



United States Department of the Interior

OFFICE OF THE SECRETARY
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Financial Management Memorandum 2011-011 (Vol. II. B)

To: Bureau Assistant Directors for Administration
Bureau Chief Finance Officers
Bureau Procurement Officers
Bureau Property Officers

From: Douglas A. Glenn 
Deputy Chief Financial Officer and
Director, Office of Financial Management

Subject: Future Lease Payment Disclosures

As required by the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, future minimum lease payments are disclosed in a footnote to the financial statements. This guidance is issued to ensure disclosure consistency in reporting minimum lease payments for direct leases and General Services Administration agreements for real and personal property.

Direct Leases

Bureaus should calculate future minimum lease payments for non-cancelable operating leases with an initial or remaining term greater than one year. Future minimum lease payments should be calculated based on the provisions of the lease or using the OMB inflation factors when the lease is silent. For leases that have an indefinite period of performance, only calculate the future lease payments five years outward. A lease is considered to have ended, for reporting purposes, when the lease term ends but continues on a month-to-month basis.

GSA Agreements

Real Property

Bureaus should calculate future minimum lease payments for all General Services Administration (GSA) real property agreements regardless of whether they are non-cancelable. Though an agency may end a GSA Occupancy Agreement (OA) with short notice (e.g., 4 months), Interior often stays in these buildings for an extended period of time. Future minimum lease payments should be calculated based on the provisions of the agreement or, if silent, the OMB inflation factors compounded annually and applied against those portions of

the current fiscal year's actual rental expense not predetermined in future years and without a specific escalation clause to determine the future payments. For agreements that are cancelable or have an indefinite period of performance, calculate the future payments five years outward. In general, the inflation factors are applied to the executory costs included in the billings from GSA. When shell rates and tenant improvement costs are not fixed for the term of the lease, or executory costs are fixed for the term of the lease, calculations should be adjusted accordingly.

Personal Property (i.e., vehicles)

Bureaus should calculate future minimum lease payments for all GSA personal property agreements in the same manner as GSA real property agreements. While vehicle agreements with GSA are non-binding, Interior generally maintains a fleet of vehicles on an ongoing basis. Future minimum lease payments should be calculated based on the provisions of the agreement or, if silent, the OMB inflation factors compounded annually and applied against the current fiscal year's actual rental expense. For agreements that are cancelable or have an indefinite period of performance, calculate the future payments five years outward. In general, future minimum lease payments for GSA vehicles are computed five years outward by applying the inflation factors to the billings from GSA for the current fiscal year.

Inflationary Factors

Inflation factors should be compounded annually and applied against those portions of the current fiscal year's actual rental expense not predetermined in future years and without a specific escalation clause to determine the future payments. For fiscal year 2011, all bureaus are directed to use the following OMB inflation factors when calculating future lease payments.

- FY 2012 – 1.4%
- FY 2013 – 1.7%
- FY 2014 – 1.7%
- FY 2015 – 1.7%
- FY 2016 – 1.7%
- Years Thereafter – 1.7%

The future minimum lease payments should be computed on a straight-line basis in accordance with the Financial Accounting Standards Board (FASB) 13. Please prepare a straight-line calculation in accordance with the FASB 13 and have it available for auditor review.

If you have questions regarding this guidance, please contact Parker Hill of my staff at (202) 513-0850 or parker_hill@ios.doi.gov.

cc: Financial Statements Guidance Team
Finance Officers Partnership

Cancelled FMMs: None

Additional FMMs on this subject: None