

## CHAPTER 10.2 LEASE ACCOUNTING

### Table of Contents

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>2</b>
	I.A. Purpose and Scope .....	2
	I.B. Applicability .....	2
	I.C. Policy .....	2
<b>II.</b>	<b>SUMMARY REQUIREMENTS .....</b>	<b>4</b>
	II.A. Short-Term Leases—DOE as Lessee.....	4
	II.B. Short-Term Leases—DOE as Lessor .....	5
	II.C. Right to Use (RTU) Leases—DOE as Lessee .....	6
	II.D. Intragovernmental Leases .....	8
	II.E. Contracts or Agreements with Multiple Components .....	9
	II.F. Ownership Transfers .....	10
	II.G. Special Topics.....	11
<b>III.</b>	<b>IMPLEMENTATION GUIDELINES.....</b>	<b>12</b>
	III.A. Prospective Implementation of SFFAS 54 .....	12
	III.B. Lease Incentives and Lease Concessions .....	13
	III.C. Change in Accounting Practice Does Not Affect Budgetary Scoring Rules .....	13
	III.D. Leases Capitalized Under FASAB Standards in Effect Prior to October 1, 2023 .....	14
<b>IV.</b>	<b>DEFINITIONS.....</b>	<b>14</b>
<b>V.</b>	<b>ACRONYMS .....</b>	<b>15</b>
<b>VI.</b>	<b>REFERENCES .....</b>	<b>16</b>
	<b>SUBJECT: LIMITED CHANGE TO CHAPTER 10.2, <i>LEASE ACCOUNTING</i>.....</b>	<b>18</b>

## **I. INTRODUCTION**

### **I.A. Purpose and Scope**

This chapter provides Department of Energy (DOE) policy on accounting for DOE leases in accordance with applicable guidance promulgated by the Federal Accounting Standards Advisory Board (FASAB).

This policy is not intended to duplicate the lease accounting guidance provided by FASAB. Section II of this policy summarizes key lease accounting concepts used in conjunction with the underlying FASAB guidance, including the Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*.

Detailed guidance relating to lease accounting entries, consistent with the Department of the Treasury's (Treasury) U.S. Standard General Ledger (USSGL) accounts, is provided separately by the CFO Office of Finance and Accounting. The *DOE Lease Accounting Best Practices Guide* will be available on the CFO Financial Statement iPortal page.<sup>i</sup>

This policy does not provide budgetary guidance. Guidance relating to the scoring of leases<sup>ii</sup> for budgetary purposes and lease transactions requiring OMB approval is contained in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, and DOE Order 130.1A., *Budget Planning, Formulation, Execution, and Departmental Performance Management*.

### **I.B. Applicability**

This chapter applies to all lease arrangements entered into by DOE federal entities and DOE integrated contractors.<sup>iii</sup>

Lease arrangements entered into by non-integrated site/facility management contractors<sup>iv</sup> shall be accounted for as DOE lease agreements in accordance with the guidance in this chapter when the primary purpose (greater than 50 percent) of the lease is to support a DOE mission activity not related to the DOE Environmental Management program.<sup>v</sup>

### **I.C. Policy**

#### **I.C.1 General Policy**

DOE lease arrangements that are material to DOE financial reporting (see section I.C.2 of this policy) must comply with guidance outlined in SFFAS 54, *Leases*, as amended by SFFAS 60 *Omnibus Amendments 2021: Leases-Related Topics* and SFFAS 61 *Omnibus Amendments 2023: Lease Related Topics II*, as implemented under FASAB's Technical Release 20, *Implementation Guidance for Leases*, Technical Release 21, *Omnibus Technical*

*Release Amendments 2022: Conforming Amendments*, Technical Release 22, *Leases Implementation Guidance*, Technical Release 23, *Omnibus Technical Release Amendments 2024: Conforming Amendments*, and the policy direction in this chapter.

See section I.C.4 for more information regarding the determination of a lease term.

Assets and associated liabilities are not recognized for short-term leases (leases with a term of 24 months or less); short-term lease payments are recognized as an expense in the current period. See sections II.A and II.B of this policy.

DOE will recognize lease assets and liabilities that meet the Right to Use (RTU) Lease capitalization threshold (those with a lease term exceeding 24 months and a present value of \$5 million or greater). The \$5M capitalization threshold applies only to RTU leases and does not apply to short term leases, ownership transfers or intragovernmental leases. See section II.C of this policy.

Section IV of this policy contains detailed definitions of key terms, including definitions for lease, short-term lease, and RTU lease.

## **I.C.2. Right to Use (RTU) Leases Greater than 24 Months**

### **I.C.2.i. Right to Use (RTU) Leases—when DOE is the Lessee**

Assets and lease liabilities are not recorded for RTU leases when DOE is the lessee (entity acquiring use of leased assets), and the present value is less than \$5,000,000.

Lower materiality thresholds for RTU leases may apply to the Power Marketing Administrations, the Federal Energy Regulatory Commission (FERC), and the Nuclear Waste Fund as appropriate for required separate financial reporting.

### **I.C.2.ii. Right to Use (RTU) Leases—when DOE is the Lessor**

The CFO Office of Finance and Accounting will request annual information on leases for which DOE is the lessor (the entity providing use of leased assets) at the end of the third and fourth quarter. If material, CFO Office of Finance and Accounting may direct affected parties to record those arrangements as RTU leases consistent with the accounting guidance contained in SFFAS 54, *Leases*. Materiality may be assessed according to the dollar value of the individual lease transactions and the aggregate impact on DOE financial reporting.

### **I.C.2.iii. Other Assets**

Separate capitalization thresholds apply to non-leased property, plant, and equipment (PP&E) and internal use software, as specified in DOE Financial Management Handbook Chapter 10.1, *Accounting for Property, Plant, and Equipment*.

### **I.C.3. Leases Supporting DOE's Legacy Waste Mission**

Leases that support the DOE legacy waste mission and are associated with a recorded environmental liability are not accounted for as RTU leases.

This is consistent with the DOE's general policy on not capitalizing assets with a primary purpose (greater than 50 percent) of supporting the DOE legacy waste mission. Likewise, separate liability should not be established for leases that are executed in support of DOE's legacy waste mission. Expenditures for assets supporting the DOE legacy waste mission are reflected as a reduction of the Department's environmental liability account.

Assets and liabilities are not recorded for Intragovernmental leases. Thus, intragovernmental leases supporting the DOE legacy waste mission are recorded in accordance with section II.D of this policy.

### **I.C.4. Lease Term**

DOE will follow the guidance in SFFAS 54, *Leases*, paragraphs 14-21, in determining the lease term. Generally, the lease term includes the noncancellable period plus options to extend the lease term that are probable to be executed. For purposes of this policy, probable is defined as being more than 50 percent likely. The noncancellable period is defined as the shorter of the period that precedes any option to extend the lease or the period that precedes the first option to terminate the lease (SFFAS 54, *Leases*, paragraph 14). An availability of funds cancellation clause that is not probable to be executed does not affect the lease term determination (SFFAS 54, *Leases*, paragraph 19(c)).

A lease term does not commence until the conditions specified in SFFAS 54, *Leases*, paragraphs 14-21 are fulfilled, regardless of whether the lease premiums are received or paid in advance (see section II.C.2.i) or the leased asset is purchased or constructed.

## **II. SUMMARY REQUIREMENTS**

### **II.A. Short-Term Leases—DOE as Lessee**

#### **II.A.1. Short-Term Lease Payments (DOE as Lessee)**

Short-term lease payments are recognized as an expense based on the payment provisions of the contract or agreement and

standards regarding recognition of accounts payable and other related amounts.

#### **II.A.2. Advance Payments (DOE as Lessee)**

Payments made in advance of the reporting period to which they relate should be recognized as a prepayment asset (see DOE Financial Management Handbook Chapter 7, *Advances, Prepaid Expenses, and Other Assets*).

#### **II.A.3. Accruals of Payments Due (DOE as Lessee)**

Payments due but unpaid at the end of the reporting period to which they relate should be accrued as a liability (see DOE Financial Management Handbook Chapter 11, *Liabilities*).

#### **II.A.4. Lease Incentives and Concessions (DOE as Lessee)**

Rental increases, rental decreases, lease incentives, and lease concessions should be recognized when incurred as increases/reductions to lease rental expense. (SFFAS 60 *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 9).

### **II.B. Short-Term Leases—DOE as Lessor**

#### **II.B.1. Short-Term Lease Receipts (DOE as Lessor)**

Receipts from short-term leases are recognized as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. (SFFAS 54, *Leases*, paragraph 24)

#### **II.B.2. Lessor Receipts Paid in Advance (DOE as Lessor)**

DOE should recognize a liability if payments are received in advance of the reporting period to which they relate. (SFFAS 54, *Leases*, paragraph 24)

#### **II.B.3. Lessor Receipts Due (DOE as Lessor)**

DOE should recognize an asset for rent due to be received subsequent to the reporting period to which they relate. (SFFAS 54, *Leases*, paragraph 24)

#### **II.B.4. Lease Incentives and Concessions (DOE as Lessor)**

Rental increases, rental decreases, lease incentives, and lease concessions should be recognized when incurred as increases/reductions to lease rental income. (SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 10).

#### **II.B.5. RTU Lease Assets Below the Capitalization Threshold**

For those leased assets that qualify as RTU but are below the capitalization threshold (see I.C.2.i. of this policy), these items will

be expensed without liability and should follow short-term lease accounting guidance.

## **II.C. Right to Use (RTU) Leases—DOE as Lessee**

### **II.C.1. Lease Liability**

#### **II.C.1.i. Initial Lease Liability**

A lessee initially should measure the lease liability as the present value of payments expected to be made during the lease term. Future required payments meeting the criteria specified in SFFAS 54, *Leases*, paragraph 40 should be included in the calculation of the lease liability. These are:

- a. Fixed payments.
- b. Variable payments that depend on an index or a rate.
- c. Variable payments that are fixed in substance.
- d. Amounts that are probable of being required to be paid under residual value guarantees.
- e. The exercise price of a purchase option (if probable the option will be exercised).
- f. Payments for lease termination penalties (if probable to exercise).
- g. Lease incentives receivable from the lessor; and
- h. Other required payments to the lessor.

Additionally, direct lease costs necessary to place the asset in service (SFFAS 54, *Leases*, paragraph 49(b)) and payments made at the inception of the lease (SFFAS 54, *Leases*, paragraph 49(c)) should be included in the lease liability calculation. Future payments may be broken out or labeled separately in the lease agreement as executor costs, restoration costs, or other similar terms.

Potential future costs that do not meet the criteria specified in SFFAS 54, *Leases*, paragraph 40 are not included in the calculation of the lease liability. This would include the costs associated with short-term arrangements entered into after the expiration of a lease, which may be referred to as holdover costs. Arrangements entered into after the expiration of a lease would be accounted for as a separate short-term lease agreement (when the term is 24 months or less) (see section II.A.1).

The present value is determined by discounting the future lease payments. The interest rate used to discount future payments is either the interest rate stated in the lease agreement or the nominal interest rate on Treasury notes and bonds as noted in OMB Circular A-94, Appendix C,

*Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses, (see SFFAS 61, Omnibus Amendments 2023: Lease Related Topics II, paragraph 10).*

Follow the provisions of SFFAS 54, *Leases* (paragraphs 40-43), as amended by SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, and SFFAS 61, *Omnibus Amendments 2023: Lease Related Topics II*, paragraph 7, when calculating the initial lease liability.

#### **II.C.1.ii. Remeasurement of Lease Liability**

When substantive changes will significantly affect the amount of a lease liability, the lease liability must be remeasured on an annual basis. As defined by FASAB, substantive changes include a) change in lease term, b) likelihood of a residual value guarantee being required, c) likelihood of a purchase option being exercised, d) change in the estimated amounts for payments, e) change in the interest rate the lessor charges the lessee, and f) a contingency (SFFAS 54, *Leases*, paragraph 44).

Follow the provisions of SFFAS 54, *Leases* (paragraphs 44-48) when it is necessary to remeasure a lease liability.

### **II.C.2. Lease Asset**

#### **II.C.2.i. Initial Calculation**

The initial lease asset must equal the initial lease liability (see section II.C.1.ii). When material, lease payments made to the lessor before the commencement of the lease term should be accounted for as a prepaid expense (see DOE Financial Management Handbook Chapter 7, *Advances, Prepaid Expenses, and Other Assets*, for current materiality threshold for prepaid expenses). A prepayment received or an advance paid on a lease agreement, by itself, does not result in a modification<sup>vi</sup> to the original terms of a lease arrangement.

Follow the provisions of SFFAS 54, *Leases* (paragraphs 49-53) when calculating the lease asset value.

#### **II.C.2.ii. Amortization**

Lease assets should be amortized over the shorter of the lease term or the useful life of the underlying asset in accordance with Attachment 10-1 unless a shorter useful life is identified in the lease agreement. If the asset contains a purchase option that is likely to be exercised,

the amortization should occur over the useful life of the asset.

SFFAS 54, *Leases* requires amortization in a systematic and rational manner. Straight line amortization will generally meet the requirements for a systematic and rational approach.

### **II.C.2.iii. Changes**

The lease asset should be adjusted by the same amount when the lease liability is remeasured (see section II.C.1.ii).

Impairments to the asset should be recognized separately when there is no corresponding reduction in the lease liability. See SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, paragraph 12, and SFFAS 54, *Leases*, paragraph 53 (as amended by SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 21).

## **II.D. Intragovernmental Leases**

### **II.D.1. Treatment of Lessee Payments**

For intragovernmental lease arrangements in which DOE leases assets from another federal entity (usually GSA), lease payments to the lessor are recognized as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts.

Components of the lease payment or lease expenses (e.g. utility, tax, or maintenance amounts) are recognized as part of the intragovernmental lease expense when the payments are required by the lease agreement. DOE does not separately disclose these component expenses.<sup>vii</sup>

Prepaid rent or a rent payable that relate to an intragovernmental lease should be treated consistently with general prepayments or payables. Thus, prepaid rent or rent payable are recognized as an asset or liability, respectively, and an expense should be recognized in the appropriate reporting period based on the specifics of the lease provisions (SFFAS 54, *Leases*, paragraph 27). See Chapter 7 of the DOE Financial Management Handbook for guidance on accounting for prepayments.

### **II.D.2. Treatment of Lessor Payments**

When DOE acts as a lessor to another federal entity, DOE should recognize lease receipts received from the lessee as income based on the provisions of the contract or agreement and standards



regarding recognition of account receivable and other related amounts.

Rent paid in advance, or a receivable should be recognized as a liability or asset, respectively, and income should be recognized in the appropriate reporting period based on the specifics of the lease provisions (SFFAS 54, *Leases*, paragraph 28).

### **II.D.3. Leasehold Improvements**

Accounting for leasehold improvements is addressed in section III.E of DOE Financial Management Handbook Chapter 10.1, *Accounting for Property, Plant and Equipment*.

## **II.E. Contracts or Agreements with Multiple Components**

### **II.E.1. Embedded Leases**

Contracts or agreements may contain multiple components including embedded provisions that provide DOE with the right to use assets.

Generally, the lease component and non-lease component should be accounted for as separate contracts or agreements. Follow the provisions of SFFAS 54, *Leases*, including paragraphs 74-77, to separate the reportable lease component for embedded RTU leases that are material (see section I.C.2).

For embedded leases, the lease cost may need to be estimated even when it is not separately stated in the contract or agreement.

### **II.E.2. Identifying Embedded Leases**

A good source of information to identify embedded leases is in invoices (specifically the note sections of an invoice or purchase order). Examples of agreements that may contain embedded leases are:

- Information technology contracts (e.g., servers)
- Transportation and delivery services (e.g., railcars)
- Contract manufacturing arrangements (e.g., dedicated tooling)
- Complex service contracts (e.g., specified equipment)
- Cable and satellite services (e.g., set-top boxes)
- Advertising (e.g., billboards)
- Joint-operating agreements (e.g., drilling rigs)
- Power purchase arrangements (e.g., power plants)

### **II.E.3. Lease Agreements with Related Service Costs**

Payments included in the lease liability are those required to obtain the RTU of the leased asset. If the lease agreement also contains separate provisions for related services—which may include

janitorial and custodial services—the service costs represent a non-lease component of the contract or agreement. Service costs separately stated in the lease agreement should be treated as operating expenses and should not be included in the calculation of the lease liability.

If the lease agreement includes provisions for the lessor to provide services related to the leased asset but does not separately specify service costs, then the total payments defined by the lease agreement are required to obtain the RTU of the asset and thus would be included in the lease liability.

## **II.F. Contracts or Agreements that Transfer Ownership**

### **II.F.1 Identifying Ownership Transfer Contracts or Agreements**

Ownership transfers result from a contract or agreement that (a) transfers ownership of the underlying asset to DOE by the end of the contract and (b) does not contain options to terminate the agreement, or only contains availability of funds clauses that are not likely to be executed. For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

Determining whether a contract or agreement represents an ownership transfer or a right to use lease typically requires a review of the terms and conditions of the specific contract or agreement.

The table below provides guidance for assessing whether a contract results in an ownership transfer or a RTU lease.

<b>Contract Description</b>	<b>Ownership Transfer</b>	<b>RTU Lease</b>
Provides right to use asset  Does not provide transfer of ownership. A purchase option only does not indicate a transfer of ownership.	No	Yes
Provides for the transfer of ownership  Contains options to terminate the agreement	No	Yes
Transfers ownership  Does NOT contain options to terminate, or only availability of funds cancellation provisions that	Yes	No

are unlikely to be exercised (SFFAS 61 paragraph 5)		
Transfers ownership at the end of the contract term  Contains options to transfer ownership prior to the end of the contract term (SFFAS 61 paragraph 5)	Yes	No

See SFFAS 61, Omnibus Amendments 2023: Leases-Related Topics II, paragraph 5 for general guidance and FASAB Technical Release 20, paragraphs 37-40 for specific example scenarios.

## **II.F.2. Accounting for Ownership Transfer Contracts or Agreements**

Contracts or agreements that provide for transfer of ownership are recorded as financed asset purchases.

The underlying asset is recorded as PP&E when the asset is placed in service. The cost of general PP&E acquired through a contract or agreement that transfers ownership shall be equal to the amount that would otherwise be recognized as a leased asset at the commencement of the lease term (paragraph 26A or SFFAS 6). See II.C.2 of this chapter regarding the calculation of the asset cost. The recognition of PP&E acquired through a financed asset purchase is also discussed in II.I of Chapter 10.1 of the DOE Financial Management Handbook.

The initial liability under an ownership transfer is equal to the amount that would otherwise be recognized as a lease liability at the commencement of the lease term (paragraph 43A of SFFAS 5). See II.C.1 of this chapter regarding the calculation of the initial liability.

## **II.G. Special Topics**

### **II.G.1. Subleases**

A sublease occurs when DOE leases an asset to a third party, acquired through a lease agreement. A sublease does not change DOE's lessee accounting for the leased asset. DOE would record a sublease if DOE were the lessor, and the arrangement is material to DOE financial reporting. (SFFAS 54, *Leases*, paragraphs 87 and 88).

Subleases where DOE is the lessor should be reported to the CFO Office of Finance and Accounting annually (see section I.C.2.ii.).

### **II.G.2. Public Private Partnerships**

Public-Private Partnerships (P3s), such as Energy Savings Performance Contracts (ESPCs), may be considered a lease under FASAB standards when the arrangement does not transfer ownership of the asset.

If a contract or arrangement is found to meet the criteria of both a lease and a P3, the arrangement may be disclosed as a P3 and a lease in DOE financial reporting disclosures. Consistent with SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, paragraph 23, if a lease arrangement or transaction met the SFFAS 54, *Leases*, and SFFAS 49 reporting requirements, both disclosures should be cross referenced so that concise, meaningful, and transparent information is provided and information is not repetitive.

### **II.G.3. Sale-Leaseback Transactions**

Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting.

The sale and lease portions of a sale-leaseback transaction should be accounted for as two separate transactions—a sale transaction and a lease transaction. Follow the provisions of SFFAS 54, *Leases*, paragraphs 89-92 for any sale-leaseback transactions.

### **II.G.4. Lease-Leaseback Transactions**

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. Follow the provisions of SFFAS 54, *Leases*, paragraph 93 for any lease-leaseback transactions.

## **III. IMPLEMENTATION GUIDELINES**

### **III.A. Prospective Implementation of SFFAS 54**

DOE must assess its lease portfolio using the facts and circumstances that exist at the beginning of the reporting period for implementation, October 1, 2023. Departmental elements must measure each leased asset and associated liability based on the remainder of the lease term and outstanding payments as of October 1, 2023. DOE must account for any changes in the implementation period and any applicable future periods (FY 2024 and beyond) with no adjustments to previously reported revenue or expenses.

Any new lease arrangements beginning on or after October 1, 2023, will apply the lease accounting requirements in effect as of October 1, 2023, to the entire lease term.

### **III.B. Lease Incentives and Lease Concessions**

#### **III.B.1. Short-Term and Intragovernmental Leases**

Upon implementation of SFFAS 54, *Leases*, on October 1, 2023, any remaining unamortized balances of lease incentives or lease concessions, per SFFAS 5, *Accounting for Liabilities of The Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, should be reduced to zero as of September 30, 2023. This includes free rent periods and liabilities for rent abatements spread across the lease term.

In accordance with SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 14, after October 1, 2023, lease incentives and lease concessions in short-term and intragovernmental leases will be recognized as increases or reductions to lease rental expense and income (Also, see SFFAS 54, *Leases*, paragraphs 23 & 24).

#### **III.B.2. Other Than Short-term and Intragovernmental Leases**

For leases other than short-term leases and intragovernmental leases, lease incentives and lease concessions that provide payments to, or on behalf of a lessee at or before the commencement of a lease term are included in initial lease measurement by directly reducing the amount of the lease asset (SFFAS 54, *Leases*, paragraph 49). Lease incentive and lease concession payments to be provided after the commencement of the lease term should be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Departmental elements should measure those payments consistently with the lessee' lease liability (SFFAS 54, *Leases*, paragraphs 40-48) and lessors' lease receivable (SFFAS 54, *Leases*, paragraphs 56-63).

### **III.C. Change in Accounting Practice Does Not Affect Budgetary Scoring Rules**

Federal government-wide implementation of SFFAS 54, *Leases*, does not impact the strategies (including terminology) that DOE Departmental elements use to assess lease transactions for scoring under OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, provides separate definitions of operating and capital leases that are applicable for budget scoring purposes.

OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, definitions are used to determine whether full budget authority must be provided in the current fiscal year for future lease payments (capital

leases), or whether budget authority is necessary for only the minimum lease term and cancellation costs (operating leases).

For guidance regarding the budgetary scoring of leases, refer to Appendix B of OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, DOE Order 130.1A, *Budget Planning, Formulation, Execution, and Departmental Performance Management* (or successor policy), and any other current guidance issued by the CFO Office of Budget.

### **III.D. Leases Capitalized Under FASAB Standards in Effect Prior to October 1, 2023**

All capital leases recorded as of October 1, 2023, will be removed during FY 2024. The CFO Office of Finance and Accounting will provide detailed guidance regarding the appropriate accounting entries to remove the capital lease. This change will represent a prior period adjustment resulting from a change in accounting principle.

If the remaining term of the capital leases is greater than 24 months and the lease is material (see section I.C.2), the remaining term will be accounted for as a RTU asset in accordance with SFFAS 54, *Leases*, and this policy.

If the remaining term is 24 months or less, the remaining term will be accounted for as a short-term lease.

## **IV. DEFINITIONS**

### **IV.A. Embedded Leases**

Contracts or agreements providing the right to use (RTU) assets that can be identified by being implicitly specified at the time that the asset is made available for use by DOE.<sup>viii</sup>

### **IV.B. Intragovernmental Lease**

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more federal government consolidation entities<sup>ix</sup> whereby one entity (lessor or provider) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee or customer) for a period of time as specified in the contract or agreement in exchange for consideration (SFFAS 54, *Leases*, paragraph 26).

### **IV.C. Lease**

A lease is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. (SFFAS 54, *Leases*, paragraph 2).

A contract or agreement conveys the right to control the use of the underlying asset if the federal entity gives (or lessee receives) both 1) the right to obtain economic benefits or services and 2) the right to control the use of the underlying asset specified in the contract or agreement (SFFAS 54, *Leases*, paragraph 3).

Software licensing arrangements are generally excluded from the lease accounting requirements (SFFAS 54, *Leases*, paragraph 5b).

#### **IV.D. Lease Concession**

Rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays or free rent periods, reduced rents, or commission credits.

#### **IV.E. Lease Incentive**

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

#### **IV.F. Lease Term**

A period agreed upon in a contract or agreement for leased property that should include the noncancellable portion as well as option periods if it is probable (greater than 50%) to be exercised.

#### **IV.G. Lessee**

The entity acquiring use of leased assets.

#### **IV.H. Lessor**

The entity providing use of leased assets.

#### **IV.I. Right to Use (RTU) Lease**

A contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. A RTU lease is a contract or agreement with a term exceeding 24 months and a present value of \$5 million or greater.

#### **IV.J. Short-term Lease**

A short-term lease is a lease with a lease term (as defined in SFFAS 54, *Leases*, paragraphs 14 - 21) of 24 months or less which are non-intragovernmental (SFFAS 54, *Leases*, paragraph 22).

## **V. ACRONYMS**

CFO            Chief Financial Officer

DOE	Department of Energy
EM	Environmental Management
ESPCs	Energy Savings Performance Contracts
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
P3s	Public-Private Partnerships
PP&E	Property, Plant, and Equipment
RTU	Right to Use
SFFAS	Statement of Federal Financial Accounting Standards

## VI. REFERENCES

SFFAS 5, *Accounting for Liabilities of The Federal Government*

SFFAS 6, *Accounting for Property, Plant, and Equipment*

SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

SFFAS 54, *Leases*

SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*

SFFAS 61, *Omnibus Amendments 2023: Lease Related Topics II*

Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*

Technical Release 20, *Implementation Guidance for Leases*

Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*

Technical Release 22, *Leases Implementation Guidance Updates*

OMB Circular A-11, *Preparation, Submission and Execution of the Budget*



OMB Circular A-94, Appendix C, *Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses*

DOE Order 130.1A, *Budget Planning, Formulation, Execution, and Departmental Performance Management*

DOE Financial Management Handbook Chapter 1, *Financial Management Handbook Overview*

DOE Financial Management Handbook Chapter 7, *Advances, Prepaid Expenses, and Other Assets*

DOE Financial Management Handbook Chapter 10.1, *Accounting for Property, Plant, and Equipment*

DOE Financial Management Handbook Chapter 11, *Liabilities*

*DOE Lease Accounting Best Practices Guide*

---

<sup>i</sup> The DOE Lease Accounting Best Practices Guide is a living document that will continue to be revised as needed.

<sup>ii</sup> OMB Circular A-11, Appendix A, Paragraph 11, includes discussion on scoring purchases related to leases.

<sup>iii</sup> An integrated contract is a contract containing the clause at 48 CFR 970.5232-8, *Integrated Accounting*.

<sup>iv</sup> Site/Facility management contractors are designated by the DOE Office of Acquisition Management. The current list of site/facility management contractors is posted on the DOE website.

<sup>v</sup> Reflects DOE policy on accounting for Property, Plant, and Equipment. See Chapter 10.1 of the Financial Management Handbook.

<sup>vi</sup> DOE federal lease agreements or arrangements are considered government contracts. As stipulated in Federal Acquisition Regulation (FAR), 2.101, *Definitions*, contract modifications require written consent between contracting parties, in accordance with FAR 43.103, *Types of Contract Modifications*.

<sup>vii</sup> As permitted by the FY 2024 release of A-136.

<sup>viii</sup> DOE adopts this definition consistent with the definition in Accounting Standards Codification (ASC) 842, promulgated by the Financial Accounting Standards Board (FASB).

<sup>ix</sup> As defined in Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity.

## LIMITED CHANGE 1 TO CHAPTER 10.2, LEASE ACCOUNTING

1. EXPLANATION OF CHANGES: Limited changes made to:
  - Clarify the accounting treatment for recording multiple component leases with service and non-service components and ownership transfers.
  - Update the “Definitions” section with key terms to ensure alignment with the FASAB handbook and DOE Lease Accounting Best Practices Guide.
2. LOCATIONS OF CHANGES: Various sections throughout the document, as summarized in the chart.

Page(s)	Section	Section Title	Summary
10.2-9	II.E	Contracts or Agreements with Multiple Components	Removed “ <i>Embedded Leases</i> ” from section heading
10.2-9 to 10.2-10	II.E	Contracts or Agreements with Multiple Components	Added subsection headings: II.E.1 – Embedded Leases II.E.2 – Identifying Embedded Leases II.E.3 – Lease Agreements with Related Service Costs
10.2-9	II.E.1	Embedded Leases	Revised language to clarify definition of an embedded lease.
10.2-9 to 10.2-10	II.E.3	Lease Agreements with Related Service Costs	New Subsection
10.2-10	II.F	Ownership Transfers	Removed detailed guidance and referenced the relevant guidance in DOE Financial Management Handbook, Chapter 10.1, <i>Accounting for Property, Plant, &amp; Equipment</i> .

Page(s)	Section	Section Title	Summary
10.2-13 to 10.2-14	IV	Definitions	Added definitions for: IV.D – Lease Concession IV.E – Lease Incentive IV.F – Lease Term  Updated definitions for: IV.I – Right to Use (RTU) Lease IV.G – Short Term Lease
10.2-15	VI	References	Updated references section to include:  Technical Release 21, Omnibus Technical Release Amendments 2022: Conforming Amendments  Technical Release 22, Leases Implementation Guidance Updates

## LIMITED CHANGE 2 TO CHAPTER 10.2, *LEASE ACCOUNTING*

Page(s)	Section	Section Title	Summary
10.2-3	I.C.1.	General Policy	Emphasis: The \$5M capitalization threshold applies only to RTU leases and does not apply to short term leases, ownership transfers or intragovernmental leases.
10.2-4	I.C.3.	Leases Supporting DOE's Legacy Waste Mission	Clarified that content is relevant to leased assets supporting the DOE Legacy Waste Mission—which may be broader than EM leases.
10.2-4	I.C.4.	Lease Term	Clarified: For purposes of this policy, probable is defined as being more than 50 percent likely.
10.2-5	II.B.5	RTU Lease Assets Below Capitalization Threshold	Clarified: For those leased assets that qualify as RTU but are below the capitalization threshold (see I.C.2.i. of this policy), these items will be expensed without liability and should follow short-term lease accounting guidance.

Page(s)	Section	Section Title	Summary
10.2-8	II.D.1.	Treatment of Lease Payments	Clarified this is usually GSA: For intragovernmental lease arrangements in which DOE performs as a lessee to another federal entity (usually GSA), departmental elements should recognize lease payments paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts.
10.2-8	II.D.1.	Treatment of Lease Payments  New paragraph	Clarification: Components of the lease payment or lease expenses (e.g. utility, tax, or maintenance amounts) are recognized as part of the intragovernmental lease expense when the payments are required by the lease agreement. DOE does not separately disclose these component expenses.
10.2-8	II.D.2.	Treatment of Lessor Payments	Clarification: When DOE acts as a lessor to another federal entity, DOE should recognize lease receipts received from the lessee as income based on the provisions of the contract or agreement and standards regarding recognition of account receivable and other related amounts.
10.2-10 to 10.2-11	II.F	Contracts or Agreements that Transfer Ownership	Provided more specific guidance for distinguishing between contracts providing for ownership transfer contracts and RTU leases.

**LIMITED CHANGE 3 TO CHAPTER 10.2, LEASE ACCOUNTING**

Page(s)	Section	Section Title	Summary
10.2-4	I.C.4	Lease Term	Added new paragraph at the end: <i>A lease term does not commence until the requirements of SFFAS 54, Leases, paragraphs 14-21 are met, regardless of whether the lease premiums are received or paid in advance (see section II.C.2.i) or the leased asset is purchased or constructed.</i>
10.2-7	II.C.2.i	Initial Calculation	Added a new sentence towards the end of the paragraph: <i>A prepayment received or an advance paid on a lease agreement, by itself, does not result in a modification to the original terms of a lease arrangement.</i>
10.2-17	Endnote VI	Not Applicable	Added a new endnote to reiterate a contract modification is necessary to alter the terms of a contract. An advance payment or prepayment of a lease obligation does not modify the original contract terms.