FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
April 26-27, 2017
Room 7C13
441 G Street, NW
Washington, D.C. 20548

Wednesday, April 26, 2017

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Ms. Bronner, Messrs. Dacey, Granof, McNamee, Scott, and Smith. Ms. Ho was present on April 26 and represented by Ms. Davis on April 27. Mr. Reger was present with brief absences during which he was represented by Ms. Johnson. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Administrative Matters

- **Approval of Minutes**

The Board approved the February meeting minutes prior to the meeting.

- **Adjustment to 2018 FASAB Meeting Schedule**

An adjustment to next year's meeting schedule was announced. The June 20-21, 2018 meeting has been rescheduled to June 27-28, 2018.

Agenda Topics

- **Leases**

At the February 2017 meeting, the Board directed Ms. Monica Valentine, assistant director, to extend an invitation to the respondents of the September 26, 2016, *Leases* exposure draft (ED) to discuss with the Board their comments on the ED and provide further clarification on their responses. Respondents were not obligated to accept the invitation. However, those respondents who wanted to further elaborate on their written comments were given the opportunity to address the Board. The briefing material for the leases sessions can be found at tab A.

Five federal entities agreed to address the Board; each entity was given 40 minutes for opening remarks and questions from Board members.

AGENCY	PRESENTERS' NAMES	LETTER #
Department of Agriculture	**Michael Moore**	**5**
Department of Energy	**William Truitt, John Wall, and Tynesha Douglass**	**10**
Department of the Interior	**Terri Windlan and Sherry Lee**	**19**
Department of Defense	**Alaleh Jenkins, Edwin Oshiba, Jim Omans, Michael Walsh, and Steven Hurwitz**	**9**
General Services Administration	**Robert (Bob) Smalskas and Edward Gramp**	**22**

Mr. Showalter began the clarification discussion by informing the Board that the objective of the session was to listen to the presenters, ask questions of the presenters, and give staff direction on the next steps of the project.

Ms. Valentine introduced Mr. Michael Moore of the Department of Agriculture's (USDA) Natural Resources Conservation Service (NRCS). Mr. Moore began his discussion with his prepared remarks. Board members asked several questions of Mr. Moore and he made the following points.

- NRCS currently has 600 operating leases (primarily for office space) and will be taking on another 600 from another USDA entity during 2017. NRCS also has ten capital leases. These are maintained on an Access spreadsheet, which currently does not articulate to NRCS' general ledger system and requires manual input.

- The lease proposal will require additional cost to NRCS by way of added personnel and system upgrades, both during the implementation period and ongoing periods. Mr. Moore was not prepared to give specific estimates of those additional costs.

- Approximately 75% of NRCS lease renewal options are exercised.

- Implementation guidance with examples will be helpful.

Reference: The NRCS provided FASAB with the materials used during the clarification discussion. The information is attached to the minutes as attachment 1.

Ms. Valentine introduced the three representatives from the Department of Energy's (Energy) Office of the Chief Financial Officer (OCFO): Mr. William Truitt, Mr. John Wall, and Ms. Tynesha Douglass. Mr. Wall and Ms. Douglass began the discussion with their prepared remarks. Board members asked several questions of the Energy representatives, and they responded with the following points.

- There should be implementation guidance to accurately apply the standards, including related U.S. Standard General Ledger (USSGL) accounts.

- Both routine and non-routine leases, such as triple net leases and zero interest rate leases, should be addressed in the guidance.

- "Significantly affect" as used in the proposal should be clearly defined.

- Additional guidance associated with the carrying value of the remeasured lease liability and asset should be provided. Energy will need to assess the remeasurement of the lease liability quarterly.

- The lease proposal will require additional cost to Energy by way of added personnel and system upgrades, both during the implementation period and ongoing periods. Energy's systems are made up of many smaller feeder systems. The presenters were not prepared to give specific estimates of those additional costs.

Reference: Energy provided FASAB with the Microsoft (MS) PowerPoint presentation used during the clarification discussion. The slides are attached to the minutes as attachment 2.

Ms. Valentine introduced the two representatives from the Department of the Interior (Interior), Ms. Terri Windlan and Ms. Sherry Lee. Ms. Windlan began the discussion with Interior's prepared remarks. Board members asked several questions of the Interior representatives, and they responded with the following points.

- There should be further clarity in the areas of firm term, lease term probability, cancellation penalties, cancellation period, and the remeasurement of residual values that are not measurable.

- The General Services Administration (GSA) delegated authority leases are recognized by Interior as operating leases.

- Assessing the remeasurement of the lease liability quarterly will be burdensome.

- System changes and workloads will increase. The Interior representatives were not prepared to give specific estimates of those additional costs.

- Interior completes lease amortization schedules manually.

- Interior has approximately 2,000 intragovernmental leases and 360 GSA delegated authority leases and 110 other non-intragovernmental leases, which are immaterial to Interior.

- Interior is not a lessor to any of its leases.

Reference: Interior provided FASAB with the MS PowerPoint presentation used during the clarification discussion. The slides are attached to the minutes as attachment 3.

Ms. Valentine introduced Ms. Alaleh Jenkins from the Department of Defense (DoD). Ms. Jenkins then introduced the other DoD presenters: Mr. Edwin Oshiba, Mr. Jim Omans, Mr. Michael Walsh, and Mr. Steven Hurwitz. Ms. Jenkins began the discussion with her prepared remarks. Board members asked several questions of the DoD representatives, and they responded with the following points.

- The proposed lease definition should be clearer and more narrowly scoped.

- Clarification is needed for contracts for services when an asset is involved; for example, how DoD should unbundle the contracts. In some cases the asset does revert back to DoD.

- How should “no consideration” leases be recognized?

- The lease liability and asset should align with the asset and liability criteria in Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

- DoD has estimated a cost of $90 million during the transitional implementation period of the standards and $12 million annually. DoD has approximately 49 reporting entities.

- DoD has concerns with applying the proposed lease guidance to its 2,500 recruiting offices.

- DoD has oil and gas pipeline services and aviation easements that could possibly meet the proposed lease definition.

- DoD has leases that have no penalties associated with lease terminations.

- Many DoD leases are one-year leases with one-year renewal options.

- DoD leases out idle airstrips/tarmacs to auto dealerships, and those agreements can be recalled at any moment.

- More clarity is needed on cancellation clauses.

- Lease contracts can be written to not meet the lease definition.

- Assessing the remeasurement of the lease liability quarterly will be burdensome.

<u>Reference</u>: DoD provided FASAB with the MS PowerPoint presentation used during the clarification discussion. The slides are attached to the minutes as attachment 4.

The meeting adjourned for lunch.

Ms. Valentine introduced Mr. Robert (Bob) Smalskas and Mr. Edward Gramp from GSA. The presenters began the discussion with their prepared remarks. Board members asked several questions of the GSA representatives, and they responded with the following points.

- The cost associated with implementing the proposed standards will involve data capturing and additional internal control procedures.

- GSA does not use fiscal funding clauses in its non-intragovernmental leases.

- Clarification is needed to define what is meant by “the beginning of the lease.”

- The costs that are included in the lease liability should be clearly identified to distinguish from pure operating costs.

- Are lease incentives and build-out costs synonymous?

Reference: GSA provided FASAB with the MS PowerPoint presentation used during the clarification discussion. The slides are attached to the minutes as attachment 5.

The Board and staff thanked each of the presenters for taking the time to share their views on the leases proposal.

- **Leases—Next Steps**

Mr. Showalter asked members to share their thoughts on the five presentations and how they would like staff to proceed on the leases project.

Two Board members believed that the burden expressed by the presenters should be seriously considered, and the Board should assess whether that burden truly outweighs the benefits associated with revised lease standards. Other Board members agreed that the preparer burden should be considered; however, that burden is not sufficient reason to abandon the need for the financial statements to appropriately reflect the liabilities represented by leases. Now the Board has to identify what is the most appropriate accounting for leases.

Based on the presentations, the Board asked staff to address the following issues.

- Staff should work with the presenters and lease task force to develop a list of possible items to be scoped out, including intangibles.

- Staff should get a clearer understanding of the benefits associated with revising the leases standards, including why a diversion from the budget guidance is beneficial.

- Staff should explore options to ease the anticipated burdens and costs of the lease revisions to federal preparers. Members identified the following areas of the standards that staff could review:

    - Necessary clarifications throughout the guidance

    - Short-term lease period

    - Probability threshold

Next Steps: Staff will reach out to the presenters as well as other members of the lease task force to address the issues identified by the Board and return with recommendations.

- **Budget and Accrual Reconciliation**

On December 21, 2016, the Board issued the ED titled *Budget and Accrual Reconciliation* (BAR) and requested comments by March 14, 2017. At the Board meeting, Ms. Grace Wu, assistant director, presented responses to the ED and suggested edits based upon comments received and staff recommendations. The comment letters and subsequent staff recommendations can be found at tab B1 and tab B2, respectively. Nearly all the respondents agreed with the proposal to replace the Statement of Finance (SOF) with the BAR. The respondents generally agreed to present the BAR as a footnote with an accompanying narrative disclosure. However, a number of respondents raised concerns and suggested edits on the effective date, the early adoption of the standards, and the restatement of comparative prior period information. In addition, respondents were concerned about the breakdown of the Intragovernmental and With the Public in the proposed BAR format. They believe this requirement would result in significant burden/cost to agencies.

To maximize agency success rate in adopting the proposed standards and allow each agency sufficient time testing the new process, the Board approved staff's recommendation to change the effective date to September 30, 2018, with early adoption permitted. Because the restatement of the prior period data will not add additional value and the prior year SOF will not be comparative with the BAR format during the implementation year, the Board also approved staff's recommendation that only one year's worth of data be presented in the first year of implementation, with a two-year comparative presentation in the second year of implementation.

Representatives from the Department of Commerce and the Department of the Treasury's (Treasury) Bureau of Fiscal Service (Fiscal Service) presented their agency's view on the potential impacts of the breakdown of the Intragovernmental and With the Public in the proposed BAR format. The discussion of the breakdown concentrated on the following:

- While the BAR is reconciling the line items in the Statement of Net Cost and Statement of Budgetary Resources, there is no requirement to break out Outlays in the Statement of Budgetary Resources by intragovernmental and with the public.

- Agencies' Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) data currently does not require a federal versus non-federal breakdown of a majority of the USSGL accounts that make up Outlays.

- A few agencies also stated that Outlays by trading partner is not readily available in their current systems. As such, there is no readily available data from an existing financial reporting system to perform the breakdown reconciliation.

- The breakdown may trigger additional system investment cost and labor-intensive work to segregate information for certain line items associated with the breakdown request.

- Fiscal Service needs the audited breakdown information above the Net Outlays to perform the intragovernmental elimination during the government-wide (GWA) reconciliation. Without the breakdown information, the BAR format is less beneficial for the GWA reconciliation.

- Although the BAR format will be illustrated in the Statement, the standards do not explicitly require this breakdown. Instead, the illustration shows the breakdown, which will be presented fully in the appendix of SFFAC 2, *Entity and Display*. A concepts statement does not establish a requirement, but one may expect the implementation to match the illustration. The Office of Management and Budget (OMB) and Treasury have the option to establish more detailed requirements upon implementation or in the future.

- In the proposed BAR format, the line items for the section “Components of Net Cost That Are Not Part of Net Outlays” are directly from the balance sheet and the Statement of Net Cost. The breakdowns already existed in those statements. The majority of the line items for the section “Components of Net Outlays That Are Not Part of Net Cost” can be traced by USSGL for breakdown. The pilot result has not identified any Outlays item in this section that cannot be broken down.

- There is the possibility of modifying the standards for staged implementation of the intra-governmental breakdown until the information is available for budgetary outlay numbers.

Members considered both the agencies and Treasury’s positions and the fact that current GTAS and USSGL do not support the Outlays’ breakdown. Therefore, the Board will explore ways that the format can be presented without the breakdown for the budgetary net outlays number, keeping the remaining breakdown numbers above the net outlays line item where the numbers may come from the balance sheet and net cost statement directly. The Board requested Fiscal Service to update the BAR crosswalk instruction with a detailed breakdown and then bring the new format, along with the updated crosswalk, to the nine agencies who have concerns about the breakdown. These agencies can test the new format and provide feedback.

Based on the feedback and the nine agencies’ results on the updated format and crosswalk, staff will consider Board member comments on the draft standards and determine whether the document can proceed to the pre-ballot stage or requires additional deliberation by the Board.

Adjournment

The Board meeting adjourned for the day at 4:45 p.m.

Thursday, April 27, 2017

Agenda Topics

- **Reporting Model**

Mr. Showalter introduced the reporting model session and informed Board members that staff plans to ballot the concepts statement, *Federal Financial Reporting*, before the June meeting. Therefore, Board members should discuss edits to the latest draft during today's meeting. Mr. Ross Simms, assistant director, referred Board members to tab C and tab C1 of the briefing materials: the Statement and a request for feedback to assist staff in preparing illustrative reporting models for the government-wide and component reporting entities. Please note that Mr. Simms also distributed hardcopies of an April 27, 2017, version of the Statement. Therefore, paragraph numbers referenced in the minutes may not align with those in tab C.

The Board discussed and agreed to the following changes to the Statement:

- Figure 1—Staff will change "Other Reported Financial Information" (ORFI) to "Other Reported Financial and Non-Financial Information" (ORFNI). Information required by other bodies or voluntarily presented includes both financial and non-financial information (NFI). Staff will also change ORFI to ORFNI throughout the ED.

- Paragraphs 23 through 26—To discuss why different bases of accounting are needed, staff will revise paragraph 23 to state

> The Board develops [generally accepted accounting principles] for reporting on the financial results of operations and financial position of the government-wide and component reporting entities and to provide budgetary information to assist in monitoring the receipt and use of resources. Preparing financial statements that provide information on financial results of operations, financial position, and budgetary information necessitates different bases of accounting. For example, the accrual basis of accounting recognizes revenue when earned and recognizes costs when incurred to achieve an objective, such as providing or acquiring services. Reporting

> budgetary information necessitates the government-wide reporting entity use primarily cash-based budgetary accounting to recognize budget receipts when cash is received and budget outlays when cash is disbursed. Also, component reporting entities use budgetary accounting to recognize events when the component reporting entity enters into an agreement that obligates the government to make payments in the future, such as when it awards a contract.

Paragraphs 24 through 26 will be eliminated, and Mr. Dacey will work with staff to make additional edits.

- Paragraph 39.d—The paragraph was intended to describe tax expenditures. Ms. Johnson will suggest language to improve the description.
- Paragraph 50—To discuss the budgetary information users need and why, staff will add the following:

> Users need information about the budgetary resources provided to finance component reporting entity activities. The Budgetary Integrity objective states that federal financial reporting should assist the federal government in fulfilling its duty to be accountable for monies raised from the public and their use. Information about the amount of budgetary resources made available, the amount of budgetary resources used, and the amount that remains available, assists users in monitoring the authority provided, its use, and whether resources remain available.

- Introduction to Appendix A: Basis for Conclusions—Because the ED is a concepts statement, staff will revise the last sentence of the introduction as follows:

> The ~~standards~~ <u>concepts</u> enunciated in this Statement—not the material in this appendix—should <u>guide the development of standards</u> ~~govern the accounting~~ for specific transactions, events, or conditions.

Illustrative Reporting Models Discussion

Members supported initiating projects to address both near- and long-term reporting model enhancements. Mr. Reger informed the Board that preparers experienced in FASAB concepts and standards are starting to leave the federal government. As a result, agency resources are being constrained, and there is a need to educate the incoming, less experienced staff. In addition, government councils, such as the CFO Council and Performance Improvement Council, are currently examining their requirements to determine how to reduce the reporting burden on agency administrative activities. In the next 60 days, OMB plans to publish the results of the burden-reduction initiative. Thus, FASAB staff could focus on identifying 1) areas that may require educating the community and 2) areas where the Board could reduce the reporting burden in the near term. Staff could also identify reporting model enhancements for implementation over the long term.

Mr. Scott added that the ideal reporting model has to be a long-term project that would guide the Board over the next few years. However, that would not preclude the Board from taking a more focused approach and looking for redundancies or gaps in the current reporting process. Mr. Scott also indicated that management's discussion and analysis has become a lengthy presentation. Mr. Granof agreed the Board should address short-term problems. However, the model needs to take better advantage of technology. Also, visionary proposals are needed for the long term. Ms. Davis stated that Ms. Ho supports an ideal performance model because the purpose of the financial statements is to assess performance. In addition, Ms. Ho would support a streamlining project.

Mr. McNamee agreed with considering both near-term and long-term enhancements and noted the efforts should be conducted sequentially. The Board could start with the near-term project to identify the "low-hanging fruit." Mr. Dacey noted preparers have expressed concerns about the reporting burden, and there may be some issues the Board needs to address. Thus, in the near term, the Board could consider resolving those reporting issues as well as reducing the burden.

Mr. Dacey also expressed that, for the long term, he is a proponent of summary-level reporting. Summary-level reporting drives preparers to consider what the most important information to present is if space is limited. Members noted financial reports were becoming voluminous.

Mr. Smith suggested Board members review a component reporting entity report and determine what information is critical. Compiling the results will assist the Board in determining what information is unnecessary. In addition, the Board could consider that the ideal concept is a document that summarizes the audited information. Although the summary document does not need to be audited, it should tie to the audited financial statements. As a result, the reporting package could include an unaudited summary document and audited financial statements. FASAB could provide guidance for the unaudited summary. Ms. Bronner agreed that the ideal reporting model is a long-term initiative. However, in the short term, the Board could focus on addressing concerns with the existing model. Members also agreed with the suggestion of each member reviewing agency reports.

> **Conclusion**: Staff will engage the financial management community and identify suggestions for 1) reducing the burden on preparers, 2) clarifying FASAB requirements, and 3) enhancing the reporting model over the long term. Each Board member committed to reviewing an agency report by the next meeting in June.

Administrative Matters

- **Updates and Clippings**

Mr. Dacey provided an update regarding the International Public Sector Accounting Standards Board (IPSASB). Highlights include the following:

- IPSASB issued a consultation paper entitled Financial Reporting for Heritage in the Public Sector. The paper seeks input regarding preliminary views, as well as areas for which no preliminary view is presented.
- Ongoing projects regarding revenue (both exchange and non-exchange) and non-exchange expenses seek to adapt current IPSASB standards to the International Accounting Standards Board (IASB) revenue standards. A key aspect is whether to apply such standards to non-exchange exchange revenue and, if so, how to do so. A consultation paper is planned for later in 2017.
- The leases and financial instruments projects are also convergence projects to adapt IASB standards for the public sector.
- IPSASB plans to issue an ED regarding social benefits soon.
- IPSASB is reviewing its cash basis standards.
- A project regarding measurement is now underway. The IPSASB will consider how existing standards might be adjusted to conform to newly adopted concepts for measurement.

Mr. Dacey noted that there will be a Public Sector Standard Setters Forum in July. This will be the second annual forum. He attended last year’s forum along with Mr. Showalter and Ms. Payne. Ms. Payne will also attend the 2017 forum. The forum is a good way to understand practices and trends around the world.

Mr. Granof provided an update regarding the Governmental Accounting Standards Board (GASB). Highlights include the following:

- GASB is reviewing the responses to the reporting model invitation to comment and holding hearings. There are three models under consideration: a near term, a working capital model, and a long term.
- On revenue recognition, GASB is exploring whether a performance-based approach to revenue recognition would be appropriate.
- GASB issued two implementation guides recently. One is a comprehensive update, and the other is devoted exclusively to other post-employment benefits.
- GASB is finalizing a Statement dealing with certain debt extinguishments. The Board is deciding whether debt that is defeased with the government's own resources should be accounted for differently than debt financed with new borrowings or stay basically the same.
- A project on debt disclosures is seeking to minimize burden. The issue is the upsurge in direct borrowing by governments from banks. These do not result in an offering statement, so there is less public information.
- GASB should finalize the lease standards soon.
- GASB is considering standards regarding equity interests in legally separate organizations. The issue is whether to use the equity method of recording or report the equity interests as an investment.

Members briefly discussed the clippings.

Agenda Topics

- **Land**

At the Board meeting, members reviewed preliminary staff decisions concerning (1) February's broad options A and B and (2) the incorporation of NFI into the financial report. Mr. Domenic Savini, assistant director, pointed the Board to the briefing materials at tab D. Specifically, the following major topics were addressed by the Board:

<u>1—Suspension of the Land Project</u>

Members unanimously agreed that the land project should continue as scheduled after considering reasons for and against the suspension. Some key factors leading to this conclusion include the following:

- Budget constraints and uncertainties are not infrequent in the federal space and should not be a basis for suspending a project.

- Identifying the proper accounting for land is of paramount importance and separate from implementation issues.

- Standards can be written in a manner to ease implementation issues. Additionally, some members suggested proposing longer lead-times to effective dates or using a phase-in approach to help ease implementation.

2—Balance Sheet Reporting

Members generally agreed to adopt broad option A: no balance sheet reporting of land. Specifically, members noted (1) the importance of having consistent accounting standards to help improve financial reporting of land and (2) the incorporation of NFI can address conceptual limitations in regards to the reporting objectives noted by staff in its analysis. As such, members believe that a modified option A (see discussion item #3 below) best addresses consistency while maintaining, if not improving, reporting objectives.

3—Land Held-for-Disposal

Consistent with its rationale in item #2 above, the Board generally agreed not to separately recognize and measure land held-for-disposal. Instead, this specific data point can be considered for NFI presentation.

4—Non-financial Information (NFI) Presentation

Members generally agreed with the five NFI data points contained in tab D. However, members did not agree on their placement. Some members felt all data points should be presented as Required Supplementary Information, whereas others preferred broad acreage and unit count information be reported as basic information. Members generally agreed with the three land use reporting categories and noted that predominant use would be reflected in the three categories. The revenue-generating data point could, in essence, be folded into the commercial use category.

At the conclusion of the session, the chairman summarized the following information:

- Members favor a modified broad option A (to not include valuing land held-for-disposal); that is, there will be no balance sheet reporting of land.

- Staff will begin developing a draft ED for the next meeting.

Adjournment

The Board meeting adjourned at 1:15 p.m.

Attachment 1

Michael Moore

Agency – USDA / NRCS

NRCS Mission Statement

"NRCS improves the health of our Nation's natural resources while sustaining and enhancing the productivity of American agriculture. We achieve this by providing voluntary assistance through strong partnerships with private landowners, managers, and communities to protect, restore, and enhance lands and waters upon which people and the environment depend".

As described in the Mission Statement, NRCS works with landowners and producers on America's working farm and ranch lands to identify, document and correct environmental concerns in a way that maintains a sustainable, highly productive agricultural land base, improves the economic viability of rural communities, improves the nation's water quality and quantity, and restores or enhances wildlife habitat through efficient and effective management of the nation's non-federal agricultural crop, hay, forest, and grazing lands.

Capital Lease Accounting - Impact to NRCS

Assets are leased by NRCS to provide convenience and services to the land owners and other customers; these leases have been primarily for office space, and for FY 2017, the population expands to include vehicles. These leasing activities are not a primary activity of the agency, as office leasing costs comprised approximately <u>1.5% of the total annual costs of operations</u> for FY 2016. Therefore the annual lease costs are not material to the total costs for the agency. I cannot readily measure the impact to the balance sheet as the NPV / FMV data for the non-intragovernmental leases are not readily available.

The other concern with the potential transition to capital lease accounting is that more resources will be needed for the leasing, accounting, and other administrative functions, which reduces the available resources for the mission and its goals. The tasks related to lease scoring, and for accounting for and paying the operating and capital leases (excludes tasks for GSA Occupancy Agreements) are noted on pages 3 – 6.

Overall Reaction

My motivation to address the FASAB group regarding the draft pronouncement relates my question as to what is presented as "assets" and "liabilities" on the face of the balance sheet for federal agencies, and the additional resources and costs to make this happen. Reverting back to Accounting principles, an asset is defined as "property owned by a person or company". Subsequently FASAB No. 6 expanded the definition to include the costs of leased property that "transfers substantially all the benefits and risks of ownership to the lessee". The exposure draft is seeking to provide relevant and meaningful lease information to Joe Public, and suggests that we include all leased property on the balance sheet, unless it is an intragovernmental lease, or a short term lease.

I have mixed thoughts on this proposal. Meaningful and relevant information is good, but are we distorting the lease accounting disclosures, and balance sheet amounts that are being presented? What is the impact to my agency (NRCS); definitely more work requiring additional resources, which detracts from the resources available to carry out the agency mission. How material are the NRCS lease transactions relative to the balance sheet and annual costs? Is there funding available to capitalize all of the non-intragovernmental leases? From a cost-benefit perspective, does this make sense? Are there other options that should be considered?

With these questions and thoughts looming, I thought through my experiences to better understand my interpretation of the exposure draft. The majority of my leasing experience has been with agreements for office space, which generally have clauses covering the noncancelable period, federal funding availability, and termination clauses. Therefore the lease costs, except for the existing NRCS capital leases, have been accounted for as period costs, i.e., pay as you go costs. For Joe Public, a federal financial statement user, is the current presentation (period cost) or the proposed presentation per the exposure draft more meaningful? Is the accounting profession proposing to make a simple transaction more complex than it needs to be? As an accountant I should be ecstatic as these requirements provide increased accounting opportunities. But as a federal employee and taxpayer, I believe that we should be judicious in determining the tasks that we opt to do, as well as what we opt not to do when there is only slight increase, if any, to the value of the work or product.

Options

There are other ways to enhance the lease info by enhancing the data provided in the notes, without having to account for all leases, excluding intragovernmental and short term leases, as capital leases.

Have all agencies report future payments for its leases in the notes to the financial statements, as presented in tables 23 and 24 on page 6. The effort and cost to provide the summary information should be far less than it would be compared to running the related lease transactions through the accounting and inventory systems in an effort to report these non-governmental leases as capital leases.

For agencies where leasing activities are a significant and material part of their activities, maybe it makes sense to capitalize the non-intragovernmental leases. But for other agencies where property leases are a tool needed to perform tasks for the mission, the accounting should be simple and cost efficient as previously stated. The agencies can continue to use their money for their mission and programs, and not have to spend it for administrative purposes, such as to enhance accounting and inventory systems, and to hire accountants.

Another option is a pro forma presentation of the Lease related accounts (asset, liability and expense) if all leases, excluding intragovernmental and short term leases, were capital leases. This assumes that the agencies can pull this information together without running all transactions through the accounting system.

OVERVIEW OF THE NRCS LEASE ACCOUNTING

Lease Determination process

Obtain draft lease agreement; key attributes

1. **Lease term**
2. **Monthly and annual rental payment**
3. **Lease term, inclusive of renewal options**
4. **Leased space (rentable square footage – rsf.)**
5. **Fully Serviced**
6. **Lease termination clause**

Obtain GSA Form 1217 with the operating costs for leased space

Obtain Property data

1. **Fair Market Value**
2. **Date of construction for the building**

Lease Determination – operating vs capital lease

Accounting for an Operating lease

NRCS currently has approximately 600 leases with non-Federal lessors (9/30/2016)

FSA is planning to transfer approximately 600 leases to NRCS during FY 2017 and FY 2018

1. **Create framework Purchase Order (PO) for each lease which is used to pay the lessor each month during the fiscal year**
2. **Pay lessor the same amount for respective months during fiscal year**
3. **All payments recorded to 6100 account**
4. **Next fiscal year – create new framework PO for each lease**

Accounting for a capital lease

NRCS currently has 10 capital leases with non-Federal lessors

1. **Create an amortization schedule based on the key attributes for the lease; asset value (lesser of NPV or FMV), lease end date and monthly payment amount (see exhibit 1 for sample)**
2. **Create Funds Commitment Document with 3 lines for each lease which is used to pay the lessor each month during the fiscal year; first line for annual interest amount, second line for annual executory costs, and third line for principal.**
3. **The disbursement authority for the principal needs to match or exceed the life of the lease; 10 year lease would require no-year funding in most cases**
4. **Pay lessor the same amount for respective months during fiscal year, referencing funds commitment document info, and allocating amounts based on payment date to the interest cost (account 6330), executory cost (account 6100) and principal (account 2940).**
5. **Record amortization entry monthly**
6. **Reconcile the balance sheet accounts periodically (monthly / quarterly)**
7. **Next fiscal year – create new lines on Funds Commitment document for current year interest and executory costs**

Current (FY 2016) Lease Disclosure

Tables 23 and 24 – Capital Leases, balance sheet and future payments

Table 25 – Operating Leases

Note 9 — Leases

NRCS has entered into leasing agreements with the General Services Administration (GSA) and other parties through leasing authority delegated by GSA. The leases are for office space for field office operations or for buildings and land for Plant Materials Centers. The lease arrangements generally range from five to ten years, but may be longer for Plant Materials Centers, and generally contain renewal options. Most leases are subject to cancellation upon certain funding conditions and all are covered by budgetary resources. NRCS enters into operating leases primarily for office space and some equipment. Capital lease assets and future payment information for capital and operating leases are shown in the tables below.

Entity as Lessee: Capital Leases	2016 (in millions)
Summary of Assets Under Capital Lease	
Land and Buildings	$2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	**$0**

Table 23: Capital Leases Summary

Capital Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2017)	$1
Year 2 (2018)	1
Year 3 (2019)	0
Year 4 (2020)	0
Year 5 (2021)	0
After 5 Years	0
Total Future Lease Payments	**$2**
Less: Imputed Interest	0
Less: Executory Costs	(1)
Net Capital Lease Liability	**$1**
Lease liability covered by budgetary resources	1

Table 24: Future Payments for Capital Leases

Operating Leases – Future Payments Due:	Land and Buildings (in millions)
Year 1 (2017)	$55
Year 2 (2018)	41
Year 3 (2019)	33
Year 4 (2020)	26
Year 5 (2021)	21
After 5 Years	49
Total Future Lease Payments	**$225**

Table 25: Total Future Payments for Operating Leases

NRCS Property Leases - Amortization Schedule

Open

Lease: 57-4310-7-3

Division: 13 Georgia — *Toccoa Headquarter Field Office*

Lessor: Stephens County Soil and Water
110 South Alexander St
Toccoa, GA 30577--

Property Willard Kimsey Environmemtal Edu. Building
250 Clary Connector
Toccoa, GA 30577

This Lease is classified as a Capital Lease

Lease Data

BBFY:	2008
Property Type:	Facility
Lease Type:	Capital Lease
Property Class:	Real Property

Lease Cost

Annual Lease Amt	$9,600.00
Monthly Lease Amt	$800.00
Leased Square Feet	500.00

Lease Terms

Start Date	10/1/2007	End Date:	9/30/2012
OptionNumber	2	Option Years	5
End Date w/ Options	9/30/2022	Yrs	15

Building Data

Building Type:	Multi-Unit Office Bldg
YearConstructed:	2005
EconomicLife:	30
FairMarketValue:	$214,754.40

Other

No	TitleTransfer	Imputed Int	1.16%
No	TitleTransfer	DiscountRate:	5.1
No	Bargain Buy	Total SqFt	4,000.00
No	Gov Property	Rental Type:	Lease

Other Costs

Executory Costs	$1,000.00
Real Estate Taxes	$0.00
Annual Services	$4,340.00
Total Costs (Monthly)	$445.00

Schedule Values

NPV	$44,597.28
90% Adj FMV	$24,159.87
Asset Value (1810)	$26,844.30

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
1	10/31/2007	$800.00	1.16%	$310.08	$44.92	$445.00	$26,799.38	$26,695.17	$149.14	$149.14
2	11/30/2007	$800.00	1.16%	$309.56	$45.44	$445.00	$26,753.94	$26,546.03	$149.14	$298.27
3	12/31/2007	$800.00	1.16%	$309.04	$45.96	$445.00	$26,707.98	$26,396.90	$149.14	$447.41
4	1/31/2008	$800.00	1.16%	$308.51	$46.49	$445.00	$26,661.49	$26,247.76	$149.14	$596.54
5	2/29/2008	$800.00	1.16%	$307.97	$47.03	$445.00	$26,614.46	$26,098.63	$149.14	$745.68
6	3/31/2008	$800.00	1.16%	$307.43	$47.57	$445.00	$26,566.89	$25,949.49	$149.14	$894.81
7	4/30/2008	$800.00	1.16%	$306.88	$48.12	$445.00	$26,518.77	$25,800.36	$149.14	$1,043.95
8	5/31/2008	$800.00	1.16%	$306.32	$48.68	$445.00	$26,470.09	$25,651.22	$149.14	$1,193.08
9	6/30/2008	$800.00	1.16%	$305.76	$49.24	$445.00	$26,420.85	$25,502.09	$149.14	$1,342.22
10	7/31/2008	$800.00	1.16%	$305.19	$49.81	$445.00	$26,371.04	$25,352.95	$149.14	$1,491.35
11	8/31/2008	$800.00	1.16%	$304.62	$50.38	$445.00	$26,320.66	$25,203.82	$149.14	$1,640.49

NRCS Property Leases - Amortization Schedule

Lease: 57-4310-7-3

Division: 13 Georgia

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
12	9/30/2008	$800.00	1.16%	$304.03	$50.97	$445.00	$26,269.69	$25,054.68	$149.14	$1,789.62
13	10/31/2008	$800.00	1.16%	$303.45	$51.55	$445.00	$26,218.14	$24,905.55	$149.14	$1,938.76
14	11/30/2008	$800.00	1.16%	$302.85	$52.15	$445.00	$26,165.99	$24,756.41	$149.14	$2,087.89
15	12/31/2008	$800.00	1.16%	$302.25	$52.75	$445.00	$26,113.24	$24,607.28	$149.14	$2,237.03
16	1/31/2009	$800.00	1.16%	$301.64	$53.36	$445.00	$26,059.88	$24,458.14	$149.14	$2,386.16
17	2/28/2009	$800.00	1.16%	$301.02	$53.98	$445.00	$26,005.90	$24,309.01	$149.14	$2,535.30
18	3/31/2009	$800.00	1.16%	$300.40	$54.60	$445.00	$25,951.30	$24,159.87	$149.14	$2,684.43
19	4/30/2009	$800.00	1.16%	$299.77	$55.23	$445.00	$25,896.07	$24,010.74	$149.14	$2,833.57
20	5/31/2009	$800.00	1.16%	$299.13	$55.87	$445.00	$25,840.20	$23,861.60	$149.14	$2,982.70
21	6/30/2009	$800.00	1.16%	$298.48	$56.52	$445.00	$25,783.68	$23,712.47	$149.14	$3,131.84
22	7/31/2009	$800.00	1.16%	$297.83	$57.17	$445.00	$25,726.51	$23,563.33	$149.14	$3,280.97
23	8/31/2009	$800.00	1.16%	$297.17	$57.83	$445.00	$25,668.68	$23,414.20	$149.14	$3,430.11
24	9/30/2009	$800.00	1.16%	$296.50	$58.50	$445.00	$25,610.18	$23,265.06	$149.14	$3,579.24
25	10/31/2009	$800.00	1.16%	$295.83	$59.17	$445.00	$25,551.01	$23,115.93	$149.14	$3,728.38
26	11/30/2009	$800.00	1.16%	$295.14	$59.86	$445.00	$25,491.15	$22,966.79	$149.14	$3,877.51
27	12/31/2009	$800.00	1.16%	$294.45	$60.55	$445.00	$25,430.60	$22,817.66	$149.14	$4,026.65
28	1/31/2010	$800.00	1.16%	$293.75	$61.25	$445.00	$25,369.35	$22,668.52	$149.14	$4,175.78
29	2/28/2010	$800.00	1.16%	$293.05	$61.95	$445.00	$25,307.40	$22,519.39	$149.14	$4,324.92
30	3/31/2010	$800.00	1.16%	$292.33	$62.67	$445.00	$25,244.73	$22,370.25	$149.14	$4,474.05
31	4/30/2010	$800.00	1.16%	$291.61	$63.39	$445.00	$25,181.34	$22,221.12	$149.14	$4,623.19
32	5/31/2010	$800.00	1.16%	$290.87	$64.13	$445.00	$25,117.21	$22,071.98	$149.14	$4,772.32
33	6/30/2010	$800.00	1.16%	$290.13	$64.87	$445.00	$25,052.34	$21,922.85	$149.14	$4,921.46
34	7/31/2010	$800.00	1.16%	$289.38	$65.62	$445.00	$24,986.72	$21,773.71	$149.14	$5,070.59
35	8/31/2010	$800.00	1.16%	$288.63	$66.37	$445.00	$24,920.35	$21,624.58	$149.14	$5,219.73
36	9/30/2010	$800.00	1.16%	$287.86	$67.14	$445.00	$24,853.21	$21,475.44	$149.14	$5,368.86
37	10/31/2010	$800.00	1.16%	$287.08	$67.92	$445.00	$24,785.29	$21,326.31	$149.14	$5,518.00
38	11/30/2010	$800.00	1.16%	$286.30	$68.70	$445.00	$24,716.59	$21,177.17	$149.14	$5,667.13
39	12/31/2010	$800.00	1.16%	$285.50	$69.50	$445.00	$24,647.09	$21,028.04	$149.14	$5,816.27
40	1/31/2011	$800.00	1.16%	$284.70	$70.30	$445.00	$24,576.79	$20,878.90	$149.14	$5,965.40

NRCS Property Leases - Amortization Schedule

Lease: 57-4310-7-3

Division: 13 Georgia

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
41	2/28/2011	$800.00	1.16%	$283.89	$71.11	$445.00	$24,505.68	$20,729.77	$149.14	$6,114.54
42	3/31/2011	$800.00	1.16%	$283.07	$71.93	$445.00	$24,433.75	$20,580.63	$149.14	$6,263.67
43	4/30/2011	$800.00	1.16%	$282.24	$72.76	$445.00	$24,360.99	$20,431.50	$149.14	$6,412.81
44	5/31/2011	$800.00	1.16%	$281.40	$73.60	$445.00	$24,287.39	$20,282.36	$149.14	$6,561.94
45	6/30/2011	$800.00	1.16%	$280.55	$74.45	$445.00	$24,212.94	$20,133.23	$149.14	$6,711.08
46	7/31/2011	$800.00	1.16%	$279.69	$75.31	$445.00	$24,137.63	$19,984.09	$149.14	$6,860.21
47	8/31/2011	$800.00	1.16%	$278.82	$76.18	$445.00	$24,061.45	$19,834.96	$149.14	$7,009.35
48	9/30/2011	$800.00	1.16%	$277.94	$77.06	$445.00	$23,984.39	$19,685.82	$149.14	$7,158.48
49	10/31/2011	$800.00	1.16%	$277.05	$77.95	$445.00	$23,906.44	$19,536.69	$149.14	$7,307.62
50	11/30/2011	$800.00	1.16%	$276.15	$78.85	$445.00	$23,827.59	$19,387.55	$149.14	$7,456.75
51	12/31/2011	$800.00	1.16%	$275.24	$79.76	$445.00	$23,747.83	$19,238.42	$149.14	$7,605.89
52	1/31/2012	$800.00	1.16%	$274.31	$80.69	$445.00	$23,667.14	$19,089.28	$149.14	$7,755.02
53	2/29/2012	$800.00	1.16%	$273.38	$81.62	$445.00	$23,585.52	$18,940.15	$149.14	$7,904.16
54	3/31/2012	$800.00	1.16%	$272.44	$82.56	$445.00	$23,502.96	$18,791.01	$149.14	$8,053.29
55	4/30/2012	$800.00	1.16%	$271.49	$83.51	$445.00	$23,419.45	$18,641.88	$149.14	$8,202.43
56	5/31/2012	$800.00	1.16%	$270.52	$84.48	$445.00	$23,334.97	$18,492.74	$149.14	$8,351.56
57	6/30/2012	$800.00	1.16%	$269.55	$85.45	$445.00	$23,249.52	$18,343.61	$149.14	$8,500.70
58	7/31/2012	$800.00	1.16%	$268.56	$86.44	$445.00	$23,163.08	$18,194.47	$149.14	$8,649.83
59	8/31/2012	$800.00	1.16%	$267.56	$87.44	$445.00	$23,075.64	$18,045.34	$149.14	$8,798.97
60	9/30/2012	$800.00	1.16%	$266.55	$88.45	$445.00	$22,987.19	$17,896.20	$149.14	$8,948.10
61	10/31/2012	$800.00	1.16%	$265.53	$89.47	$445.00	$22,897.72	$17,747.07	$149.14	$9,097.24
62	11/30/2012	$800.00	1.16%	$264.49	$90.51	$445.00	$22,807.21	$17,597.93	$149.14	$9,246.37
63	12/31/2012	$800.00	1.16%	$263.45	$91.55	$445.00	$22,715.66	$17,448.80	$149.14	$9,395.51
64	1/31/2013	$800.00	1.16%	$262.39	$92.61	$445.00	$22,623.05	$17,299.66	$149.14	$9,544.64
65	2/28/2013	$800.00	1.16%	$261.32	$93.68	$445.00	$22,529.37	$17,150.53	$149.14	$9,693.78
66	3/31/2013	$800.00	1.16%	$260.24	$94.76	$445.00	$22,434.61	$17,001.39	$149.14	$9,842.91
67	4/30/2013	$800.00	1.16%	$259.15	$95.86	$445.00	$22,338.75	$16,852.26	$149.14	$9,992.05
68	5/31/2013	$800.00	1.16%	$258.04	$96.96	$445.00	$22,241.79	$16,703.12	$149.14	$10,141.18
69	6/30/2013	$800.00	1.16%	$256.92	$98.08	$445.00	$22,143.71	$16,553.99	$149.14	$10,290.32

NRCS

NRCS Property Leases - Amortization Schedule

Lease: 57-4310-7-3

Division: 13 Georgia

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
70	7/31/2013	$800.00	1.16%	$255.78	$99.22	$445.00	$22,044.49	$16,404.85	$149.14	$10,439.45
71	8/31/2013	$800.00	1.16%	$254.64	$100.36	$445.00	$21,944.13	$16,255.72	$149.14	$10,588.59
72	9/30/2013	$800.00	1.16%	$253.48	$101.52	$445.00	$21,842.61	$16,106.58	$149.14	$10,737.72
73	10/31/2013	$800.00	1.16%	$252.31	$102.69	$445.00	$21,739.92	$15,957.45	$149.14	$10,886.86
74	11/30/2013	$800.00	1.16%	$251.12	$103.88	$445.00	$21,636.04	$15,808.31	$149.14	$11,035.99
75	12/31/2013	$800.00	1.16%	$249.92	$105.08	$445.00	$21,530.96	$15,659.18	$149.14	$11,185.13
76	1/31/2014	$800.00	1.16%	$248.71	$106.29	$445.00	$21,424.67	$15,510.04	$149.14	$11,334.26
77	2/28/2014	$800.00	1.16%	$247.48	$107.52	$445.00	$21,317.15	$15,360.91	$149.14	$11,483.40
78	3/31/2014	$800.00	1.16%	$246.24	$108.76	$445.00	$21,208.39	$15,211.77	$149.14	$11,632.53
79	4/30/2014	$800.00	1.16%	$244.98	$110.02	$445.00	$21,098.37	$15,062.64	$149.14	$11,781.67
80	5/31/2014	$800.00	1.16%	$243.71	$111.29	$445.00	$20,987.08	$14,913.50	$149.14	$11,930.80
81	6/30/2014	$800.00	1.16%	$242.42	$112.58	$445.00	$20,874.50	$14,764.37	$149.14	$12,079.94
82	7/31/2014	$800.00	1.16%	$241.12	$113.88	$445.00	$20,760.62	$14,615.23	$149.14	$12,229.07
83	8/31/2014	$800.00	1.16%	$239.81	$115.19	$445.00	$20,645.43	$14,466.10	$149.14	$12,378.21
84	9/30/2014	$800.00	1.16%	$238.48	$116.52	$445.00	$20,528.91	$14,316.96	$149.14	$12,527.34
85	10/31/2014	$800.00	1.16%	$237.13	$117.87	$445.00	$20,411.04	$14,167.83	$149.14	$12,676.48
86	11/30/2014	$800.00	1.16%	$235.77	$119.23	$445.00	$20,291.81	$14,018.69	$149.14	$12,825.61
87	12/31/2014	$800.00	1.16%	$234.39	$120.61	$445.00	$20,171.20	$13,869.56	$149.14	$12,974.75
88	1/31/2015	$800.00	1.16%	$233.00	$122.00	$445.00	$20,049.20	$13,720.42	$149.14	$13,123.88
89	2/28/2015	$800.00	1.16%	$231.59	$123.41	$445.00	$19,925.79	$13,571.29	$149.14	$13,273.02
90	3/31/2015	$800.00	1.16%	$230.17	$124.83	$445.00	$19,800.96	$13,422.15	$149.14	$13,422.15
91	4/30/2015	$800.00	1.16%	$228.72	$126.28	$445.00	$19,674.68	$13,273.02	$149.14	$13,571.29
92	5/31/2015	$800.00	1.16%	$227.26	$127.74	$445.00	$19,546.94	$13,123.88	$149.14	$13,720.42
93	6/30/2015	$800.00	1.16%	$225.79	$129.21	$445.00	$19,417.73	$12,974.75	$149.14	$13,869.56
94	7/31/2015	$800.00	1.16%	$224.30	$130.70	$445.00	$19,287.03	$12,825.61	$149.14	$14,018.69
95	8/31/2015	$800.00	1.16%	$222.79	$132.21	$445.00	$19,154.82	$12,676.48	$149.14	$14,167.83
96	9/30/2015	$800.00	1.16%	$221.26	$133.74	$445.00	$19,021.08	$12,527.34	$149.14	$14,316.96
97	10/31/2015	$800.00	1.16%	$219.71	$135.29	$445.00	$18,885.79	$12,378.21	$149.14	$14,466.10
98	11/30/2015	$800.00	1.16%	$218.15	$136.85	$445.00	$18,748.94	$12,229.07	$149.14	$14,615.23

NRCS Property Leases - Amortization Schedule

Lease: 57-4310-7-3

Division: 13 Georgia

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
99	12/31/2015	$800.00	1.16%	$216.57	$138.43	$445.00	$18,610.51	$12,079.94	$149.14	$14,764.37
100	1/31/2016	$800.00	1.16%	$214.97	$140.03	$445.00	$18,470.48	$11,930.80	$149.14	$14,913.50
101	2/29/2016	$800.00	1.16%	$213.36	$141.64	$445.00	$18,328.84	$11,781.67	$149.14	$15,062.64
102	3/31/2016	$800.00	1.16%	$211.72	$143.28	$445.00	$18,185.56	$11,632.53	$149.14	$15,211.77
103	4/30/2016	$800.00	1.16%	$210.06	$144.94	$445.00	$18,040.62	$11,483.40	$149.14	$15,360.91
104	5/31/2016	$800.00	1.16%	$208.39	$146.61	$445.00	$17,894.01	$11,334.26	$149.14	$15,510.04
105	6/30/2016	$800.00	1.16%	$206.70	$148.30	$445.00	$17,745.71	$11,185.13	$149.14	$15,659.18
106	7/31/2016	$800.00	1.16%	$204.98	$150.02	$445.00	$17,595.69	$11,035.99	$149.14	$15,808.31
107	8/31/2016	$800.00	1.16%	$203.25	$151.75	$445.00	$17,443.94	$10,886.86	$149.14	$15,957.45
108	9/30/2016	$800.00	1.16%	$201.50	$153.50	$445.00	$17,290.44	$10,737.72	$149.14	$16,106.58
109	10/31/2016	$800.00	1.16%	$199.72	$155.28	$445.00	$17,135.16	$10,588.59	$149.14	$16,255.72
110	11/30/2016	$800.00	1.16%	$197.93	$157.07	$445.00	$16,978.09	$10,439.45	$149.14	$16,404.85
111	12/31/2016	$800.00	1.16%	$196.12	$158.88	$445.00	$16,819.21	$10,290.32	$149.14	$16,553.99
112	1/31/2017	$800.00	1.16%	$194.28	$160.72	$445.00	$16,658.49	$10,141.18	$149.14	$16,703.12
113	2/28/2017	$800.00	1.16%	$192.42	$162.58	$445.00	$16,495.91	$9,992.05	$149.14	$16,852.26
114	3/31/2017	$800.00	1.16%	$190.55	$164.45	$445.00	$16,331.46	$9,842.91	$149.14	$17,001.39
115	4/30/2017	$800.00	1.16%	$188.65	$166.35	$445.00	$16,165.11	$9,693.78	$149.14	$17,150.53
116	5/31/2017	$800.00	1.16%	$186.73	$168.27	$445.00	$15,996.84	$9,544.64	$149.14	$17,299.66
117	6/30/2017	$800.00	1.16%	$184.78	$170.22	$445.00	$15,826.62	$9,395.51	$149.14	$17,448.80
118	7/31/2017	$800.00	1.16%	$182.82	$172.18	$445.00	$15,654.44	$9,246.37	$149.14	$17,597.93
119	8/31/2017	$800.00	1.16%	$180.83	$174.17	$445.00	$15,480.27	$9,097.24	$149.14	$17,747.07
120	9/30/2017	$800.00	1.16%	$178.81	$176.19	$445.00	$15,304.08	$8,948.10	$149.14	$17,896.20
121	10/31/2017	$800.00	1.16%	$176.78	$178.22	$445.00	$15,125.86	$8,798.97	$149.14	$18,045.34
122	11/30/2017	$800.00	1.16%	$174.72	$180.28	$445.00	$14,945.58	$8,649.83	$149.14	$18,194.47
123	12/31/2017	$800.00	1.16%	$172.64	$182.36	$445.00	$14,763.22	$8,500.70	$149.14	$18,343.61
124	1/31/2018	$800.00	1.16%	$170.53	$184.47	$445.00	$14,578.75	$8,351.56	$149.14	$18,492.74
125	2/28/2018	$800.00	1.16%	$168.40	$186.60	$445.00	$14,392.15	$8,202.43	$149.14	$18,641.88
126	3/31/2018	$800.00	1.16%	$166.25	$188.75	$445.00	$14,203.40	$8,053.29	$149.14	$18,791.01
127	4/30/2018	$800.00	1.16%	$164.07	$190.94	$445.00	$14,012.46	$7,904.16	$149.14	$18,940.15

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
128	5/31/2018	$800.00	1.16%	$161.86	$193.14	$445.00	$13,819.32	$7,755.02	$149.14	$19,089.28
129	6/30/2018	$800.00	1.16%	$159.63	$195.37	$445.00	$13,623.95	$7,605.89	$149.14	$19,238.42
130	7/31/2018	$800.00	1.16%	$157.37	$197.63	$445.00	$13,426.32	$7,456.75	$149.14	$19,387.55
131	8/31/2018	$800.00	1.16%	$155.09	$199.91	$445.00	$13,226.41	$7,307.62	$149.14	$19,536.69
132	9/30/2018	$800.00	1.16%	$152.78	$202.22	$445.00	$13,024.19	$7,158.48	$149.14	$19,685.82
133	10/31/2018	$800.00	1.16%	$150.44	$204.56	$445.00	$12,819.63	$7,009.35	$149.14	$19,834.96
134	11/30/2018	$800.00	1.16%	$148.08	$206.92	$445.00	$12,612.71	$6,860.21	$149.14	$19,984.09
135	12/31/2018	$800.00	1.16%	$145.69	$209.31	$445.00	$12,403.40	$6,711.08	$149.14	$20,133.23
136	1/31/2019	$800.00	1.16%	$143.27	$211.73	$445.00	$12,191.67	$6,561.94	$149.14	$20,282.36
137	2/28/2019	$800.00	1.16%	$140.83	$214.17	$445.00	$11,977.50	$6,412.81	$149.14	$20,431.50
138	3/31/2019	$800.00	1.16%	$138.35	$216.65	$445.00	$11,760.85	$6,263.67	$149.14	$20,580.63
139	4/30/2019	$800.00	1.16%	$135.85	$219.15	$445.00	$11,541.70	$6,114.54	$149.14	$20,729.77
140	5/31/2019	$800.00	1.16%	$133.32	$221.68	$445.00	$11,320.02	$5,965.40	$149.14	$20,878.90
141	6/30/2019	$800.00	1.16%	$130.76	$224.24	$445.00	$11,095.78	$5,816.27	$149.14	$21,028.04
142	7/31/2019	$800.00	1.16%	$128.17	$226.83	$445.00	$10,868.95	$5,667.13	$149.14	$21,177.17
143	8/31/2019	$800.00	1.16%	$125.55	$229.45	$445.00	$10,639.50	$5,518.00	$149.14	$21,326.31
144	9/30/2019	$800.00	1.16%	$122.90	$232.10	$445.00	$10,407.40	$5,368.86	$149.14	$21,475.44
145	10/31/2019	$800.00	1.16%	$120.22	$234.78	$445.00	$10,172.62	$5,219.73	$149.14	$21,624.58
146	11/30/2019	$800.00	1.16%	$117.51	$237.49	$445.00	$9,935.13	$5,070.59	$149.14	$21,773.71
147	12/31/2019	$800.00	1.16%	$114.76	$240.24	$445.00	$9,694.89	$4,921.46	$149.14	$21,922.85
148	1/31/2020	$800.00	1.16%	$111.99	$243.01	$445.00	$9,451.88	$4,772.32	$149.14	$22,071.98
149	2/29/2020	$800.00	1.16%	$109.18	$245.82	$445.00	$9,206.06	$4,623.19	$149.14	$22,221.12
150	3/31/2020	$800.00	1.16%	$106.34	$248.66	$445.00	$8,957.40	$4,474.05	$149.14	$22,370.25
151	4/30/2020	$800.00	1.16%	$103.47	$251.53	$445.00	$8,705.87	$4,324.92	$149.14	$22,519.39
152	5/31/2020	$800.00	1.16%	$100.56	$254.44	$445.00	$8,451.43	$4,175.78	$149.14	$22,668.52
153	6/30/2020	$800.00	1.16%	$97.62	$257.38	$445.00	$8,194.05	$4,026.65	$149.14	$22,817.66
154	7/31/2020	$800.00	1.16%	$94.65	$260.35	$445.00	$7,933.70	$3,877.51	$149.14	$22,966.79
155	8/31/2020	$800.00	1.16%	$91.64	$263.36	$445.00	$7,670.34	$3,728.38	$149.14	$23,115.93
156	9/30/2020	$800.00	1.16%	$88.60	$266.40	$445.00	$7,403.94	$3,579.24	$149.14	$23,265.06

NRCS

NRCS Property Leases - Amortization Schedule

Lease: 57-4310-7-3

Division: 13 Georgia

Amortization Schedule:

Payments			Liabilities					Assets		
Payment	Payment Date	Monthly Payment	Imputed Interest	Interest	Principle	Executory	Liability Balance (GL 2940)	Asset Balance (GL 1810 less GL 1819)	Depreciation (GL 1819)	Accumulated Depreciation (GL 1819)
157	10/31/2020	$800.00	1.16%	$85.52	$269.48	$445.00	$7,134.46	$3,430.11	$149.14	$23,414.20
158	11/30/2020	$800.00	1.16%	$82.41	$272.59	$445.00	$6,861.87	$3,280.97	$149.14	$23,563.33
159	12/31/2020	$800.00	1.16%	$79.26	$275.74	$445.00	$6,586.13	$3,131.84	$149.14	$23,712.47
160	1/31/2021	$800.00	1.16%	$76.08	$278.92	$445.00	$6,307.21	$2,982.70	$149.14	$23,861.60
161	2/28/2021	$800.00	1.16%	$72.86	$282.14	$445.00	$6,025.07	$2,833.57	$149.14	$24,010.74
162	3/31/2021	$800.00	1.16%	$69.60	$285.40	$445.00	$5,739.67	$2,684.43	$149.14	$24,159.87
163	4/30/2021	$800.00	1.16%	$66.30	$288.70	$445.00	$5,450.97	$2,535.30	$149.14	$24,309.01
164	5/31/2021	$800.00	1.16%	$62.97	$292.04	$445.00	$5,158.93	$2,386.16	$149.14	$24,458.14
165	6/30/2021	$800.00	1.16%	$59.59	$295.41	$445.00	$4,863.52	$2,237.03	$149.14	$24,607.28
166	7/31/2021	$800.00	1.16%	$56.18	$298.82	$445.00	$4,564.70	$2,087.89	$149.14	$24,756.41
167	8/31/2021	$800.00	1.16%	$52.73	$302.27	$445.00	$4,262.43	$1,938.76	$149.14	$24,905.55
168	9/30/2021	$800.00	1.16%	$49.24	$305.76	$445.00	$3,956.67	$1,789.62	$149.14	$25,054.68
169	10/31/2021	$800.00	1.16%	$45.70	$309.30	$445.00	$3,647.37	$1,640.49	$149.14	$25,203.82
170	11/30/2021	$800.00	1.16%	$42.13	$312.87	$445.00	$3,334.50	$1,491.35	$149.14	$25,352.95
171	12/31/2021	$800.00	1.16%	$38.52	$316.48	$445.00	$3,018.02	$1,342.22	$149.14	$25,502.09
172	1/31/2022	$800.00	1.16%	$34.86	$320.14	$445.00	$2,697.88	$1,193.08	$149.14	$25,651.22
173	2/28/2022	$800.00	1.16%	$31.16	$323.84	$445.00	$2,374.04	$1,043.95	$149.14	$25,800.36
174	3/31/2022	$800.00	1.16%	$27.43	$327.58	$445.00	$2,046.46	$894.81	$149.14	$25,949.49
175	4/30/2022	$800.00	1.16%	$23.64	$331.36	$445.00	$1,715.10	$745.68	$149.14	$26,098.63
176	5/31/2022	$800.00	1.16%	$19.81	$335.19	$445.00	$1,379.91	$596.54	$149.14	$26,247.76
177	6/30/2022	$800.00	1.16%	$15.94	$339.06	$445.00	$1,040.85	$447.41	$149.14	$26,396.90
178	7/31/2022	$800.00	1.16%	$12.03	$342.97	$445.00	$697.88	$298.27	$149.14	$26,546.03
179	8/31/2022	$800.00	1.16%	$8.06	$346.94	$445.00	$350.94	$149.14	$149.14	$26,695.17
180	9/30/2022	$800.00	1.16%	$4.06	$350.94	$445.00	$0.00	$0.00	$149.14	$26,844.30

Attachment 2

FASAB Proposed Changes to Lease Reporting

Presented by:

William Truitt

Tynesha Douglass

John Wall

Office of the Chief Financial Officer April 2017

Proposed Significant Changes in Recording Leases

- The recording of leases will rely on the non-cancellable portion of the lease term instead of the traditional measures for recording leases.
- Recording leases (proprietary) and scoring of leases (budgetary) will not be as closely aligned as in the past. Budgetary references would still use the terms “capital” and “operating” leases.
- Clarification of the definition of a lease. In the exposure draft forwarded to agencies a lease would be defined as “a contract or agreement that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction.”

U.S. DEPARTMENT OF ENERGY

Department of Energy Leases

- As of September 30, 2016, the Department and its management and operating contractors have entered into leases (both capital and operating) with a total of future lease payments of approximately $4.1 B with a total net assets under capital leases of approximately $2.1 B.
- These agreements include leases for real estate as well as power lines for the Power Marketing Administrations.

3

U.S. DEPARTMENT OF ENERGY

Summary of DOE Concerns

- While the Department of Energy (DOE) generally concurred with the FASAB exposure draft on *Leases*, issued September 26, 2016, we did have some concerns which we requested the Board to reconsider:

Topic for Discussion	Lease Exposure Draft Question
Recognition of Lease Liability	3
Measurement of Lease Liability	4
Definition of "Significantly Affect"	6(a)
Carrying Value of Re-measured Liability	6(c)
Recognition of a Short Term Lease	9
Intragovernmental Leases	10
Accounting for Software	Other Matters

4

U.S. DEPARTMENT OF ENERGY

Recognition of Lease Liability

- At paragraph 19, the Board proposed that at the beginning of a lease term, a lessee should recognize a lease liability and a property, plant, and equipment right to use lease asset, except for intragovernmental and short term leases.

- DOE agreed with the proposed guidance for lease recognition. However, we suggested the new "right to use" Standard General Ledger account be available when the standard is implemented. In addition, we recommend that USSGL in Treasury develop a posting model for these transactions to ensure uniformity in recognizing the liability and right to use lease asset.

5

U.S. DEPARTMENT OF ENERGY

Measurement of Lease Liability

- At paragraph 21(a – g), the Board proposed measurement of a lease liability should include several types of payments required by a lease.

- DOE agreed with the types of proposed payments. However, we believe payments required to be made by the lessee under non-routine or unique circumstances, such as triple net leasing arrangements (please see slide 7), should be considered when measuring a lease liability.

- Some lease payments required under non-routine or unique circumstances, such as triple net leasing, could impact how the lease is ultimately scored for budgetary purposes.

6

U.S. DEPARTMENT OF ENERGY

Measurement of Lease Liability (continued)

- The definition of a triple net lease is as follows:

  "A triple net lease is a lease agreement that designates the lessee, which is the tenant, as being solely responsible for all the costs relating to the asset being leased, in addition to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay the net amount for three types of costs, including net real estate taxes on the leased asset, net building insurance and net common area maintenance. This type of lease can also be referred to as a net-net-net (NNN) lease."

- For example, if a property owner leases out a building to a business using a triple net lease, the tenant is responsible for paying the building's property taxes, building insurance and the cost of any maintenance or repairs the building may require during the term of the lease. Because the tenant is covering these costs, which would otherwise be the responsibility of the property owner, the rent charged in the triple net lease is generally lower than the rent charged in a standard lease agreement.

- Source: http://www.investopedia.com/terms/n/netnetnet.asp

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Measurement of Lease Liability (continued)

- According to OMB Circular A-11 (2016)

  ❑ Appendix A, Paragraph 11 (Scoring Purchases), Page 3:
  "*Property taxes will not be considered to be an operating cost.*"

  ❑ Appendix B, Paragraph 2(b) (Budget Presentation), Page 4
  "*The up-front budget authority required for both lease-purchases and capital leases is called the asset cost. This equals the present value of the minimum lease and other contractually required payments excluding payments for identifiable annual operating expenses that would be paid by the Government as owner, such as utilities, minor maintenance, and insurance. Property taxes will not be considered to be an operating expense and will be included in the calculation of the up-front budget authority. Other contractually required payments include any and all costs related to the asset being leased in addition to the rent fee applied under the lease.*"

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Definition of “Significantly Affect”

- At paragraph 25, the Board proposed a lessee should re-measure its lease liabilities at subsequent financial reporting dates if certain changes have occurred and are expected to significantly affect the amount of the lease liability.

- The term ”significantly affect” is not defined in the current version of the FASAB Handbook.

- Without clear guidance on how “significantly affect” is defined in the context of the re-measurement of leases, the term is subject to government-wide interpretation and potential misapplication with respect to re-measuring lease liabilities.

9

U.S. DEPARTMENT OF ENERGY

Carrying Value of a Re-measured Lease Liability

- Paragraph 33 states, “*The lease asset generally should be adjusted by the same amount when the corresponding lease liability is re-measured based on paragraphs 25–29*. *However, if this change reduces the carrying value of the lease asset to zero, any remaining amount should be reporting in the flows statement as a gain*” on the asset.

- The Department requests FASAB provide examples for each of the circumstances in paragraphs 25-29 in which a leased asset could have a carrying value left over to be reported as a gain when the associated lease liability has been reduced to zero.

- Our concern is there is a high likelihood it would not be any “gain” to report on a lease liability, once the lease liability has been reduced to zero.

- Are we now to record the remaining value of the asset as a gain?

10

U.S. DEPARTMENT OF ENERGY

Recognition of a Short Term Lease

- Generally, the Department agreed with the proposed definition, measurement, and recognition of a short term lease.
- However, we are concerned there is a possible misinterpretation between paragraphs 14 and 59 on the determination of a lease. We would like the Board to clarify whether its intent was that Paragraph 14 would be the final qualifier for defining a lease term.

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U.S. DEPARTMENT OF ENERGY

Recognition of a Short Term Lease (continued)

- Please consider the following scenarios:

❑Scenario 1: The Department enters into a lease contract as a lessee for 16 months with an option period of 9 months. If the Department has the option to cancel the 9 month option period of its lease, the maximum lease term to be evaluated would be 16 months (the non-cancellable portion of the lease) under paragraphs 14 and 59.

❑Scenario 2: The Department enters into a lease contract as a lessee for 16 months, with the probable exercise of a 9 month lease option period. Based on the Department's interpretation of paragraph 14, this lease contract would not qualify as a short term lease because the lease term is 25 months. Therefore, this lease will have to be tracked and recorded as a lease asset and lease liability.

12

U.S. DEPARTMENT OF ENERGY

Intragovernmental Leases

- The Department partially agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases.
- At Paragraphs 82 – 85 and 90 – 92 we would like the FASAB to clarify the importance of the distinction between a "lease incentive" and "lease concession," when the effect of both types of incentives as applied to intragovernmental leases, appear to be the same.
- Lease incentives and lease concessions are provided by a lessor to entice the lessee to sign the lease. They both result in reduced rental income received by the lessor and paid by the lessee. The basis for conclusions at paragraph A29, which states "lease incentives and concessions should be recognized by the lessee/lessor as reductions of lease rental expense/lease rental income", supports the analogous interpretation of these two terms.

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U.S. DEPARTMENT OF ENERGY

Accounting for Software

- Although an update to SFFAS 10 (Accounting for Internal Use Software) is not specifically a topic for discussion under this exposure draft, for future FASAB activities, we believe it may be helpful to provide the following questions pertaining to the treatment of software under the new lease standards.
  - ❑ Question #1: SFFAS 10 already classifies internal use software are PP&E. What other software besides internal use software is expected to be treated as a lease?
  - ❑ Question #2: Is internal use software included as a right-to-use asset? What assets would this definition include — only plant and equipment assets and internal use software? For example, would agreements for "software as a service" (SaaS) or cloud applications or data storage fall under this guidance, or are these items considered services and therefore exempt?
  - ❑ Question #3: Since SaaS applications are not controlled by the lessee in the same manner as a more customized Enterprise Resource Planning (i.e., Oracle) system, does that warrant different accounting treatment?

14

U.S. DEPARTMENT OF ENERGY

Accounting for Software (continued)

- Question #4: Are annual payments for software licenses considered leases? If yes, are the annual renewals considered short term leases?
- Question #5: Can the Board clarify or define "if and when" to include software licenses or maintenance licenses as a "lease" if the license is for a period longer than 2 years? For example:
  - *One-time perpetual leases with annual maintenance agreements.*
  - *Non-perpetual licenses "lease" software for use for a specified period of time. Users are required to remove the software from their computer if they cease paying for the license fee.*
  - *Some license agreements allow the user to purchase "maintenance" or "software assurance" along with the original license fee, which entitles the user to receive new versions of the software until the maintenance agreement expires.*
- Question #6: How are umbrella software agreements accounted for?

U.S. DEPARTMENT OF ENERGY

Points of Contacts

- Thanks for the opportunity to address the Board and discuss our concerns and give suggestions:
- Chief Financial Officer Contacts:
  - Tynesha Douglass: Tynesha.Douglass@hq.doe.gov (202) 586-6144
  - William Truitt: William.Truitt@hq.doe.gov (202) 586-1065
  - John Wall: John.Wall@hq.doe.gov (202) 586-5728
- Office of Management Contact:
  - David Steinau: David.Steinau@hq.doe.gov (202) 287-1503

U.S. DEPARTMENT OF ENERGY

Attachment 3

DOI Comments on Leases Exposure Draft

April 26, 2017 FASAB Monthly Meeting

1

Lease Definition

- A lease is a contract or agreement that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction.
- Suggest clarifying where easements and land rights, licenses, concession agreements, etc. fall under this definition. Update: After internal discussion, DOI agrees that easements, land rights, and licenses fall under the proposed definition, and concession agreements do not meet the criteria for leases.

2

Lease Term

- The lease term is determined as *the period during which a lessee has a noncancelable right to use an underlying asset* (referred to as the noncancelable period) plus each option period if it is probable, based on all relevant factors, that the lessee will exercise that option to extend the lease.
- DOI disagrees with the use of the phrase "lessee's noncancelable right" as it implies that the lessee's right to use the underlying asset cannot be canceled by the lessor, which may not be an accurate statement. DOI suggests rephrasing such as "……*the period during which the lessee cannot cancel the lease without penalty"* to avoid confusion.

3

Lease Term (continued)

- The definition of "Lease Term" does not address the period between noncancelable period (firm term) and expiration date of the initial lease period.
- Example: 10-year lease, with noncancelable period or firm term from year 1 to year 5, and option years (after 10 year) 11, 12, 13, and 14. The proposed lease term does not address year 6 to year 10.
- Although in Paragraph 15b an attempt is made to redefine "noncancelable period" to include the period between the "firm term" and the expiration date of the lease (year 6 to year 10 in the example), it's confusing as noncancelable period is the "firm term" in the leasing world.

4

Lease Term (continued)

- Paragraph 15 of Leases ED:

  The noncancelable period is the shorter of

  - a. the initial lease period, before considering renewal options for additional periods;
  - **b. the period of the lease preceding an option for the lessee to terminate the lease if it is probable, based on all relevant factors, that the lessee will exercise that option to terminate**; or
  - c. the period of the lease preceding a point at which either the lessor only or both the lessee and the lessor have an option to terminate the lease, regardless of the probability of termination.

5

Lease Term (continued)

- **DOI suggestion:** *The lease term is determined as the period during which the lessee cannot cancel the lease without penalty (noncancelable period or firm term), plus the cancelable period of the lease before the expiration date if it's probable that the lessee will not cancel, plus each option period if it's probable, based on all relevant factors, that the lessee will exercise that option to extend the lease.*

6

Lease Term (continued)

- Determining probabilities of extensions will pose problems.
  - Leases are usually long-term. Determining the probability of exercising the option at the beginning of the lease may be difficult;
  - May be inconsistencies;
  - May be subjective.

7

Lease Liability Recognition

- At the beginning of the lease term, a lessee should recognize a lease liability and a property, plant, and equipment right-to-use lese asset (the lease asset), except for intragovernmental and short-term leases.

8

Lease Liability Recognition (continued)

- Clarification and/or confirmation of interpretation of the subleases section of the ED needed. Our interpretation of subleases: when GSA is the original lessee with a non-intragovernmental lessor and then leases that non-intragovernmental lease to another government entity, the other government entity is the new lessee and should apply the "intragovernmental" general lessee guidance for this lease. Is this the correct interpretation? Update: Resolved after internal discussion. The lease between GSA and another government entity is an intragovernmental lease.

9

Lease Liability Recognition (continued)

- There is no definition of what 'general lessee guidance' is in the ED. 'General lessee guidance', specifically, is only used under the Subleases section (Paragraph 68, page 22), but 'general guidance' is used only under the 'intragovernmental' section of the ED (under Recognition and Measurement section, page 25).
  - Suggest removing "general" from the last sentence in Paragraph 68, "The new lessee should apply the **general** lessee guidance", to avoid confusion.
  - Comment on page 25 has been resolved as the intragovernmental leases section has a section for general guidance and a section for specific topics.

10

Lease Liability Recognition (continued)

- Liability may not exist due to abrupt change in administration or project termination.
  - Circumstances may be unpredictable. The President or Congress may decide to terminate the funding for the lease if the rents are determined too expensive or the lease is determined to be nonessential (i.e., reduce the footprint initiative).

11

Lease Liability Recognition (continued)

- Inflate Balance Sheet by recording an asset and a liability with no net impact on Net Position.
  - The asset and liability may not exist as circumstances may change anytime (see previous comment).

12

Lease Liability Recognition (continued)

- Increase reporting burden.
  - Recording a lease liability at the present value of probable future payments and constantly adjusting the liability and recognizing an interest expense as monthly rents are paid would create numerous transactions in the financial system.
  - The constant efforts do not justify the benefits, especially in the current political landscape when agencies face budget cuts and must decide what activities need to be reduced or eliminated.
  - The current Future Minimum Lease Payments disclosure provides sufficient information to stakeholders and is consistent with OMB Circular A-11 on budget scoring.
  - If the reason for the proposed standard is to recognize the interest expense on leases, the interest expense can be calculated when rent payments are made by comparing the actual payment to the discounted amount using the future minimum lease payment report, without recognizing an asset and a liability for every lease. To DOI, interest expense related to rent may be immaterial.

13

Lease Liability Measurement

- A lessee should measure the **lease liability** initially at the present value of payments to be made for the lease term.

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Lease Liability Measurement (continued)

- Amounts that are probable of being required to be paid by a lessee under residual value guarantees (Paragraph 21d) may not be measurable at the beginning of the lease.
  - Residual value guarantee includes property tax adjustment which is not known at beginning of the lease (not until the lessor provides the tax bill).
  - Property tax adjustment may go up or down, and is paid as lump sum based on % of occupancy.
  - Note: Future Minimum Lease Payments do not include lump sum payments.

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Lease Liability Measurement (continued)

- Penalties (21f in ED) for terminating the lease should be considered in remeasurement of the liability when considering terminating the lease and not in the initial liability calculation.
- Penalties are usually the unamortized (or unpaid) balance of leasehold improvement. This balance is different depending on when the lease is canceled during the noncancelable period.
- The unamortized balance cannot be determined at the beginning of the lease as agencies do not determine when and if to cancel at this point.
- Penalties can be waived at beginning of lease or negotiated at time of termination (such as when the new lessee can make use of the leasehold improvement).

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Lease Liability Measurement (continued)

- **NEW Comment:** The proposed lease liability measurement may result in the recording of both **a funded liability and an unfunded liability**. Tracking both liabilities will increase reporting burden for agencies.
  - 31 U.S.C. SS 1501 a (1), the recording statute, requires the recording of an obligation the amount representing the **legally binding** obligation of the U.S. Government.
  - Also per OMB Circular A-11 Appendix A Scorekeeping Guidelines: For operating leases, budget authority will be scored against the legislation in the year in which the budget authority is first made available in the amount necessary to cover the Government's **legal** obligations.
  - The recording of the lease obligation in the financial system would create a **funded liability**.
  - The amount calculated for lease obligation does not include some "probable" amounts described in the leases ED as those may not be legally binding at the beginning of the lease.
  - The difference between the funded liability and liability calculated under the proposed standard would be recorded as an **unfunded liability** at the beginning of the lease.
  - As funds are obligated in subsequent periods, the funded liability will be created and the unfunded liability will be adjusted accordingly.

17

Lease Liability Measurement (continued)

- Specifically, there are two types of non-intragovernmental leases:
  - For leases executed under **GSA delegated authorities** (Direct Leases), the annual rent payments are required to be obligated at the beginning of the fiscal year. For these leases the amount of the funded liability (at the beginning of the lease is the sum of the rent payments for year 1, and the unfunded liability would be the total rent payments for the rest of the noncancelable period through the probable cancelable periods and probable option periods. At subsequent periods the unfunded liability would be reclassified as funded when funds are obligated.
  - For leases executed under the **Independent Statutory Authority**, the **full** amount of the contractual liability is required to be obligated (funded liability) against the funds available at the time the contract was executed. Any "probable" costs that are not legally binding would be recorded as an unfunded liability, and the unfunded liability would be reclassified to funded when funds are obligated.
  - The reclassification of unfunded to funded liability would increase reporting burden to agencies.

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Future Lease Payments

- The future lease payments should be discounted using the rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the rate cannot be reasonably estimated by the lessee, the lessee's incremental borrowing rate (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used.

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Future Lease Payments (continued)

- Obtaining the rate the lessor charges the lessee may be difficult (although the Contracting Officer should have the information);
- The discount rate may not be accurate account for escalating the rents as in most cases only operating expenses are escalated and it's based on CPI rate;
- Unable to determine the incremental borrowing rate for Government lessees (Resolved as footnote 9 addresses this);
- The benefit of discounting the lease and reporting the interest expense may not justify the burden for tracking each lease and adjusting for monthly reporting.

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Lease Liability Remeasurement

- Liability remeasurement may cause undue burden.
  - This is in addition to the monthly liability adjustment for rent payment made.

Lease Asset Measurement

- A lessee should measure the lease asset initially as the sum of (1) the amount of the initial measurement of the lease liability, (2) lease payments made to the lessor at or before the beginning of the lease, less any lease incentives received from the lessor, and (3) initial direct costs that are ancillary charges necessary to place the lease asset into service.

Lease Asset Measurement

- The asset should be recorded at the amount equal to the liability only and not include other costs, as the benefit of recording other costs as an asset and then amortize may outweigh the benefits. The difference in asset and liability would impact the net position when there is no real gain or loss involved.

DOI Position on Proposed Standard

- The majority of DOI’s space needs are met through GSA Occupancy Agreements, which are not required to record an asset and a liability under the proposed standard.
- The majority of DOI’s direct leases that may meet the reporting requirements are categorical and special purpose leases e.g., airport hangars, boat ramps, storage units, etc. These leasing activities are both qualitative and quantitatively immaterial to DOI's mission.
- Although the proposed need not be applied to immaterial items, analysis is still needed at the lease level to support not recording a right-to-use lease asset and a liability.
- System change may be needed to capture the information required in the proposed standard, increasing costs.
- Considering the budget constraint, the burden of the reporting requirements outweighs the benefits.
- The existing Future Minimum Lease Payment disclosure, in conjunction with the lease obligation and funded liability recording, provides sufficient information to stakeholders.

Attachment 4

Office of the Under Secretary of Defense (Comptroller)
Office of the Deputy Chief Financial Officer

Impact of the Proposed Lease Standard on Department of Defense

Alaleh Jenkins

Assistant Deputy Chief Financial Officer

April 26, 2017

Contents

Issue 1: Definition of a Lease

The Exposure Draft (ED) definition is too broad and all-encompassing

- DoD enters into agreements that are *vast* in quantity and variety
  - Examples: air space corridors, indefeasible rights of use, charters, utility easements, soil sample rights of way
  - Most agreements are individually negotiated and will require individual review

- No specific guidance for how to distinguish a service contract from a lease

Risk

- Lack of precision in definition will lead to inconsistent interpretations and implementation
- Impedes auditability within prescribed timeline
- Wait for TR/implementation guide will produce long period of indecision

Issue 2: Asset/Liability Criteria

Recording an Asset

- “Right to use” should be replaced with “control”
- What constitutes “Control” should be defined in the context of a lease. Should include rights substantially similar to owning an asset.
  - Examples: the right to sublet, use the asset for alternative purposes, and alter the asset during the agreement period without permission

Recording a Liability

- The ED requires recording a liability for an event that has not yet occurred
  - Generally a liability is not recorded until the asset or service has been received
  - DoD’s agreements allow it to unilaterally terminate an agreement. This happens due to funding constraints and mission changes
  - Future liabilities can be disclosed in a footnote
- Different accounting than a similar transaction for acquiring services, or a commitment to acquire 1,000 widgets over the next 5 years

Risk

- Current criteria will distort DoD’s financial position
- Requires treatment that conflicts with existing standards

Issue 3: Benefits and Costs to Taxpayers

Cost Outweighs the Benefit

- The ED provides little useful information to management, taxpayers, or congress
  - Taxpayers can obtain an understanding of DoD's obligations through its budget exhibits
- DoD's agreements can often be cancelled at zero or low cost, reducing any benefit of reporting future lease/rental payments

Benefits

Provide financial information for federal financial statement users

Costs

- Existence and completeness of identified leases
- Reviews of all agreements
- ID lease payments
- Unbundling lease and service costs
- Calculation and recording of lease assets and liabilities
- Estimating the rate implicit in the lease
- Legal reviews and consultation
- Training
- Updating current processes and systems

Issue 4: Effective Date

The ED effective date does not provide enough time to prepare systems and allow preparers to identify all agreements

- A more realistic timeframe is 4 years
- Recommend prospective implementation versus retrospective

Risks

- Major resource distraction in drive towards auditability

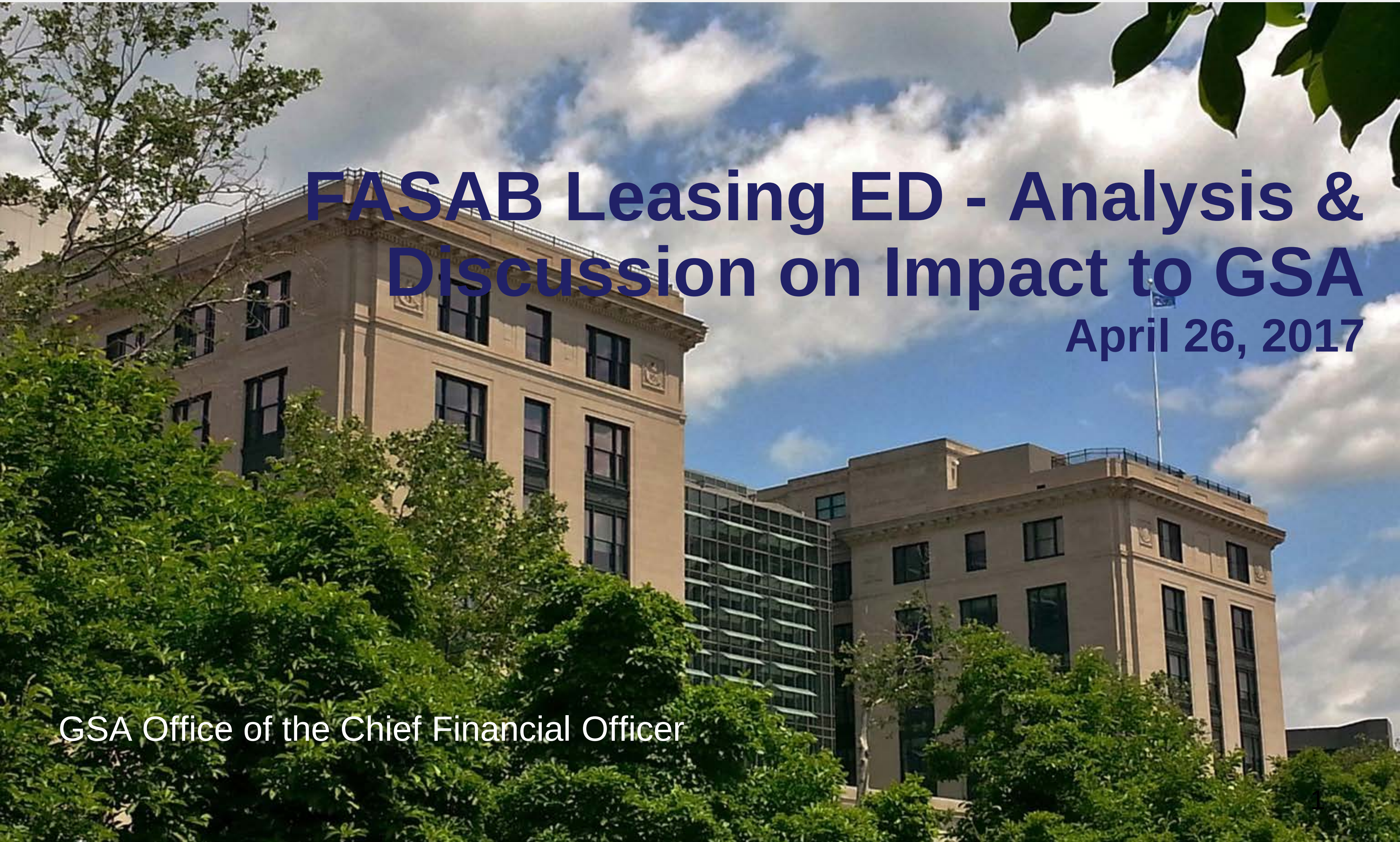
Other Considerations

Additional Recommendations:

- Limit to tangible assets
- Exclude all intangibles such as easements, land rights, air rights, water rights, software licenses, etc.
- Must be for a specific identified item of Property, Plant, and Equipment with no right of substitution
  - Define “identified item” and “right of substitution”
- Agreement must convey the right to control and to operate an asset in a manner determined by the lessee
- Exclude service arrangements and expand service definition
- The lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
  - Examples: the right retain revenue, right to sublet, use the asset for alternative purposes, and alter the asset during the agreement period without permission

Attachment 5

U.S. General Services Administration



FASAB Leasing ED - Analysis & Discussion on Impact to GSA

April 26, 2017

GSA Office of the Chief Financial Officer

Presentation Contents

1. Issues

    a. Stakeholder Benefits? (Cost v. Benefit considerations)
    b. Control (Concepts terminology) v. Right-to-Use (ED terminology) over Assets
    c. Lease Definition (too broad)
    d. Effective Date

2. Analysis and Discussion

3. Concluding Remarks

Issues

a. Stakeholder Benefits

- The proposed Leasing ED would not provide information that is actionable, or information from which better business decisions could be made.

- Costs to implement and sustain the requirements of the Leasing ED would far exceed any incremental benefits realized from the implementation of this ED.

- GSA received no inquiries or notices that our current lease reporting is deficient...and further believes that our current reporting (through footnote disclosure) is sufficient.

Issues (continued)

a. Control v. Right-to-Use over Assets

- Control and ownership should be considered when recording assets, and related liabilities. A lessee (right-to-use) does not receive all the rights and benefits of asset ownership...for example, in some cases structural changes to a building that is leased requires lessor approval. As a lessee your “rights” to the property are abridged...to include duration.

- SFFAC 5 defines as an asset that is “controlled”, whereas the ED defines an asset where the federal entity has a “right-to-use”. The SFFAC and the ED seem to be using contradictory terms around the same concepts...which can and will lead to some confusing if the language is not cleaned up or clarified.

- *It seems that “control” is an essential element of the SFFAC 5 definition of an asset. Without “control”, the underlying item referenced in a lease should not be considered an asset and should not be recorded as such.*

Issues (continued)

a. Lease Definition

- The ED definition of a lease is too broad.
    - "... a lease as a contract or agreement that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction."
- Under this definition...GSA would be capitalizing AND depreciating land as a consequence of ground leases.
- *GSA suggests that FASAB consider a narrower "lease" definition, and any refined definition should speak to SCAs and service agreements...rather than remaining silent.*

Issues (continued)

a. Effective Date is too soon for successful implementation

- More time and resources would be needed to ensure a successful transition and implementation (system changes, system testing, data validation, personnel training, risk assessment, lease documentation reviews, et al).

- *GSA suggests a more realistic timetable to ensure a successful transition (NLT 2022).*

Analysis and Discussion

- **Implementation of the ED would have a significant impact on our Balance Sheet, and throughout GSA**
  - > ~$20B increase in asset value (and related lease liabilities)
  - 7,000+ leases to be reviewed, and would be subject to the provisions of the ED
  - Significant costs (around system changes/enhancements, data validation, lease reviews/data scrubbing, interface testing, personnel training, risk assessments, audit compliance, et al) would be incurred to implement the ED
  - Costs to implement/sustain would far outstrip any perceived or known benefits
  - Additional discovery may be necessary to validate our population of leasing activity (personal and real property)

Concluding Remarks

- No significant benefit to GSA or any other stakeholder has been identified related to this ED (no financial analysts are analyzing our financials for possible investment)

- Significant costs to implement and sustain (which outstrip any identified benefits)

- No actionable information will be provided to any stakeholders that can or could inform any decision making activities as a consequence of adopting this ED

- There are incongruencies between FASAB Concepts and the Leasing ED, specifically around the concept of asset “control” and “right-of-use” referenced in the ED…”control” appears to be an essential element to the definition of an asset, yet “right-of-use” is an abridgement of rights identified within a lease...these terms appear to be incongruent