

# LEASES

March 8, 2001

Lease case study is divided into two sections:

## Part I: Capital Lease

Illustrations showing a capital lease with another federal entity were excluded from the capital lease case study due to a small number of agencies that reported these types of lease agreements of which the lease is set to expire shortly.

## Part II: Operating Lease



**March 7, 2001**

## **Part I. CAPITAL LEASES**

The case study illustrates basic lease transactions with a non-federal entity in a general fund appropriation. This case study does not include all situations, including lease purchases.

## **PROPRIETARY REQUIREMENTS FOR CAPITAL LEASES - FASAB STANDARD #5**

The FASAB liability standard defines capital leases as “leases that transfer substantially all the benefits and risks of ownership to the lessee. If at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee”:

- 1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- 2) The lease contains an option to purchase the leased property at a bargain price.
- 3) The lease term is equal to or greater than 75% of the estimated economic life of the leased property.
- 4) The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90% of the fair value of the leased property.

The FASAB standards do not address the cancellation clause on leases. But, FASB Technical Bulletin (FTB) #79-10, paragraph 5, address cancellation of leases based on the availability of fiscal funding that are frequently found in leases of government units. The fiscal funding clause permits cancellation of a lease by a governmental unit if the necessary governmental appropriations are not made for the lease. If the likelihood of exercise of the fiscal funding clause is assessed as being remote, a lease agreement containing such a clause would be considered a noncancelable lease; otherwise, **the lease would be considered cancelable and thus classified as an operating lease**. A capital lease with cancellation clause<sup>1</sup> that is likely to be exercised is classified as an operating lease.

---

<sup>1</sup> Intermediate Accounting, Smith and Skousen, 11<sup>th</sup> edition, pgs 798, 804 states that “Only the noncancelable lease are subject to capitalization”. The page 804 from the same reference illustrates a transaction where the title of the lease transfers to the lessee but because it has a cancellation clause, the lease is classified as a rental agreement . A lease that has a cancellation clause, unless the likelihood of cancellation is remote, is classified as an operating lease, even though it may meet other capital lease criteria. ” In addition, Financial Accounting Standard # 98 defines a lease term as “fixed **noncancelable term** of the lease . . . . . A lease that is cancellable a) only upon the occurrence of some remote contingency, b) only with the permission of the lessor, c) only if the lessee enters into a new lease with the same lessor, or d) only if the lessee incurs a penalty in such amount that continuation of the lease appears, at inception, reasonably assured shall be considered ‘noncancelable’ for the purpose of this definition.

### **BUDGETARY REQUIREMENTS FOR CAPITAL LEASES - OMB CIRCULAR A-11**

OMB circular A-11, Section 33.4 and Appendices A and B give federal agencies guidance on budgetary and scorekeeping requirements on leases. The requirements state that “For lease purchases and leases of capital assets, you must have sufficient budgetary resources up-front to cover the present value of the lease payments discounted using Treasury interest rates.” These requirements are intended as a requirements for those agencies that have a lease with *nonfederal* entity. The focus of the scorekeeping rule is to ensure that agencies have sufficient budgetary resources when the capital asset is acquired. OMB’s intention is to have the scorekeeping rules apply only once in the capital asset acquisition process, when the asset is acquired from a nonfederal entity. Therefore, upfront funding requirements do not apply to the lease arrangements between federal agencies.

OMB Criteria for operating lease. The operating lease has to meet **all** the criteria listed below. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase, as appropriate.

- 1) Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term.
- 2) The lease does not contain bargain purchase option.
- 3) The lease term does not exceed 75% of the estimated economic life of the asset.
- 4) The present value of the minimum lease payments over the life of the lease does not exceed 90% of the fair market value of the asset at the beginning of the lease term.
- 5) The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee.
- 6) There is a private sector market for the asset.

For the purpose of distinguishing operating lease, capital lease and lease purchases, OMB has provided a guidance on cancellation clauses on OMB circular A11, Appendix B, pg 426.

Assume lease transactions are done in a multi year appropriated fund. The budgetary entries for capital leases are illustrated using the **current OMB guidance** which requires up front budgetary resources to cover the PV of the lease payments (See current A11 for details).

**Capital Lease**

Equipment **A** with the useful life of 6 years was leased for 5 years. Assume there are no cancellation clause, executory costs, or property tax involved with the lease. Treasury interest rate is 10.0%. Lease payments including interest are paid in the beginning of the year. FMV of the equipment is \$120,000. The lease term met the economic life criteria of the capital lease, therefore, the depreciation will be calculated using the lease term<sup>2</sup>.

- 1) Transfer of ownership **NO**
- 2) Bargain purchase option **NO**
- 3) Lease term is greater than or equal to 75% **YES**
- 4) PV of the lease payment is greater than or equal to 90% FMV of the property **NO**

Year	Annual lease Payment	Interest on the unpaid lease liability (10%)	Reduction of Lease liability	Lease liability
				100,000
1	23,982	0	23,982	76,018
2	23,982	7,602	16,380	59,638
3	23,982	5,964	18,018	41,620

---

<sup>2</sup> The depreciation period used to calculate depreciation expense depends on which of the capital lease criteria was used to qualify the capital lease. If the lease qualified met ownership transfer or bargain purchase option, the estimated useful life of the asset should be used. If the lease is qualified under economic life or investment recovery, and the lease term is shorter than the estimated useful life of the asset, then the lease term should be used for depreciation purpose. Intermediate Accounting, Smith and Skousen, 11<sup>th</sup> edition, pgs 806-807

4	23,982	4,162	19,820	21,800
5	23,982	2,182	21,800	0

**CAPITAL LEASE AGREEMENT BETWEEN A FEDERAL AGENCY AND A NON-FEDERAL ENTITY**

EVENT DESCRIPTION	YR	REF CODE	CAPITAL LEASE EQUIPMENT		
1. Appropriation is received for the lease payment. Interest accrued during the first year is included in the appropriation.	1	A104	<i>Proprietary</i>		
			1010	FBWT	107,602
			3100	Unexpended auth	107,602
		A104	<i>Budgetary</i>		
			4119	Appropriation realized	107,602
		A116	4450	Unapportioned auth	107,602
			4510	Apportionment	107,602
		A120	4510	Apportionment	107,602
			4610	Allotment	107,602

2. A lease contract was signed	1	B204	<u>Proprietary</u> None  <u>Budgetary</u> 4610 Allotment 100,000 4801 Unexpended oblig - unpd 100,000
3. The agency acquired the equipment with a lease term of 5 years.	1	B302  B134  B302	<u>Proprietary</u> 1810 Assets Under Capital Lease 100,000 2940 Capital Lease Liability <sup>3</sup> 100,000  3100 Unexpended appropriation 100,000 5700 Appropriations used 100,000  <u>Budgetary</u> 4801 Unexpended oblig - unpd 100,000 4901 Expended auth - unpd 100,000
4. To record lease payment	1	B110	<u>Proprietary</u> 2940 Capital Lease Liability 23,982 1010 FBWT 23,982  <u>Budgetary</u> 4901 Expended auth - unpd 23,982 4902 Expended auth - pd 23,982

---

<sup>3</sup> If agency has a capital lease agreement with another federal entity, capital lease liability maybe unfunded since the upfront funding requirement is not required for capital lease agreement between federal agencies.

5. Assume straight line depreciation method is used.	1	D514	<u>Proprietary</u> 6710 Depreciation expense 20,000 1819 Acc Dep for cap lease asset 20,000  <u>Budgetary</u> None
6. To record accrued interest at the end of the year	1	B322  B134	<u>Proprietary</u> 6330 Other interest expense 7,602 2140 Accrued interest payable 7,602  3100 Unexpended appropriation 7,602 5700 Appropriations used 7,602  <u>Budgetary</u> B322 4610 Allotment 7,602 4901 Expended auth - unpd 7,602
7. To record receipt of appropriation, apportionment, and allotment for the interest accrual at the end of the year.	2	A104  A104 A116 A120	<u>Proprietary</u> 1010 FBWT 5,964 3100 Unexpended appropriation 5,964  <u>Budgetary</u> A104 4119 Appropriation realized 5,964 4450 Unapportioned auth 5,964 A116 4450 Unapportioned auth 5,964 4510 Apportionment 5,964 A120 4510 Apportionment 5,964 4610 Allotment 5,964

8. To record lease payment	2	B112 B110	<u>Proprietary</u> 2140 Accrued interest payable 7,602 2940 Capital Lease Liability 16,380 1010 FBWT 23,982  <u>Budgetary</u> B112 4901 Expended auth - unpd 23,982 B110 4902 Expended auth - pd 23,982
9. To record depreciation expense	2	D514	<u>Proprietary</u> 6710 Depreciation expense 20,000 1819 Acc Dep for cap lease asset 20,000  <u>Budgetary</u> None
10. To record accrued interest at the end of the year	2	B322  B134	<u>Proprietary</u> 6330 Other interest expense 5,964 2140 Accrued interest payable 5,964  3100 Unexpended appropriation 5,964 5700 Appropriations used 5,964  <u>Budgetary</u> B322 4610 Allotment 5,964 4901 Expended auth - unpd 5,964

11. To record receipt of appropriation, apportionment, and allotment for the interest accrual at the end of the year.	3	A104	<u>Proprietary</u> 1010 FBWT 4,162 3100 Unexpended appropriation 4,162  <u>Budgetary</u> A104 4119 Appropriation realized 4,162 4450 Unapportioned auth 4,162 A116 4450 Unapportioned auth 4,162 4510 Apportionment 4,162 A120 4510 Apportionment 4,162 4610 Allotment 4,162
12. To record lease payment	3	B112 B110	<u>Proprietary</u> 2140 Accrued interest payable 5,964 2940 Capital Lease Liability 18,018 1010 FBWT 23,982  <u>Budgetary</u> B112 4901 Expended auth - unpd 23,982 B110 4902 Expended auth - pd 23,982
13. To record depreciation expense	3	D514	<u>Proprietary</u> 6710 Depreciation expense 20,000 1819 Acc Dep for cap lease asset 20,000  <u>Budgetary</u> None

14. To record accrued interest at the end of the year	3	B322	<u>Proprietary</u> 6330 Other interest expense 4,162 2140 Accrued interest payable 4,162  B134 3100 Unexpended appropriation 4,162 5700 Appropriations used 4,162  <u>Budgetary</u> B322 4610 Allotment 4,162 4901 Expended auth - unpd 4,162
15. To record receipt of appropriation, apportionment, and allotment for the interest accrual at the end of the year.	4	A104	<u>Proprietary</u> 1010 FBWT 2,182 3100 Unexpended appropriation 2,182  <u>Budgetary</u> A104 4119 Appropriation realized 2,182 4450 Unapportioned auth 2,182 A116 4450 Unapportioned auth 2,182 4510 Apportionment 2,182 A120 4510 Apportionment 2,182 4610 Allotment 2,182

16. To record lease payment	4	B112 B110	<u>Proprietary</u> 2140 Accrued interest payable 4,162 2940 Capital Lease Liability 19,820 1010 FBWT 23,982  <u>Budgetary</u> B112 4901 Expended auth - unpd 23,982 B110 4902 Expended auth - pd 23,982
17. To record depreciation expense	4	D514	<u>Proprietary</u> 6710 Depreciation expense 20,000 1819 Acc Dep for cap lease asset 20,000  <u>Budgetary</u> None
18. To record accrued interest at the end of the year	4	B322  B134	<u>Proprietary</u> 6330 Other interest expense 2,182 2140 Accrued interest payable 2,182  3100 Unexpended appropriation 2,182 5700 Appropriations used 2,182  <u>Budgetary</u> B322 4610 Allotment 2,182 4901 Expended auth - unpd 2,182

19. To record lease payment <sup>4</sup>	5	B112 B110	<u>Proprietary</u> 2140 Accrued interest payable 2,182 2940 Capital Lease Liability 21,800 1010 FBWT 23,982  <u>Budgetary</u> B112 4901 Expended auth - unpd 23,982 B110 4902 Expended auth - pd 23,982
20. To record depreciation expense	5	D514	<u>Proprietary</u> 6710 Depreciation expense 20,000 1819 Acc Dep for cap lease asset 20,000  <u>Budgetary</u> None
21. To return the leased equipment back to the lessor.	5	C310	<u>Proprietary</u> 1819 Acc Dep for cap lease asset 100,000 1810 Assets Under Capital Lease 100,000  <u>Budgetary</u> None

---

<sup>4</sup> A11, Appendix B, pg 407 states that “. . . For leases financed by annual or multi year budget authority, agencies should ensure that the appropriations language allows the budget authority to remain available for lease payments over the full term of the lease. If this period is expected to be longer than five fiscal years after the authority expires, the appropriations language should include the provision described in section 96.5”.

**STATEMENTS FOR YEAR 1**

**STATEMENTS FOR YEAR 2**

PRE-CLOSING TRIAL BALANCE - CAPITAL LEASE, YR1			PRE-CLOSING TRIAL BALANCE - CAPITAL LEASE, YR 2		
<i>Proprietary</i>			<i>Proprietary</i>		
1010	Fund Balance with Treasury	83,620	1010	Fund Balance with Treasury	65,602
1810	Asset under capital lease	100,000	1810	Asset under capital lease	100,000
1819	Accumulated depreciation - C.L.	20,000	1819	Accumulated depreciation - C.L.	40,000
2140	Accrued interest payable	7,602	2140	Accrued interest payable	5,964
2940	Capital lease liability	76,018	2940	Capital lease liability	59,638
3100	Unexpended appropriation	-0-	3100	Unexpended appropriation	- 0 -
5700	Appropriations used	107,602	3310	Cumulative results	80,000
		2	5700	Appropriation used	5,964
6710	Depreciation expense	20,000	6330	Interest expense	5,964
6330	Other interest expense	7,602	6710	Depreciation expense	20,000
<i>Budgetary</i>			<i>Budgetary</i>		
4119	Appropriation realized	107,602	4119	Appropriations realized	5,964
4610	Allotment	-0-	4201	Total actual resources collected	83,620
4901	Expended authority - unpd	83,620	4901	Expended authority - unpd	65,602
4902	Expended auth - pd	23,982	4902	Expended auth - pd	23,982
STATEMENT OF NET COST - CAPITAL LEASE, YR1			STATEMENT OF NET COST - CAPITAL LEASE, YR 2		

6330 Other interest expense 7,602	6330 Interest expense 5,964
6710 Depreciation expense <u>20,000</u>	6710 Depreciation expense <u>20,000</u>
Net cost 27,602	Net cost 25,964
STATEMENT OF FINANCING - CAPITAL LEASE, YR1	STATEMENT OF FINANCING - CAPITAL LEASE, YR 2
Line 1 Obligation and Nonbudgetary Resources	Line 1 Obligation and Nonbudgetary Resources
4901 83,620	4901E-B (65,602 - 83,620) (18,018)
4902 23,982	4902E 23,982
Line 2C1	
1810 (100,000)	Line 3A
Line 3A	6710 <u>20,000</u>
6710 <u>20,000</u>	Net Cost 25,964
Net Cost 27,602	
SF 133 - CAPITAL LEASE, YR1	SF 133 - CAPITAL LEASE, YR 2

Line1 Budget authority			Line 1		
4119		<u>107,602</u>	4119		5,964
<b>Line 7 Total budgetary resources</b>		107,602	Line 2		
Line 8 Obligations incurred			4201B		83,620
4901 E-B		83,620	4901B		<u>(83,620)</u>
4902 E		23,982	<b>Line 7 Total budgetary resources</b>		5,964
Line 9 Unobligated balance (available)			Line 8 Obligations incurred		
4610E		<u>-0-</u>	4901 E-B (65,602 - 83,620)		(18,018)
<b>Line 11 Total budgetary resources</b>		107,602	4902 E		<u>23,982</u>
Line 14D Obligated balance			<b>Line 11 Total budgetary resources</b>		5,964
4901 E		83,620	Line 14D Obligated balance		
Line 15 Outlays			4901 E		65,602
4902 E		23,018	Line 15 Outlays		
			4902 E		23,982
<b>CLOSING ENTRY, YR1</b>			<b>CLOSING ENTRY, YR 2</b>		

<u>Proprietary</u>				<u>Proprietary</u>			
3310	Cumulative result	27,602		3310	Cumulative result	25,964	
	6330 Other interest expense		7,602		6330 Interest expense		5,964
	6710 Depreciation expense		20,000		6710 Depreciation expense		20,000
5700	Appropriations used	107,602		5700	Appropriations used	5,964	
	3310 Cumulative result		107,602		3310 Cumulative result		5,964
<u>Budgetary</u>				<u>Budgetary</u>			
4201	Total actual resources coll	107,602		4902	Expended auth - pd	23,982	
	4119 Appropriation realized		107,60		4201 Total actual resources coll		23,982
			2				
4902	Expended auth - pd	23,982		4201	Total actual resources coll	5,964	
	4201 Total actual resources coll		23,982		4119 Appropriations realized		5,964
4201	=	4450	+	4901			
83,620	=	-0-	+	83,620			
4201	=	4450	+	4901			
65,602	=	- 0 -	+	65,602			

**March 7, 2001**

## **Part II. OPERATING LEASES**

This case study illustrates basic operating lease transactions. It does not include all situations

## OPERATING LEASE BETWEEN TWO FEDERAL AGENCIES

Assume this is a X year appropriation

DESCRIPTION	Y R	LESSEE	REF	LESSOR	REF			
1. To record funding. Lessee agency signs a lease agreement for an equipment. The term of the lease is for three years and the annual lease payment is \$25,000. (This lease agreement is classified as an operating lease). The lease payment is made at the beginning of the year.	1	<u>Proprietary</u>						
		1010	FBWT	25,000	1010	FBWT	160,000	A104
		3100	Unexpended appropriation	25,000	3100	Unexp app	160,000	
		<u>Budgetary</u>						
		4119	Appropriation realized	25,000	4119	App realized	160,000	A104
		4450	Unapportioned auth	25,000	4450	Unapportioned auth	185,000	A140
		4510	Apportionment	25,000	4510	Apportionment	160,000	A116
		4610	Allotment	25,000	4610	Allotment	160,000	A118
		4610	Allotment	25,000	4590	App Unava - Ant res	25,000	A120
		4801	Unexpended obligations - unpd	25,000	4510	Apportionment	160,000	
					4610	Allotment	160,000	
					4801	Unexpended obligations - unpd	25,000	

2. The lessor purchased the equipment that will be leased to the lessee at the beginning of the year 1 for \$160,000	1	<u>Proprietary</u> None  <u>Budgetary</u> None		<u>Proprietary</u> 1750 Equipment 160,000 1010 FBWT 160,000 3100 Unexp app 160,000 5700 App used 160,000  <u>Budgetary</u> 4610 Allotment 160,000 4902 Expended authority - pd 160,000	B302 B110 B134  B204 B302 B110
3. To make a lease payment	1	<u>Proprietary</u> 6100 Operating expense 25,000 1010 FBWT 25,000 3100 Unexpended appropriation 25,000 5700 Appropriations used 25,000  <u>Budgetary</u> 4801 Unexpended obligations - unpd 25,000 4902 Expended authority - pd 25,000	B302 B110 B134  B302 B110	<u>Proprietary</u> 1010 FBWT 25,000 5200 Rev from serv prov 25,000 “Or” 5900 Other Revenue XXXX  <u>Budgetary</u> 4277 Other actual coll - fed 25,000 4070 Anticipated coll from fed 25,000 4590 App Unava - Ant res 25,000 4610 Allotment 25,000	C110 <b>Add to C110</b>  C110? C186? A122
4. To record depreciation expense with useful life of 8 years. The lessor will depreciate using the straight line method.	1	<u>Proprietary</u> None  <u>Budgetary</u> None		<u>Proprietary</u> 6710 Depreciation 20,000 1759 Accumulated Dep 20,000  <u>Budgetary</u> None	D514



**YEAR 1**

PRE-CLOSING TRIAL BALANCE FOR LESSEE				PRE-CLOSING TRIAL BALANCE FOR LESSOR			
<u>Proprietary</u>				<u>Proprietary</u>			
1010	FBWT	0		1010	FBWT	25,000	
3100	Unexpended appropriation	0		1750	Equipment	160,000	
5700	Appropriations used		25,000	1759	Accumulated Dep		20,000
6100	Operating expense	25,000		5200	Rev from serv prov		25,000
<u>Budgetary</u>				<u>Budgetary</u>			
4119	Appropriation realized	25,000		5700	Appropriations used		160,000
4902	Expended authority - pd		25,000	6710	Depreciation	20,000	
<u>Budgetary</u>				<u>Budgetary</u>			
				4119	Appropriation realized	160,000	
				4277	Other actual coll - fed	25,000	
				4610	Allotment		25,000
				4902	Expended authority - pd		160,000

STATEMENT OF NET COST			STATEMENT OF NET COST		
6100	Operating expense	<u>25,000</u>	6710	Depreciation	20,000
	Net Cost	25,000	5200	Rev from serv prov	<u>(25,000)</u>
			Net Cost		(5,000)
STATEMENT OF FINANCING			STATEMENT OF FINANCING		
Line 1a			Line 1a		
4902	Expended authority - pd	<u>25,000</u>	4902	Expended authority - pd	160,000
	Net Cost	25,000	Line 1b		
			4277	Other actual coll - fed	<u>(25,000)</u>
					135,000
			Line 2C1		
			1750	Equipment	(160,000)
			Line 3a		
			6710	Depreciation	<u>20,000</u>
					<u>(140,000)</u>
			Net Cost		(5,000)
133			133		

Line 1			Line 1		
4119	Appropriation realized	25,000	4119	Appropriation realized	160,000
Line 8			Line 3		
4902	Expended authority - pd	25,000	4277	Other actual coll - fed	25,000
Line 15a			Line 8		
4902	Expended authority - pd	25,000	4902	Expended authority - pd	160,000
			Line 9		
			4610	allotment	25,000
			Line 15a		
			4902	Expended authority - pd	160,000

## **OPERATING LEASE WITH NON-FEDERAL ENTITY**

### Budgetary Requirements

OMB A11, Appendices A and B state that “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 amount scored will include

- 1) The estimated total payments expected to arise under the full term of a lease contract or,
- 2) If the contract will include a cancellation clause, an amount sufficient to cover the costs for the first fiscal year during which the contract is in effect, plus amount sufficient to cover the costs associated with cancellation of the contract.
- 3) For funds that are self-insuring (GSA) under exiting authority, only budget authority to cover the annual lease payment is required to be scored”.

Like the capital lease and lease purchases, the requirements described above for operating lease are intended for those agencies that have a lease with *nonfederal* entity.

Assume agencies have X year funding for simplicity.

**I. OPERATING LEASE WITH NON-FEDERAL ENTITY - without a cancellation clause<sup>5</sup>**

DESCRIPTION	YR	LESSEE	REF	
1) To record funding. The lessee agency signs a 3 year lease agreement on an equipment. Yearly rent payment is \$10,000.	1	<i>Proprietary</i>		
		1010 FBWT	30,000	A104
		3100 Unexpended app	30,000	
		<i>Budgetary</i>		
		4119 Appropriation realized	30,000	A104
		4450 Unapportioned auth	30,000	
		4450 Unapportioned auth	30,000	A116
		4510 Apportionment	30,000	
		4510 Apportionment	30,000	A120
		4610 Allotment	30,000	
4610 Allotment	30,000	B204		
4801 Unexp oblig - unpd	30,000			

---

<sup>5</sup> OMB Circular A11, Appendix B, “. . .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 amount scored will include th estimated total payments expected to arise under the full term of a lease contract . . .”

2) The annual rent payment is made	1-3	<u>Proprietary</u> 6100 Operating expense 10,000 1010 FBWT 10,000  3100 Unexpended app 10,000 5700 Appropriations used 10,000  <u>Budgetary</u> 4801 Unexp oblig - unpd 10,000 4902 Expended auth - pd 10,000	B302 B110  B134  B302 B110
------------------------------------	-----	--	--

**YEAR 1**

PRE-CLOSING TRIAL BALANCE	STATEMENT OF FINANCING
<p><i>Proprietary</i></p> <p>1010 FBWT 20,000</p> <p>3100 Unexpended app 20,000</p> <p>6100 Operating expense 10,000</p> <p>5700 Appropriations used 10,000</p> <p><i>Budgetary</i></p> <p>4119 Appropriation realized 30,000</p> <p>4801 Unexp oblig - unpd 20,000</p> <p>4902 Expended auth - pd 10,000</p>	<p>Line 1</p> <p>4801 Unexp oblig - unpd 20,000</p> <p>4902 Expended auth - pd 10,000</p> <p>Line 2</p> <p>4801 Unexp oblig - unpd <u>(20,000)</u></p> <p>Net Cost 10,000</p>
NET COST	133
<p>6100 Operating expense <u>10,000</u></p> <p>Net Cost 10,000</p>	<p>Line 1</p> <p>4119 Appropriation realized 30,000</p> <p>Line 8</p> <p>4801 Unexp oblig - unpd 20,000</p> <p>4902 Expended auth - pd 10,000</p> <p>Line 14</p> <p>4801 Unexp oblig - unpd 20,000</p> <p>Line 15</p> <p>4902 Expended auth - pd 10,000</p>

**II. OPERATING LEASE WITH NON-FEDERAL ENTITY - with a cancellation clause<sup>6</sup>**

DESCRIPTION	YR	LESSEE			
1) To record funding. The lessee agency signs a 3 year lease agreement on an equipment. Yearly rent payment is \$10,000 and the penalty for cancellation is \$5,000.	1	<u>Proprietary</u>			
		1010	FBWT	15,000	A104
		3100	Unexpended app	15,000	
		<u>Budgetary</u>			
		4119	Appropriation realized	15,000	A104
		4450	Unapportioned auth	15,000	
		4450	Unapportioned auth	15,000	A116
		4510	Apportionment	15,000	
		4510	Apportionment	15,000	A120
		4610	Allotment	15,000	
		4610	Allotment	15,000	B204
4801	Unexp oblig - unpd	15,000			

---

<sup>6</sup> OMB Circular A11, Appendix B, “. . . . if the contract includes a cancellation clause, an amount sufficient to cover the lease payments for the first year plus and amount sufficient to cover the costs associated with cancellation of the contract. (For each subsequent year, sufficient budget authority is required to cover the annual lease payment plus any additional cancellation costs.)”

2) The annual rent payment is made	1	<u>Proprietary</u> 6100 Operating expense 10,000 1010 FBWT 10,000  3100 Unexpended app 10,000 5700 Appropriations used 10,000  <u>Budgetary</u> 4801 Unexp oblig - unpd 10,000 4902 Expended auth - pd 10,000	B302 B110  B134  B302 B110
3) To record appropriation, apportionment and allotment for the rent payments	2-3	<u>Proprietary</u> 1010 FBWT 10,000 3100 Unexpended app 10,000  <u>Budgetary</u> 4119 Appropriation realized 10,000 4450 Unapportioned auth 10,000 4450 Unapportioned auth 10,000 4510 Apportionment 10,000 4510 Apportionment 10,000 4610 Allotment 10,000 4610 Allotment 10,000 4610 Allotment 10,000 4801 Unexp oblig - unpd 10,000	A104   A104 A116 A120 B204

<p>4) The annual rent payment is made</p>	<p><b>2-3</b></p>	<p><u>Proprietary</u></p> <p>6100 Operating expense 10,000  1010 FBWT 10,000</p> <p>3100 Unexpended app 10,000  5700 Appropriations used 10,000</p> <p><u>Budgetary</u></p> <p>4801 Unexp oblig - unpd 10,000  4902 Expended auth - pd 10,000</p>	<p>B302  B110    B134      B302  B110</p>
<p>5) To record downward adjustments of obligations incurred in year 1 for penalty clause of \$5,000 which was not exercised and not outlaid.</p>	<p><b>3</b></p>	<p><u>Proprietary</u></p> <p>None</p> <p><u>Budgetary</u></p> <p>4871 Down. adj. of PY unexp oblig 5,00  0  4450 Unapportioned authority 5,00  0</p>	<p>      D134</p>

**YEAR 1**

**YEAR 3**

PRE-CLOSING TRIAL BALANCE for YEAR 1	PRE-CLOSING TRIAL BALANCE for YEAR 3
<p><i>Proprietary</i></p> <p>1010 Fund Balance with Treasury 5,000</p> <p>3100 Unexpended appropriation 5,000</p> <p>6100 Operating expense 10,000</p> <p>5700 Appropriations used 10,000</p> <p><i>Budgetary</i></p> <p>4119 Appropriation realized 15,000</p> <p>4801 Unexpended obligation - unpd 5,000</p> <p>4902 Expended auth - pd 10,000</p>	<p><i>Proprietary</i></p> <p>6100 Operating expense 10,000</p> <p>5700 Appropriations used 10,000</p> <p><i>Budgetary</i></p> <p>4201 Total actual resources collected 5,000</p> <p>4119 Appropriation realized 10,000</p> <p>4801 Unexpended obligation - unpd 5,000</p> <p>4902 Expended auth - pd 10,000</p> <p>4871 Down. adj. of PY unexp oblig 5,000</p> <p>4450 Unapportioned authority 5,000</p>
NET COST for YEAR 1	NET COST for YEAR 3
<p>6100 Operating expense <u>10,000</u></p> <p>Net Cost 10,000</p>	<p>6100 Operating expense <u>10,000</u></p> <p>Net Cost 10,000</p>
STATEMENT OF FINANCING for YEAR 1	STATEMENT OF FINANCING for YEAR 3

<p>Line 1</p> <p>4801 Unexpended obligation - unpd 5,000</p> <p>4902 Expended auth - pd 10,000</p> <p>Line 2A</p> <p>4801 Unexpended obligation - unpd (5,000)</p> <p>Net Cost 10,000</p>	<p>Line 1</p> <p>4902 Expended auth - pd 10,000</p> <p>4871 Down. adj. of PY unexp oblig (5,000)</p> <p>Line 2</p> <p>4871 Down. adj. of PY unexp oblig 5,000</p> <p>Net cost 10,000</p>
<b>133 for YEAR 1</b>	<b>133 for YEAR 3</b>
<p>Line 1</p> <p>4119 Appropriation realized 15,000</p> <p>Line 8</p> <p>4801 Unexpended obligation - unpd 5,000</p> <p>4902 Expended auth - pd 10,000</p> <p>Line 14</p> <p>4801 Unexpended obligation - unpd 5,000</p> <p>Line 15</p> <p>4902 Expended auth - pd 10,000</p>	<p>Line 1</p> <p>4119 Appropriation realized 10,000</p> <p>Line 4</p> <p>4871 Down. adj. of PY unexp oblig 5,000</p> <p>Line 8</p> <p>4902 Expended auth - pd 10,000</p> <p>Line 10</p> <p>4450 Unapportioned authority 5,000</p> <p>Line 14</p> <p>4871 Down. adj. of PY unexp oblig 5,000</p> <p>Line 15</p> <p>4902 Expended auth - pd 10,000</p>
<b>CLOSING ENTRIES for YEAR 1</b>	<b>CLOSING ENTRIES for YEAR 3</b>

<u>Proprietary</u>				<u>Proprietary</u>			
3310	Cumulative results	10,000		3310	Cumulative results	10,000	
	6100 Operating expense		10,000	6100	Operating expense		10,000
5700	Appropriations used	10,000		5700	Appropriations used	10,000	
	3310 Cumulative results		10,000	3310	Cumulative results		10,000
<u>Budgetary</u>				<u>Budgetary</u>			
4902	Expended auth - pd	10,000		4902	Expended auth - pd	10,000	
	4201 Total actual resources collected		10,000	4201	Total actual resources collected		10,000
4201	Total actual resources collected		15,000	4201	Total actual resources collected		10,000
	4119 Appropriation realized		15,000	4119	Appropriation realized		10,000
			00	4801	Unexp oblig - unpd	5,000	
			00	4871	Down. adj. of PY unexp oblig		5,000
							0

### III. OPERATING LEASE<sup>7</sup> WITH NON-FEDERAL ENTITY ON RENT ABATEMENT

Assume this is a self insuring fund.

#### A. RENT ABATEMENT ON FIRST 3 YEARS OF THE LEASE

DESCRIPTION	YR	LESSEE	REF
-------------	----	--------	-----

<sup>7</sup>OMB A11, Appendix A, states that “. . . . . For funds that are self-insuring under existing authority, only budget authority to cover the annual lease payment is required to be scored”. According to OMB, GSA is the only agency designated as “self insuring” fund at this time.

<p>1) To record funding. The lessee agency signs a 15 year lease agreement on a building. The land lord gives the agency a special deal where they only have to pay for last 12 years and the first 3 years are rent free. Yearly rent payment is \$10,000.</p>	<p>1-3</p>	<p><u>Proprietary</u></p> <table border="0"> <tr> <td>6800</td> <td>Future funded expenses</td> <td>8,000</td> <td></td> </tr> <tr> <td>2990</td> <td>Other liabilities</td> <td>8,000</td> <td></td> </tr> </table> <p><u>Budgetary</u></p> <p>None</p>	6800	Future funded expenses	8,000		2990	Other liabilities	8,000		<p>B324 <b>add</b> <b>2290 to</b> <b>B324</b></p>																																
6800	Future funded expenses	8,000																																									
2990	Other liabilities	8,000																																									
<p>2) Appropriation, apportionment and allotment is received.</p>	<p><b>4-15</b></p>	<p><u>Proprietary</u></p> <table border="0"> <tr> <td>1010</td> <td>FBWT</td> <td>10,000</td> <td></td> </tr> <tr> <td>3100</td> <td>Unexpended app</td> <td>10,000</td> <td></td> </tr> </table> <p><u>Budgetary</u></p> <table border="0"> <tr> <td>4119</td> <td>Appropriation realized</td> <td>10,000</td> <td></td> </tr> <tr> <td>4450</td> <td>Unapportioned auth</td> <td>10,000</td> <td></td> </tr> <tr> <td>4450</td> <td>Unapportioned auth</td> <td>10,000</td> <td></td> </tr> <tr> <td>4510</td> <td>Apportionment</td> <td></td> <td>10,000</td> </tr> <tr> <td>4510</td> <td>Apportionment</td> <td>10,000</td> <td></td> </tr> <tr> <td>4610</td> <td>Allotment</td> <td>10,000</td> <td></td> </tr> <tr> <td>4610</td> <td>Allotment</td> <td>10,000</td> <td></td> </tr> <tr> <td>4801</td> <td>Unexp oblig - unpd</td> <td>10,000</td> <td></td> </tr> </table>	1010	FBWT	10,000		3100	Unexpended app	10,000		4119	Appropriation realized	10,000		4450	Unapportioned auth	10,000		4450	Unapportioned auth	10,000		4510	Apportionment		10,000	4510	Apportionment	10,000		4610	Allotment	10,000		4610	Allotment	10,000		4801	Unexp oblig - unpd	10,000		<p>A104</p> <p>A104</p> <p>A116</p> <p>A120</p> <p>B204</p>
1010	FBWT	10,000																																									
3100	Unexpended app	10,000																																									
4119	Appropriation realized	10,000																																									
4450	Unapportioned auth	10,000																																									
4450	Unapportioned auth	10,000																																									
4510	Apportionment		10,000																																								
4510	Apportionment	10,000																																									
4610	Allotment	10,000																																									
4610	Allotment	10,000																																									
4801	Unexp oblig - unpd	10,000																																									

3) Rent payment is made	<b>4-15</b>	<u>Proprietary</u> 6100 Operating expense 8,000 2990 Other liability 2,000 1010 FBWT 10,000  6100 Operating expense 2,000 6800 Future funded expenses 2,000  3100 Unexpended app 10,000 5700 Appropriation used 10,000  <u>Budgetary</u> 4801 Unexp oblig - unpd 10,000 4902 Expended authority - pd 10,000	B302 B110    B134   B302 B110
-------------------------	-------------	--	--

PRE-CLOSING TRIAL BALANCE FOR YR 1	CLOSING ENTRIES FOR YEAR 1
<p><i>Proprietary</i></p> <p>6800 Future funded expenses                    8,000</p> <p>2990 Other liabilities                                8,000</p> <p><i>Budgetary</i></p> <p>None</p>	<p><i>Proprietary</i></p> <p>3310 Cumulative results                    8,000</p> <p>          6800 Future funded expenses                    8,000</p> <p><i>Budgetary</i></p> <p>None</p>
<p><b>NET COST for YEAR 1</b></p>	
<p>6800 Future funded expenses                    <u>8,000</u></p> <p>Net Cost    8,000</p>	
<p><b>STATEMENT OF FINANCING for YEAR 1</b></p>	
<p>Line 4</p> <p>6800 Future funded expenses                    <u>8,000</u></p> <p>Net Cost    8,000</p>	

**B. RENT ABATEMENT ON LAST 3 YEARS OF THE LEASE**

DESCRIPTION	YR	LESSEE	REF	
1) To record funding. The lessee agency signs a 15 year lease agreement on a building. The land lord gives the agency a special deal where they only have to pay for 12 years and the last 3 years are rent free. Yearly rent payment is \$10,000.	1-12	<i>Proprietary</i>		
		1010 FBWT	10,000	A104
		3100 Unexpended app	10,000	
		<i>Budgetary</i>		
		4119 Appropriation realized	10,000	A104
		4450 Unapportioned auth	10,000	
		4450 Unapportioned auth	10,000	A116
		4510 Apportionment	10,000	
		4510 Apportionment	10,000	A120
		4610 Allotment	10,000	
4610 Allotment	10,000	B204		
4801 Unexp oblig - unpd	10,000			

<p>2) Rent payment is made</p>	<p>1-12</p>	<p><u>Proprietary</u></p> <p>6100 Operating expense 8,000</p> <p>1450 Prepayment 2,000</p> <p>1010 FBWT 10,000</p> <p>3100 Unexpended app 8,000</p> <p>5700 Appropriations used 8,000</p> <p><u>Budgetary</u></p> <p>4801 Unexp oblig - unpd 10,000</p> <p>4802 Unexp oblig - pd 2,000</p> <p>4902 Expended auth - pd 8,000</p>	<p>B302</p> <p>B110</p> <p>B134</p> <p>B302</p> <p>B110</p>
<p>3) Rent free years</p> <p><b>See B404 in SGL Section III</b></p>	<p><b>13-15</b></p>	<p><u>Proprietary</u></p> <p>6100 Operating expense 8,000</p> <p>1450 Prepayment 8,000</p> <p>3100 Unexpended app 8,000</p> <p>5700 Appropriations used 8,000</p> <p><u>Budgetary</u></p> <p>4802 Unexp oblig - pd 8,000</p> <p>4902 Expended auth - pd 8,000</p>	<p>B302</p> <p>B134</p> <p>B302</p> <p>B110</p>

**YEAR 1**

PRE-CLOSING TRIAL BALANCE FOR YR 1	CLOSING ENTRIES FOR YR 1
------------------------------------	--------------------------

<p><i>Proprietary</i></p> <p>1450 Prepayment 2,000</p> <p>3100 Unexpended app 2,000</p> <p>6100 Operating expense 8,000</p> <p>5700 Appropriations used 8,000</p> <p><i>Budgetary</i></p> <p>4119 Appropriation realized 10,000</p> <p>4802 Unexp oblig - pd 2,000</p> <p>4902 Expended auth - pd 8,000</p>	<p><i>Proprietary</i></p> <p>3310 Cumulative results 8,000</p> <p>6100 Operating expense 8,000</p> <p>5700 Appropriations used 8,000</p> <p>3310 Cumulative results 8,000</p> <p><i>Budgetary</i></p> <p>4201 Total actual resources collected 10,000</p> <p>4119 Appropriation realized 10,000</p> <p>4902 Expended auth - pd 8,000</p> <p>4201 Total actual resources collected</p>
NET COST FOR YR 1	
<p>6100 Operating expense <u>8,000</u></p> <p>Net Cost 8,000</p>	
STATEMENT OF FINANCING	
<p>Line 1</p> <p>4802 Unexp oblig - pd 2,000</p> <p>4902 Expended auth - pd 8,000</p> <p>Line 2</p> <p>4802 Unexp oblig - pd <u>(2,000)</u></p> <p>Net cost 8,000</p>	