget (OMB) establishes budgetary requirements through OMB Circular A-11, "Preparation, Submission, and Execution of the Budget." DoD components must continue to adhere to the applicable OMB Circular A-11 guidance for budgetary purposes and for applying the scorekeeping rules on lease-purchases and leases of capital assets.

Attachments 1 through 4 provide helpful information for implementation. Attachment 1 provides an overview of the SFFAS 54 framework. This overview is not a substitute for a thorough review of SFFAS 54. Attachment 2 identifies major disclosure requirements of SFFAS 54. Attachment 3 consists of initial lease assessment surveys to assist DoD components in identifying their existing lease population. Attachment 4 is a list of DoD recommended data elements to record leases in the applicable financial systems.

This policy change and relevant provisions of SFFAS 54 will be incorporated in future updates of the DoD Financial Management Regulation, Volume 4, Chapters 12, 19, 24, 25, 26, 27, and 28; Volume 6B, Chapters 4 and 10; and Volume 12, Chapter 14. Other chapters will require administrative updates to conform terminology related to leases in accordance with SFFAS 54.

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Mark E. Easton  
Deputy Chief Financial Officer

Attachments:  
As stated



## I. New Definitions

For the purposes of financial accounting, a lease is a contract or agreement whereby one entity (**lessor**<sup>1</sup>) conveys the right to control the use of General Property, Plant, and Equipment (GPP&E) (the underlying asset) to another entity (**lessee**<sup>2</sup>) for a period of time as specified in the contract or agreement in exchange for consideration.

- Leases include contracts or agreements not explicitly identified as leases but that meet the definition of a lease.
- To determine whether a contract or agreement conveys the right to control the use of the underlying asset, assess whether the contract or agreement gives the lessee both of the following:
  - The right to obtain economic benefits or services from use of the underlying asset as specified in the contract or agreement; and
  - The right to control access to the economic benefits or services of the underlying asset as specified in the contract or agreement.
- Complex contracts or agreements may contain (1) both lease (for example, right to use a building) and non-lease (for example, maintenance services) components and/or (2) leases of multiple underlying assets. Such lease components are often referred to as “embedded leases” but this term was not used in SFFAS 54. SFFAS 54 paragraphs 72-77 provide guidance for identifying such leases and assigning costs to individual lease components for accounting purposes.
- SFFAS 54 does not apply to leases (licenses) of internal use software (see SFFAS 10, “Accounting for Internal Use Software”) or leases of assets under construction.

## II. Four New Categories

- Short-term leases (leases with lease terms<sup>3</sup> of 24 months or less).
- Contracts or agreements that transfer ownership<sup>4</sup> and do not contain options to terminate (classified as purchases of GPP&E by the lessee and as financed sales of assets by the lessor).

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<sup>1</sup> “Lessor” refers to the entity conveying the right to control the use of GPP&E to another entity (lessee) through a contract or agreement that qualifies as a lease.

<sup>2</sup> “Lessee” refers to the entity receiving the right to control the use of GPP&E from another entity (lessor) through a contract or agreement that qualifies as a lease.

<sup>3</sup> The lease term is the noncancelable period plus certain periods subject to options to extend or terminate the lease. See SFFAS 54, paragraphs 14-21. Determining the lease term will require considerable judgment due to the need to assess the likelihood that an option will be exercised.

<sup>4</sup> Such transfers of ownership would not be the result of exercise of purchase options. This type of contract or agreement establishes a firm transfer of ownership rather than an option to transfer ownership.



- Intragovernmental leases (those leases occurring within a consolidation entity<sup>5</sup> or between two or more consolidation entities).
- Leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases (hereafter referred to as “Leases”).

### III. New Accounting and Reporting Requirements

- Payments for both **short-term leases** (see SFFAS 54, paragraphs 22-24) and **intragovernmental leases** (see SFFAS 54, paragraphs 26-38) will be recognized as an expense by the lessee and as revenue by the lessor based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable/receivable and other related amounts. Note that, despite the simplified accounting approach, significant effort will be required to identify such leases and to meet intragovernmental lease disclosure requirements.
- Leases (excluding short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases) will be considered financing transactions that create liabilities and generate financing costs (see SFFAS 54, paragraphs A42-A43).
  - A **lessee** is required to recognize a lease liability and a GPP&E right-to-use lease asset (lease asset) when the lease commences (see SFFAS 54, paragraph 39).
    - Interest expense on the lease liability will be recognized and disclosed (see SFFAS 54, paragraphs 43 and 54).
    - Amortization expense for using the lease asset will be recognized over the shorter of the term of the lease or the useful life of the underlying asset (if there is a purchase option that is probable of being exercised, amortization expense is recognized over the useful life of the underlying asset) (see SFFAS 54, paragraphs 50-51).
  - A **lessor** is required to recognize a lease receivable (the discounted present value of certain payments to be received in the future) and a deferred revenue when the lease commences (see SFFAS 54, paragraph 55).
    - Deferred lease revenue will be systematically recognized as revenue over the term of the lease (see SFFAS 54, paragraphs 64-65). Deferred lease revenue excludes variable lease payments and

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<sup>5</sup> SFFAS 47, “Reporting Entity,” establishes guidance for identifying “consolidation entities” and “disclosure entities.” Consolidation entities are those entities “that should be consolidated in the financial statements in the [general purpose federal financial statements] GPPFR” (see SFFAS 47, paragraph 39). Disclosure entities are those entities “to be disclosed rather than consolidated in GPPFRs” (see SFFAS 47, paragraph 43). In addition to disclosures regarding disclosure entities, each reporting entity must account for transactions with disclosure entities (see SFFAS 47, paragraph 75d). Leases with disclosure entities (such as nonappropriated fund instrumentalities) are not intragovernmental leases.



## Implementation of SFFAS 54, Leases Overview of SFFAS 54 Framework September 2020

- residual value guarantees that are not fixed in-substance (see SFFAS 54, paragraphs 57-58).
- Interest revenue will be recognized based on amortization of the discount on the lease receivable (see SFFAS 54, paragraph 60).
  - A lessor should continue to report the asset underlying the lease in its financial statements and apply other applicable guidance including depreciation<sup>6</sup> and impairment (see SFFAS 54, paragraph 66).
- The lessee must consider impairment of lease assets by applying SFFAS 44, “Accounting for the Impairment of General Property, Plant, and Equipment Remaining in Use” (see SFFAS 54, paragraph 53).
  - The SFFAS 54 framework also provides guidance regarding:
    - Variable payments (see SFFAS 54 paragraphs 40, 41, 44, and 45 regarding lessee accounting as well as paragraphs 56, 57, 61, and 62 regarding lessor accounting);
    - Residual value guarantees (see SFAFS 54 paragraphs 40 and 44 regarding lessee accounting as well as paragraphs 56, 57, and 58 regarding lessor accounting);
    - Leasehold improvements (additions, alterations, remodeling, renovations, or other changes to a leased property that either extend the useful life of the existing property or improve its capacity and are paid for (financed) by the lessee) (see SFFAS 54, paragraphs 11, 20, 34, and 71);
    - Lessor improvements (additions, alterations, remodeling, renovations, or other changes to a leased property that either extend the useful life of the existing property or improve its capacity and are paid for (financed) by the lessor rather than by the lessee) (see SFFAS 54, paragraphs 12, 35, and 71);
    - Lease concessions (rent discounts made by the lessor to entice the lessee to sign a lease including rent holidays, free rent periods, reduced rents, or commission credits) (see SFFAS 54, paragraphs 10, 23, 33, 70, and 71);
    - Lease incentives (lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease including up-front cash payments or the lessor’s assumption of the lessee’s lease obligation under a different lease with another lessor) (see SFFAS 54, paragraph 9, 23, 32, 40, 49, 56, 64, 70, and 71);
    - Initial direct lease costs (costs directly attributable to negotiating and arranging a lease or portfolio of leases that would not have been incurred

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<sup>6</sup> Per SFFAS 54 paragraph 66, the lessor should not depreciate the underlying asset during the lease term if the lessee is required to return the asset in its original or enhanced condition.



## Implementation of SFFAS 54, Leases Overview of SFFAS 54 Framework September 2020

- without entering into the lease) (see SFFAS 54, paragraphs 13, 36, 49, and 55);
- Terminations (see SFFAS 54, paragraphs 80-83);
  - Modifications (see SFFAS 54, paragraphs 80 and 84-86);
  - Remeasurement (see SFFAS 54, paragraphs 44-48 and 52 for lessee guidance and paragraphs 61-63, 65, and 71 for lessor guidance);
  - Sale-leaseback transactions (the sale of an underlying asset by the owner and a lease of the property back to the seller (the original owner)) (see SFFAS 54, paragraphs 89-92);
  - Subleases (subleases involve three parties – the original lessor, the original lessee (who is also the lessor in the sublease), and the new lessee) (see SFFAS 54, paragraphs 87-88); and
  - Lease-leaseback transactions (an asset is leased by one party (first party) to another party and then leased back to the first party) (see SFFAS 54, paragraph 93).
- Disclosure requirements are considerably more detailed under SFFAS 54 than under prior accounting standards. See Attachment 2 for a list of major required disclosures.
  - The provisions of SFFAS 54 need not be applied to immaterial items. This general concept of materiality allows reporting entities to establish a capitalization threshold for lease assets under SFFAS 54. DoD components should use a lease asset capitalization threshold appropriate to the reporting entity and the new framework. An assessment will be required to ensure the capitalization threshold does not lead to material misstatements of assets or liabilities in the financial statements. When making materiality decisions, qualitative factors regarding lease liabilities create greater sensitivity than those regarding lease assets. Therefore, each DoD component should assess the applicable capitalization threshold to avoid materially understating either lease assets or lease liabilities.
    - The lease asset capitalization threshold assessment should be documented in writing.
    - Items acquired through a lease for a bulk acquisition<sup>7</sup> should be totaled and the resulting total must be considered against the lease asset capitalization threshold.
  - Payments related to leases having lease assets measured below the lease asset capitalization threshold may be expensed when paid.

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<sup>7</sup> A bulk acquisition through leases is defined as the acquisition of like items as part of multiple leases with a single lessor within a fiscal year.





**Implementation of SFFAS 54, Leases**  
**Major Disclosure Requirements**  
**September 2020**

**The major financial reporting disclosure requirements for DoD components (if applicable)**

<b>Disclosure Requirements for <u>Lessees</u></b>
<b>I. Leases<sup>1</sup></b>
➤ A general description of leasing, subleasing <sup>2</sup> , and sale-leaseback arrangements, including: <ul style="list-style-type: none"><li>• the basis, terms, and conditions on which variable lease payments not included in the lease liability are determined;</li><li>• the existence, terms, and conditions of residual value guarantees provided by the lessee; and</li><li>• the terms and conditions of any sale-leaseback arrangements.</li></ul>
➤ The total amount of lease assets and the related accumulated amortization, to be disclosed separately from other General Property, Plant, and Equipment (GPP&E) assets.
➤ The amount of lease expense recognized for the reporting period for variable lease payments not previously included in the liability.
➤ The amount of the annual lease expense and the discount rate used to calculate the lease liability.
➤ 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.
➤ For lease-leaseback arrangements disclose the amounts of the lease and the leaseback separately.
<b>II. Intragovernmental Leases</b>
➤ A general description of significant intragovernmental leasing arrangements, including general lease terms with applicable specific intragovernmental requirements.
➤ Annual lease expense in total and by major leased GPP&E category.

<sup>1</sup> “Leases” here refers to the type that excludes short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.

<sup>2</sup> SFFAS 54 indicates that the original lessee entering into a sublease should include the sublease in its general description of lease arrangements and its lessor transactions due to the sublease should be disclosed separately from its lessee transactions related to the original lease.



**Implementation of SFFAS 54, Leases  
Major Disclosure Requirements  
September 2020**

<b>Disclosure Requirements for <u>Lessors</u></b>
<b>I. Leases<sup>3</sup></b>
➤ A general description of its leasing, subleasing <sup>4</sup> , and sale-leaseback arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined.
➤ 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.
➤ The carrying amount of assets on lease by major class of assets and the amount of related accumulated depreciation.
➤ The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases.
➤ If the 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 fiscal years and in five-year increments thereafter.
➤ For lease-leaseback arrangements disclose the amounts of the lease and the leaseback separately.
<b>II. Intragovernmental Leases:</b>
➤ A general description of significant intragovernmental leases, including a breakdown of the number of leases with federally-owned assets and non-federally-owned assets.
➤ 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.

<sup>3</sup> “Leases” here refers to the type that excludes short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.

<sup>4</sup> SFFAS 54 indicates that the original lessee entering into a sublease should include the sublease in its general description of lease arrangements and its lessor transactions due to the sublease should be disclosed separately from its lessee transactions related to the original lease.





**Implementation of SFFAS 54, Leases  
Initial Lease Assessment Surveys  
September 2020**

The attached workbook contains initial lease assessment surveys to assist DoD components in identifying their existing lease population.

<b>SFFAS 54 Implementation - Initial Lease Assessment Surveys</b>	
<b>Background</b>	
<p><i>SFFAS 54, Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment ("SFFAS 54" or "the New Lease Accounting Standard")</i> was issued by the Federal Accounting Standards Advisory Board ("<i>FASAB</i>" or "<i>the Board</i>") on April 17, 2018, with an effective date of October 1, 2020. The Board later issued SFFAS 58, "Deferral of the Effective Date of SFFAS 54," on June 19, 2020 to defer the SFFAS 54 effective date to <i>periods beginning after September 30, 2023</i>.</p>	
<b>Purpose</b>	
<p>Purpose of the initial <i>SFFAS 54 Assessment Survey</i> is to assist Department of Defense (DoD) components to complete the following:</p> <p><b>Tab 1 - Overall Assessment:</b> Perform an initial assessment of all major assets types used in day to day business and operations (whether for administrative/management purposes or operational) to identify those deployed through known lease arrangements or through a lease element embedded in service arrangements/supply management contracts.</p> <p><b>Tab 2 - Known Lease Population:</b> Perform an initial assessment of the DoD component's pre-existing (i.e., "known") lease population comprised of contracts identified as leases within the currently applicable framework of SFFAS 5/6 <b>with the assumption that such contracts will also be considered leases under the scope of SFFAS 54</b> (i.e., due to a broader definition of a "lease" under SFFAS 54).</p> <p><b>Tab 3 - Embedded Leases:</b> For service arrangements that involve rights to use underlying physical assets (i.e., those identified in Tab 2), perform deeper analysis for a sample contracts for each type of service line to identify lease components embedded therein.</p> <p><b>Tab 4 - Lease Inventory:</b> List all existing leases and identify those that will still be effective on October 1, 2023 (effective date).</p>	
<b>Procedures /Surveys</b>	
Tab 1 Overarching Analysis	<p>(i) Identify all assets known to be key to the DoD component operations (based on management's knowledge of such operations) and assess whether each type of asset is either owned, leased or used through a service arrangement.</p> <p>(ii) Identify all service lines (received from those outside the DoD component or provided to those outside the DoD component) that result in revenues/costs. Assess each major service line to determine whether it involves a physical asset that is dedicated to the contract.</p>
Tab 2 Known Lease Survey	Gather preliminary information regarding the DoD component's pre-existing lease landscape prior to SFFAS 54 transition.
Tab 3 Embedded Leases Survey	Further assess sample contracts obtained for service lines (as identified in Tab 1) that may include embedded lease components that are blended with the service element within a single contract.
Tab 4 Lease Inventory	List all identified leases based on the completed analysis and surveys under Tab 1, 2, and/or 3.
<b>SFFAS 54 Guidance - LEASE IDENTIFICATION [FOR REFERENCE ONLY]</b>	
<b>Scope</b>	
<p><i><b>SFFAS 54, paragraph (par.) 2</b> For purposes of applying this Statement, a lease is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of property, plant, and equipment (PP&amp;E) (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. To qualify as a lease, the underlying asset typically should be identified by being explicitly specified in a contract or agreement. However, an asset also can be identified by being implicitly specified at the time that the asset is made available for use by the lessee. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease.</i></p> <p><i><b>SFFAS 54, par. 3</b> To determine whether a contract or agreement conveys the right to control the use of the underlying asset, a federal entity should assess whether the contract or agreement gives the lessee both of the following:</i></p> <p><i>a. The <b>right to obtain economic benefits</b> or services from use of the underlying asset as specified in the contract or agreement</i></p> <p><i>b. The <b>right to control access</b> to the economic benefits or services of the underlying asset as specified in the contract or agreement</i></p> <p><i><b>SFFAS 54, par. 4</b> The lease definition excludes contracts or agreements for services, <b>except those contracts or agreements that contain both a lease component and a service component</b> (par.73). A service contract is a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to provide a tangible asset.</i></p> <p><i><b>SFFAS 54, par. 5</b> This Statement does not apply to</i></p> <p><i>a. leases of assets under construction or</i></p> <p><i>b. leases (licenses) of internal use software (SFFAS 10, Accounting for Internal Use Software, as amended).</i></p>	

**Purpose**  
 Overarching purpose of this tab is to document an initial assessment of completeness of known and embedded lease populations.  
 - **Section I** - is designed to ensure DoD components are actively thinking through all asset types used in operations to identify leases or embedded leases.  
 - **Section II** - is designed to ensure DoD components consider all significant lines of services **received from and those provided** to federal and non-federal entities for the identification of rights to use physical assets dedicated to such services.

Preparer Sign off	
Name	
Title	
Date	
DoD Component/Organization/Division	
Phone Number	
E-mail	

**Section I - Assessment of Asset Types - Procedures**  
 Assessment starts with the type of the underlying asset, traced back to the contract type. Procedures include the following:  
 (i) For asset types listed in the table below, please indicate "YES" as a response to at least one of the options A through D.  
 (ii) If there are multiple classes of assets within a single asset type (e.g., some of which are owned while some others leased), insert YES to each applicable option.

SECTION I	A. Owned	B. Leased	C. Used through Service Contract (Owned by 3rd party/Vendor)	D. NA - DoD component does not use this type of asset
Real Property				
Structure/Linear Structure				
Vehicles/Vessels/Ships				
IT Equipment				
Other Equipment				
Easements				

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**Section II - Assessment of Asset Types - Procedures**  
 Assessment starts with Trial Balance (TB) balances for recurring monthly services received (i.e., operating, general and administrative charges/expenses) and provided (i.e., service revenues), followed by an examination of whether any service line involves a physical asset (or an identifiable distinct portion of an asset) exclusively dedicated to such service through the contract period.  
 - **Section II. A - Services Received (include cost of benefits provided to military personnel - e.g., military housing)**  
 (i) Provide a breakout of monthly TB balances for recurring monthly services received through the current Fiscal Year (FY) (i.e., operating, general and administrative charges/expenses).  
 (ii) Complete information required per table below.  
 - **Section II. B - Services Provided (lines of revenue)**  
 (i) Provide a breakout of monthly TB balances for recurring monthly services provided through the current FY.  
 (ii) Complete information required per table below.  
 - **Section II. C - New/Future Lines of Services**  
 (i) Provide a list of monthly service contracts expected to be received/provided in upcoming reporting periods (confirm with procurement/acquisition any major lines of services that are in the process of negotiation).  
 (ii) Complete information required per table below.  
**Examples** for services that would include further evaluation include, **are not limited to**:  
 •Shipping contracts: potentially with specified trucks, rail cars, barges, etc.  
 •Bundled technology: IT arrangements that might involve hardware bundled with software.  
 •Construction services: potentially involving equipment specifically dedicated to such services.  
 •Procurement agreements: purchase agreements that are delivery location specific and require assets to be constructed to facilitate delivery of the product (e.g., service provider installing equipment on the DoD Component premises).

Section II. A - SERVICES RECEIVED							
TB Account #	Account Name	\$ Cost for month of XXX	Nature of service	Involves use of physical assets not owned by the DoD component?	Type of Underlying Asset	Volume of Contracts	Solution Tracking Contract Data (e.g., Excel, technology system, etc.)
XXXX							
XXXX							
XXXX							
XXXX							
XXXX							
XXXX							
Total for the period		0					

Section II. B - SERVICES PROVIDED							
TB Account #	Account Name	\$ Cost for month of XXX	Nature of service	Involves use of physical assets not owned by the DoD component?	Type of Underlying Asset	Volume of Contracts	Solution Tracking Contract Data (e.g., Excel, technology system, etc.)
XXXX							
XXXX							
XXXX							
XXXX							
XXXX							
XXXX							
Total for the period		0					

Section II. C - FUTURE LINES OF SERVICES							
Line of Service	Expected \$ Cost/Rev per month	Nature of service	Involves use of physical assets not owned by the DoD component?	Type of Underlying Asset	Volume of Contracts	Solution Tracking Contract Data (e.g., Excel, technology system, etc.)	

**Purpose**  
 To gather preliminary information regarding the DoD component's pre-existing lease landscape prior to SFAS 54 transition, including:  
 ~ Contract population as identified under the current accounting/reporting standards (SFAS 56);  
 ~ Materiality of related balances;  
 ~ Volume and complexity of underlying contracts;  
 ~ Platforms used to track related financial contract data; and  
 ~ Solutions/mechanisms are used for classification assessment and reporting purposes.

**Procedures**  
 Please complete the questions to the best of your knowledge, based on information included in DoD component reporting package as of **[CURRENT FY]**

**Contact information**

Name	
Title	
Date	
DoD Component/Organization/Division	
Phone Number	
E-mail	

**LESSOR- Overview**

**Inquiry:** Is your DoD Component/Division a lessor in any contracts currently identified as a "lease"??

**Response:** **[YES/NO]**

If YES, please provide the following information for known lessor positions as of **[CURRENT FY]** separately breaking out GSA and non-GSA contracts.

Type of Agreement (LESSOR) Indicate Type of Underlying Asset Leased	Estimated Number of Agreements	Current Classification (Operating vs. Capital)	GSA or Non-GSA	Short-Term vs Long-Term	in USD			System/Solution Used for Classification Assessment	System/Solution Used for Reporting	Complexity of lease? (Simple, Moderate or Complex)
					For Capital Leases: Undiscounted Lease Receivable	For all Leases: Estimated Annual Rental Revenue	System/Solution Used for Contract Data			

**LESSEE- Overview**

**Inquiry:** Does your DoD Component/Division have any capital or operating leases as a lessee??

**Response:** **[YES/NO]**

If YES, please provide the following information for known lessee positions as of **[CURRENT FY]** separately breaking out GSA and non-GSA contracts.

Type of Agreement (LESSEE) Indicate Type of Underlying Asset Leased	Estimated Number of Agreements	Current Classification (Operating vs. Capital)	GSA or Non-GSA	Short-Term vs Long-Term	For Operating Leases: Future Minimum Lease Payments	For Operating Leases: Estimated Annual Rent Expense	For Capital Leases: Total Lease Payable	System/Solution Used for Contract Data	System/Solution Used for Classification Assessment	System/ Solution Used for Reporting	YES/NO Response			
											Renewal Options?	Termination options?	Purchase Options?	Variable Lease Payment?

<b>Purpose</b>	~ Questionnaire presented herein is designed to help further assess sample contracts or agreements obtained for service lines (as identified in Tab 1) that may include multiple components ("embedded leases"), that are blended with the service element within a single contract.
<b>Background</b>	~ Per SFAS 54, the definition of a lease has three primary requirements: (1) the contract depends on an identified asset; (2) the customer has the right to obtain the economic benefits or services from use of the underlying asset as specified in the contract or agreement; and (3) the customer has the right to control access to the economic benefits or services of the underlying asset as specified in the contract or agreement. ~ In accordance with SFAS 54, a federal entity is required to identify whether a contract contains all of the three elements listed above. Not all contracts with such characteristics will be known as "leases." Leases may be embedded in larger arrangements. ~ Certain contracts may not be wholly a lease or service. In fact, it is not uncommon for some service arrangements to contain a right to control the use of an asset. It is also not uncommon for a federal entity to enter into a service arrangement that involves PP&E necessary to meet the contract's performance obligations. For examples, cloud computing services (i.e., if there is a lease of the supporting equipment, such as mainframes and servers), cable television services (i.e., if the cable box provided to the customer is a leased asset), supply agreements, power purchase agreements (PPAs), and oil and gas drilling contracts may contain leases (i.e., there may be an embedded lease of a manufacturing facility, generating asset, or drill rig, respectively). ~ If the rights to use an item of physical property or equipment is identified in an arrangement (either explicitly or implicitly), the customer and supplier must both determine whether the customer controls the use of this item throughout the period of contract. The importance of such PP&E item to the overall delivery of the service may vary depending on the type of arrangement. For example, a customer contracting for transportation services to ship a package from Munich to Milwaukee may care little about the PP&E used to perform the services. In contrast, a customer contracting a vessel and crew for a specified period to transport its goods, is likely to be more concerned with specifications of the PP&E (i.e., vessel) used in the service. While both of these arrangements involve a significant service component, evaluation of whether there is a lease in each of these or not will be more complicated for the latter scenario where both the customer and the supplier make decisions about the specifications and use of the underlying asset.
<b>Procedures</b>	For lines of service identified as at risk of having a lease element (per Tab 1), select a sample contract for each homogeneous portfolio of agreements. Complete the below questionnaire based on examination of the contract and to the best of your knowledge.

Lease Identification Decision Tree	Contract Type 1	Contract Type 2	Contract Type 3	Contract Type 4	Contract Type 5
<b>Info</b> Type of service/contract (e.g., lease, transportation services)					
<b>Info</b> Provide a high-level contract description					
<b>Info</b> Provide a general range for the base (noncancelable) contract period					
<b>Q1</b> Is there a specified asset explicitly identified in the contract? IF YES - Continue to Q2 IF NO - Conclusion : NO LEASE					
<b>Q2</b> Is there an asset implicitly identified at time of delivery? IF YES - Continue to Q3 IF NO - Conclusion : NO LEASE					
<b>Q3</b> Is the asset physically distinct (especially if the asset used is portion of a larger asset) with at least a specified portion strictly dedicated to the customer through contract/service period? IF YES - Continue to Q4 IF NO - Conclusion : NO LEASE					
<b>Q4</b> Does the customer have the right to obtain the economic benefits from use of the asset throughout the period of use? IF YES - Continue to Q5 IF NO - Conclusion : NO LEASE					
<b>Q5</b> Does the customer have the right to direct how and for what purpose the specified asset is used throughout the period of use? IF YES - continue to Q6 IF NO - Conclusion : NO LEASE					
<b>Q6</b> Does the customer have the right to operate the asset throughout the period of use without the supplier having the right to change those operating instructions? IF YES - continue to Q7 IF NO - Conclusion : NO LEASE					
<b>Q7</b> Did the customer design the asset for specific aspects of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use? IF YES -CONCLUSION: CONTRACT IS A LEASE IF NO - Conclusion : NO LEASE					

Attachment 3 - Initial Lease Assessment Surveys

INVENTORY TRACKER

Purpose: The purpose of this Tab is to (1) list all existing leases as of the [CURRENT FY] and (2) identify the leases that will be effective on October 1, 2023 (effective date)

#	Location	Country	Entity Code	Counterparty [Lessor]	Lease Contract/Agreement Number	Lease Type (Asset Classification)	# of Assets	PRELIMINARY SCOPING			AMOUNTS \$\$			LEASE DOCUMENTS REVIEW								
								Lease Commencement (Start) Date	Current Lease End Date (Contract/Agreement)	Renewal Option?	Expected Lease End Date	Effective on 10.1.2023?	Annual Lease Payments	Complete Documentation Obtained?	Language	Lease Currency	Short Term? [Yes/No]	System/Sharepoint Folder/ File Name	Identified in Survey?	In Lease Expense?		
1	New York	USA		Company Lessor ABC	Chevrolet Impala [1PAL093]	Vehicle	1	5/26/2016	5/26/2020	Yes		Yes	10,000	Yes	English	USD	No		r	a		
2																						
3																						
4																						
5																						
6																						
7																						
8																						
9																						
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**Implementation of SFFAS 54, Leases  
DoD Recommended Data Elements  
September 2020**

The attached workbook contains a list of DoD recommended data elements to record leases in the applicable financial systems.



## SFFAS 54 Implementation - Department of Defense Recommended Data Elements

### Background

*SFFAS 54, Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment ("SFFAS 54" or "the New Lease Accounting Standard")* was issued by the Federal Accounting Standards Advisory Board ("*FASAB*" or "*the Board*") on April 17, 2018, with an effective date of October 1, 2020. The Board later issued SFFAS 58, "Deferral of the Effective Date of SFFAS 54," on June 19, 2020 to defer the SFFAS 54 effective date to *periods beginning after September 30, 2023*.

### Purpose

In order to implement the new lease standard, all leases should be properly recorded/classified in the financial system(s) and accounted for in the Department of Defense (DoD) Component's Accountable Property System of Record (APSR). Compiling the data to comply with SFFAS 54 may require improved or new systems to support establishing and maintaining a complete universe of leases and related data. The DoD Recommended Data Elements Worksheet provides a template to capture data fields that may be required for setting up the leases in the applicable system(s). The data elements could be modified, based on the DoD component's identified lease population and other circumstances.

## SFFAS 54 Implementation - Department of Defense Recommended Data Elements

Field Name	Description of Field	Notes
Lease Number		The field can be populated with other ID information such as Lessee/Lessor ID (e.g., vendor number).
Contract/Agreement Number		
Role in Lease	Binary - Lessee/Lessor	
Trading Partner Type	Binary - Federal Entity/Non-Federal Entity	
Trading Partner Name		Optional
Trading Partner Contact Information		Optional
Availability of Funding Clause	Binary - Yes/No	Indicate whether a funding short-fall is expected.
Cancellation under Availability of Funding Clause Probable?	Binary - Yes/No	
Region		
Reporting DoD Component Code		
Asset Unique Identifier(s)	Enter either the RPUID or the UID	For real property - Real Property Unique Identifier (RPUID) or UID for other asset types.
Number of Items Leased per Contract or Agreement		Similar like items if the lease contains multiple underlying assets.
Physical Location	Address	Physical location of lease asset.
Accountable Official	Name/Title/Office	Who is responsible for the lease asset?
Asset Status Code	Binary - Active/Inactive	
Unique Terms and Conditions		Narrative field to support disclosures - any terms not consistent with a general description should be entered.
Major PP&E Category		For disclosure purposes.
General Description of Lease		For disclosure purposes.
Federally-owned asset	Binary - Yes/No	
Signed On Date		Record date the lease or lease modification was signed by the contracting officer.
Documentation Complete	Binary - Yes/No	Control to indicate that documentation was properly gathered and filed.
Lease Commencement Date		Lease "commencement date" - the date the asset is available to the lessee.
Lease Expiration Date		The final expiration date after all option periods are factored in.
Lease Termination Date		Last date of the lease term (includes all exercised options).
Residual Value Guarantee	Binary - Yes/No	For disclosure purposes, the system should capture the existence of an residual value guarantee, the total amount guaranteed, and the date payment would be due.
Residual Value Guarantee Amount	Dollar amount(s)	If applicable, the amount should be the probable payment amount.
Due Date for Residual Guarantee Payment	Date	
Useful Life of Underlying Asset		If the lease contract or agreement contains multiple assets with different useful lives, these need to be separated.
Leasehold Improvement	Binary - Yes/No	
Leasehold Improvement Amount		
Useful Life of Leasehold Improvement		The useful life of the leasehold improvement cannot be longer than the expected lease term.
Lease Term		This should be a calculated field based on dates and likelihood assessments entered for options in cells below.
Short-Term	Binary - Yes/No	Short-Terms < 24 months. This will be helpful for note disclosure.
Discount Rate		The interest rate the lessor charges the lessee.
Source of Discount Rate		Treasury rate, specified in contract rate, or imputed contract rate.
Noncancelable Period in Months		This is the timeframe between the commencement date and the earlier of the first option to extend the lease or the first option to terminate the lease. This would be a calculated field based on dates entered for options in cells below.
Option Holder		Who has to has the right to exercise each option identified (lessee/lessor)? Need to track each option.
Option Probable/Not Probable	Binary - Probable/Not Probable	
Rationale for Probable/Not Probable Options	Provide a narrative	Documentation within the system would support audit.
Evidence for Trading Partner Options		Narrative to support decisions based on the trading partner's right to exercise the options.
Future Option Outcome	Binary - 1. Probable/Significant Evidence; 2. Not Probable/No Significant Evidence	Field for entering the likelihood of the option to be exercised.
Option Type	Binary - Extend Lease/Terminate Lease	
Option Effective Date		Effective date for each option type for either extending or terminating the lease.
Option Expiration Date		Expiration date for each option type for either extending or terminating the lease.
Termination Option Penalty Amount		Enter dollar amount(s).
Termination Early Flag	Binary - Yes/No	Indicate plans to terminate a lease before the end of the lease term.
Expected Termination Date		This is to be entered as soon as it is known.
Purchase Option Probability	Binary - Probable/Not Probable	Indicate likelihood of exercising a purchase option. Track approved and "probable" purchase options.
Purchase Option Price		The price negotiated in the lease for the purchase option.
Purchase Option Date		The date purchase option is available.
Approved Purchase Option	Binary - Yes/No	Indicate if DoD component is expecting to exercise a purchase option AND has the authority to do so.
Approved Purchase Option Price		The price negotiated in the lease for the purchase option.
Approved Purchase Option Date		The date the purchase option is exercised.
Renewal Option Effective Date		Indicate effective date for each renewal option period.
Renewal Option Expiration Date		Indicate expiration date for each renewal option period.
Renewal Option Amount		Indicate amount for each renewal option period. Need to separately break out potential withhold amounts like free rent and broker commission credits as well.
Renewal Option Flag(s)	Binary - Yes/No	Flag to indicate if the renewal option is expected to be exercised. Need a separate flag for each renewal option.
Active Holdover Period	Binary - Yes/No	Holdover periods are cancelable periods and should be excluded from the lease term.
Lease Incentives	Binary - Yes/No	Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign the lease.
Lease Incentives Amount		Lease incentives are included in the initial measurement by directly reducing the amount of the lease asset.
Concessions	Binary - Yes/No	Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits.
Concession Amount		Amortized over the lease term for short-term and intragovernmental leases.
Free Rent	Binary - Yes/No	Done as a withhold with the code of free rent. Some Military bases are giving free rent to credit unions.
Initial Direct Costs		Initial direct lease costs that are necessary to place the lease asset into service.
Payment Type		Indicate payment type as Fixed, Variable-fixed, Variable-Indexed, Residual Value Guarantee, or Other Probable Payments.
Index		Identify the relevant index for indexed payment type. For lease asset/liability calculation use the index as of the commencement of the lease.
Payment Amount		If fixed, enter fixed amount. If residual value guarantee, enter probable payment amount. If variable-indexed, the amount entered would be without applying the index and the system would calculate the expected payment as needed.  If Payment Type allows entries for both the initial term and renewal periods (and penalties and variable payments) then the user would enter payments related to optional periods as well as initial periods. If not, then additional fields would be needed for various types of payments and payments during option periods.
Payment Frequency		For example, weekly, monthly, quarterly, or annually.
Payment Effective Date		
Payment Expiration Date		
Remeasurements Event Date		To track remeasurements.
Remeasurements Event		List is in SFFAS 54 paragraphs 44 and 61.
Leasehold Improvements	Binary - Yes/No	
Lease Agreement Rentable Square Feet (RSF)		Total RSF in the lease.
Lease Agreement RSF Increase/Decrease	Binary - Increase/Decrease	
Sublease	Binary - Yes/No	Identify subleases and tie the lease records.
Sublease Number		
Sale-Leaseback	Binary - Yes/No	Identify sale/leaseback for disclosures.
Leaseback Number		
Lease/Leaseback	Binary - Yes/No	Identify lease/leaseback and tie the lease records
Lease/Leaseback Number		
Termination Indicator		Indicate when a lease is terminated