

**United Nations**

**Corporate Guidance**

for

**International Public Sector Accounting  
Standards**

**Leases and Donated Right-to-Use  
Arrangements**

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**Final version**



# **Corporate Guidance to Support the Adoption of International Public Sector Accounting Standards (IPSAS) by the United Nations**

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## **Corporate Guidance # 1 - Leasing**

This corporate guidance will cover the following topics with respect to leasing:

- Lease term: **see section 2;**
- Finance lease criteria/classification guidance: **see section 3.1.;**
- Guidance on lease indicators for equipment leases: **see section 3.2.;**
- Application of lease classification criteria to leases that include both land and buildings: **see section 3.3.;**
- Recognition of leases in the financial statements: **see section 4;**
- Straight-lining of operating leases: **see sections 4.1.2. and 4.2.2.;**
- Donated rights to use arrangements – long-term and short-term and determination of equivalent values of rent or asset values in cases of assets meeting capitalization criteria. For short-term arrangements, procedures for determination of commercial rental equivalents: **see section 5;**
- Embedded leases vs. service contracts: **see section 6.1.;**
- Guidance on subsidized leases and related revenue recognition: **see section 6.2.;**
- De facto leases and unsigned arrangements: **see section 6.3;**
- Common premises vs. shared premises: **see section 6.4.;**
- Symmetry accounting: **see section 6.5.;**
- Sub-lease arrangements: **see section 6.6.;**
- Format of required disclosures: **see section 7;**
- Recommended changes in workflows to accommodate IPSAS requirements: **see section 8.**

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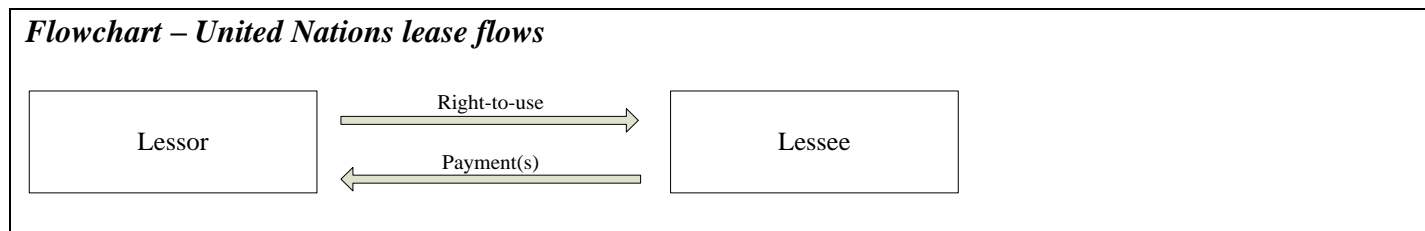
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## 1 Introduction

IPSAS 13 *Leases* defines a **lease** as an agreement whereby the *lessor* conveys to the *lessee* in return for a payment or series of payments the right to use an asset for an agreed period of time without legal transfer of ownership to the lessee.

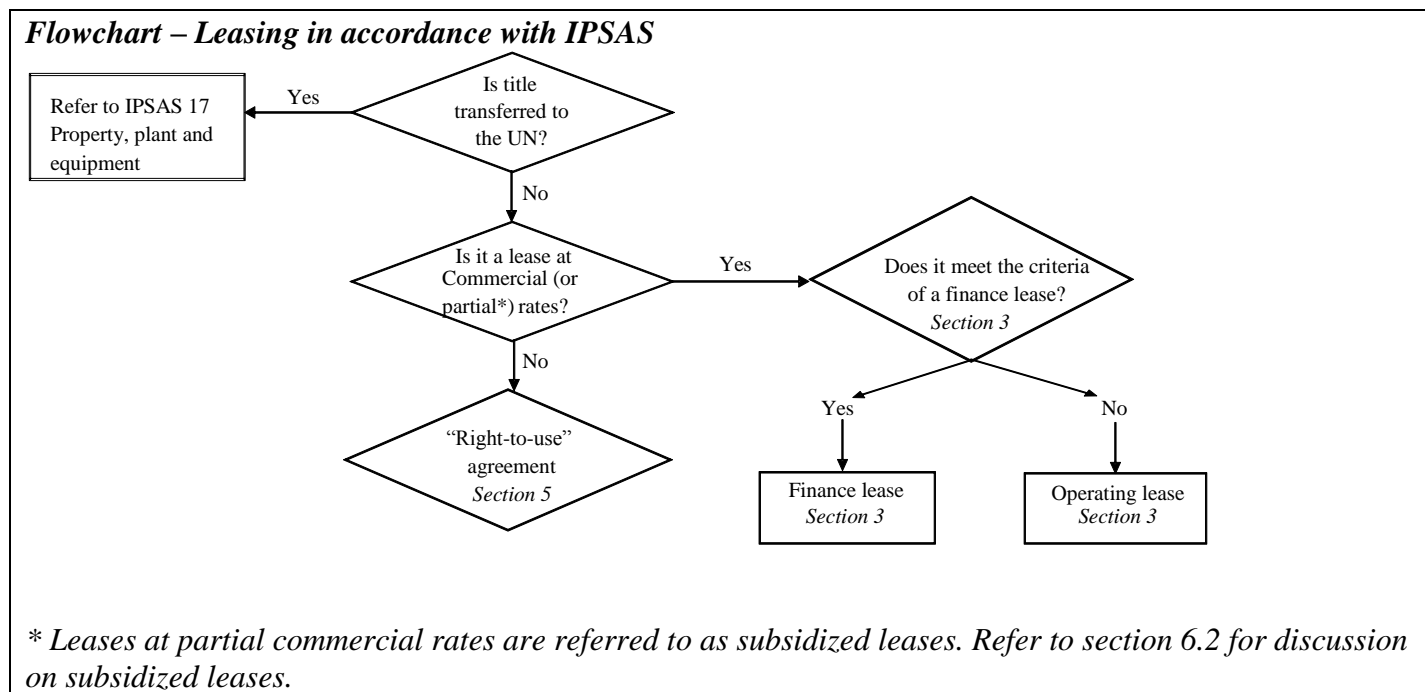
See the following flowchart to understand the flow of a typical United Nations lease agreement.



IPSAS 13 provides the fundamental guidance surrounding the classification, recognition, and measurement of leases, which is essential to ensure appropriate accounting treatment for individual agreements. This document presents, in the following sections, additional guidelines along with “in practice” examples of how United Nations should apply IPAS 13. It also covers specific topics that appear to be common in the United Nations, such as common premises and donated right-to-use agreements.

The objective of this document is to present relevant leasing guidance in order for the United Nations to adopt and apply a comprehensive and consistent accounting treatment to its various leases and donated right-to-use arrangements.

Refer to the following flowchart for an illustration of the typical analysis the United Nations will perform in order to appropriately account for lease agreements in its financial statements.



## 2 Definitions

### General terms

A **lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time without legal transfer of ownership.

The **lessee** is the party that rents an asset from a lessor. The lessee is also known as the “tenant”, and must uphold specific obligations as defined in the lease agreement.

The **lessor** is the owner of an asset that is leased to a lessee.

A **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An **operating lease** is a lease other than a finance lease.

### Inception and commencement

The **inception of the lease** is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- A lease is classified as either an operating or a finance lease; and
- In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.

The **commencement of the lease term**, on the other hand, is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).

### Economic and useful life

**Economic life** is either:

- The period over which an asset is expected to yield economic benefits or service potential to one or more users; or
- The number of production or similar units<sup>1</sup> expected to be obtained from the asset by one or more users.

**Useful life** is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the United Nations. This concept is related to the depreciation of PP&E and intangible assets.

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<sup>1</sup> For example: if the United Nations purchases a copier capable of producing 100,000 copies, and in year 1 it produces 10,000 copies, then the depreciation equals 1/10 of the cost of the asset for the year

Lease term

The **lease term** is the non-cancelable period for which the lessee has contracted to lease the asset, together with any renewal options when at the inception of the lease it is reasonably certain<sup>2</sup> (more than 75% probability) that the lessee will exercise the option.

A **non-cancellable lease** is a lease that is cancellable within lease term only:

- Upon the occurrence of some remote contingency;
- With the permission of the lessor (e.g. lease ends on a mutually agreed date);
- If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Present value of minimum lease payments (PV{MLP})

**Minimum lease payments** (“MLP”) are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with the guaranteed residual value being:

- For a *lessee*, any amounts guaranteed by the lessee or by a party related to the lessee; or
- For a *lessor*, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However, if the lessee has a bargain purchase option (option to purchase asset at the end of the lease term at a significant discount to the asset fair value), the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Minimum lease payments also include fixed increases of rent (e.g. annual increase of rent by 2%). These increases are included in **escalation clauses** within the contract.

**Contingent rent** is the portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future prices indices, and future market rates of interest).

The **interest rate implicit in the lease** is the discount rate (“i”) that, at the inception of the lease, causes the aggregate present value of:

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<sup>2</sup> Management should use its judgment in order to determine whether renewal options should be included in the lease term or not. Management should support its judgment based on documented underlying facts and circumstances. Auditors can review the underlying documentation during their audits.



- The unguaranteed residual value; and
- The minimum lease payments to be equal to the sum of (a) the fair value of the leased asset, and (b) any initial direct costs of the lessor.

$$\underbrace{\frac{MLP}{(1+i)^1} + \frac{MLP}{(1+i)^2} + \dots + \frac{MLP}{(1+i)^n}}_{PV\{MLP\}} + \frac{\text{Unguaranteed residual value}}{(1+i)^n} = \text{Fair value asset} + \text{Initial direct costs of the lessor}$$

**Initial direct costs** are incremental costs that are directly attributable to negotiating and arranging a lease (i.e., legal, brokerage, consultant fees).

The **lessee's incremental borrowing rate** is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

The United Nations **opportunity cost** of earning a return on cash pool holdings can be used as a proxy for the lessee's incremental borrowing rate since the United Nations does not borrow money from external parties.

#### Lessor accounting

**Net investment in the lease** is the gross investment in the lease discounted at the interest rate implicit in the lease.

**Gross investment in the lease** is the aggregate of:

- The minimum lease payments receivable by the lessor under a finance lease ; and
- Any unguaranteed residual value accruing to the lessor

**Unguaranteed residual value** is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

**Unearned finance revenue** is the difference between:

- The gross investment in the lease; and
- The net investment in the lease.

### 3 Lease classification: Finance versus operating

The classification of a lease contract can be difficult. When a lease transfers substantially all the risks and rewards of ownership to the lessee, the lease is considered a "finance lease" and the leased asset should therefore be capitalized like any other owned item of property, plant and equipment assuming it meets capitalization threshold. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. IPSAS 13 *Leases* provides criteria to determine whether or not a lease is a finance lease. Application of these criteria involves professional judgment.

#### 3.1 Finance lease indicators

**Lease classification** occurs at inception of the lease, which is defined as the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

The commencement of the lease term, on the other hand, is the date from which the lessee is entitled to exercise its right to use the leased asset.

#### ***Example - Difference between inception of the lease and commencement of the lease***

A lessee may sign an agreement to lease a piece of equipment on 31 March, but does not take delivery of the equipment until 30 June.

The classification of the lease and the measurement of the related assets and liabilities will take place on 31 March, but the recognition in the financial statements of the leased assets and liabilities will not take place until the commencement of the lease, which is 30 June.

Refer below for an example of how to determine the appropriate lease inception date.

#### ***Example – Determining lease inception date (UNON, Nairobi)***

**Lease term:** 8 years 5 months;

**Rent:** \$90 per sq meter payable annually;

**Commencement date:** January 1, 2005;

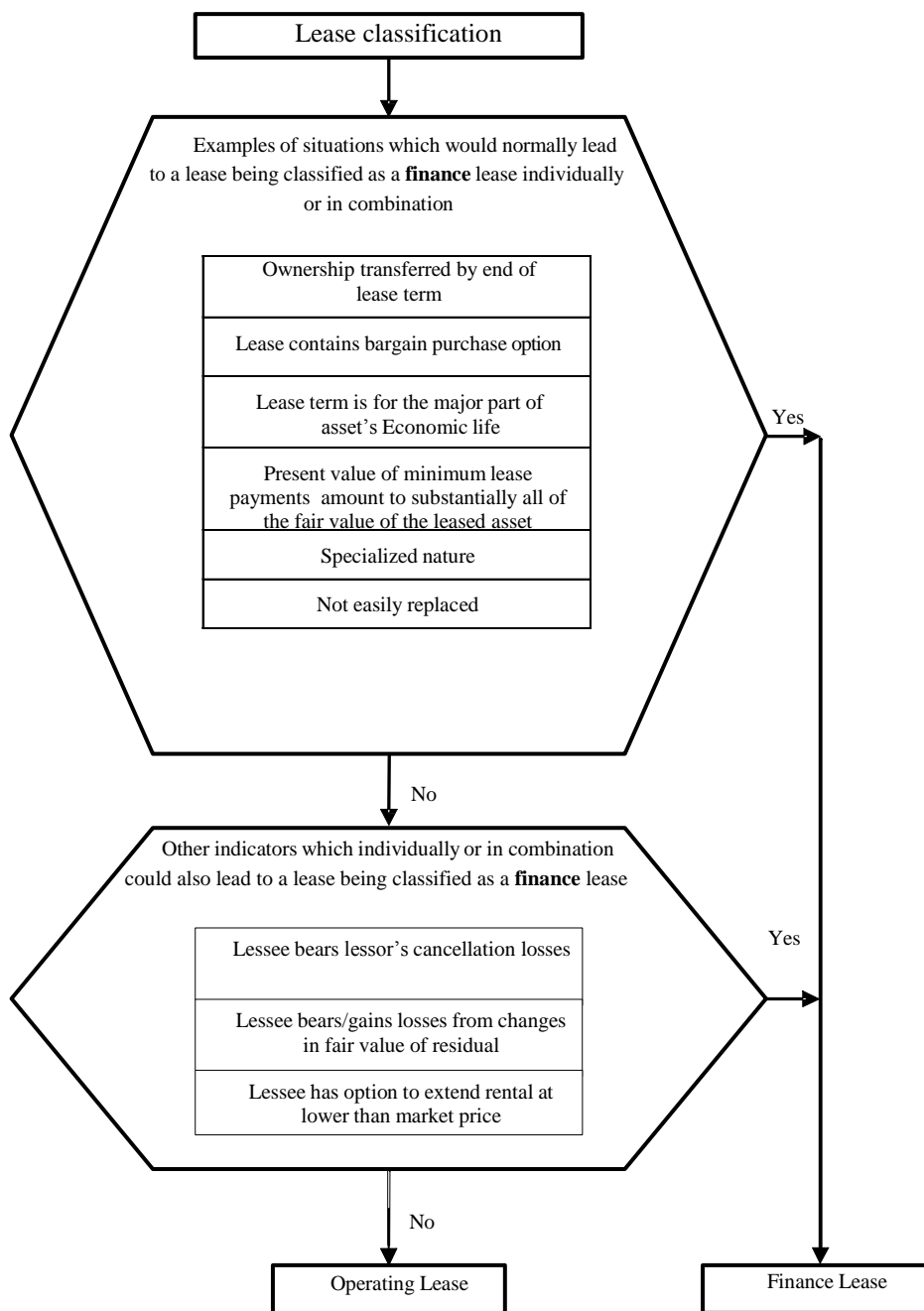
**Lease agreement date:** November 6, 2008.

What date should be used as the lease inception date? As discussed, the inception date is the **earlier** of the: the date the parties mutually agree **OR** the date of the lease agreement.

In this case, access to the property was granted on January 1, 2005 (commencement date), so it is reasonable to assume there was a mutual agreement between the parties at that time. Given that the date which the parties mutually agreed is earlier than the date the parties actually signed the agreement, January 1, 2005 should be used as the lease inception date.

Refer to the flowcharts on the following pages for an illustration of the necessary steps to classifying a lease as either a finance lease or operating lease under IPSAS 13 *Leasing* and in context of the United Nations organization. The first flowchart highlights general lease classification process, while the second only applies to real estate arrangements within the UN context.

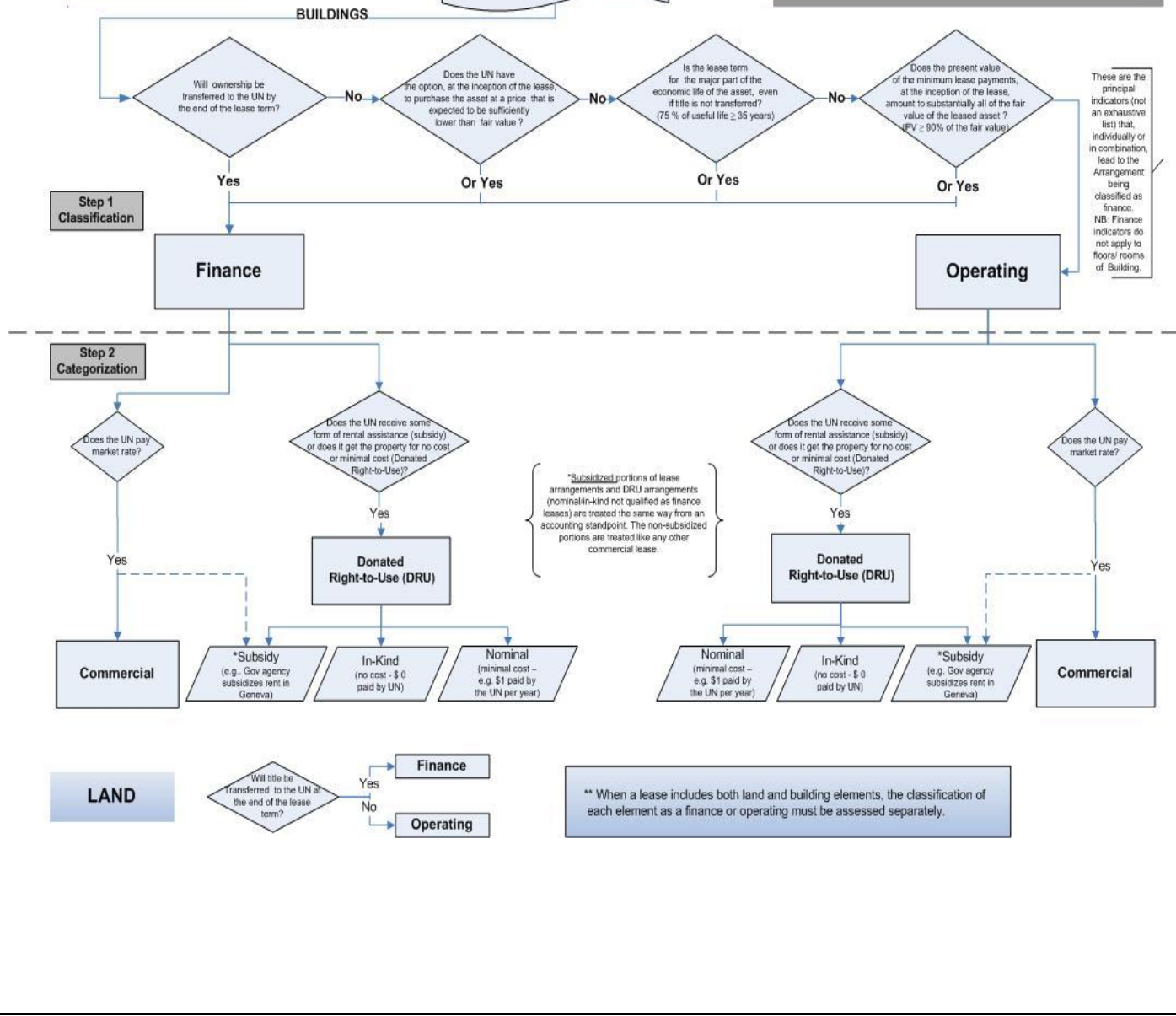
**Flowchart - Lease classification under IPSAS 13**



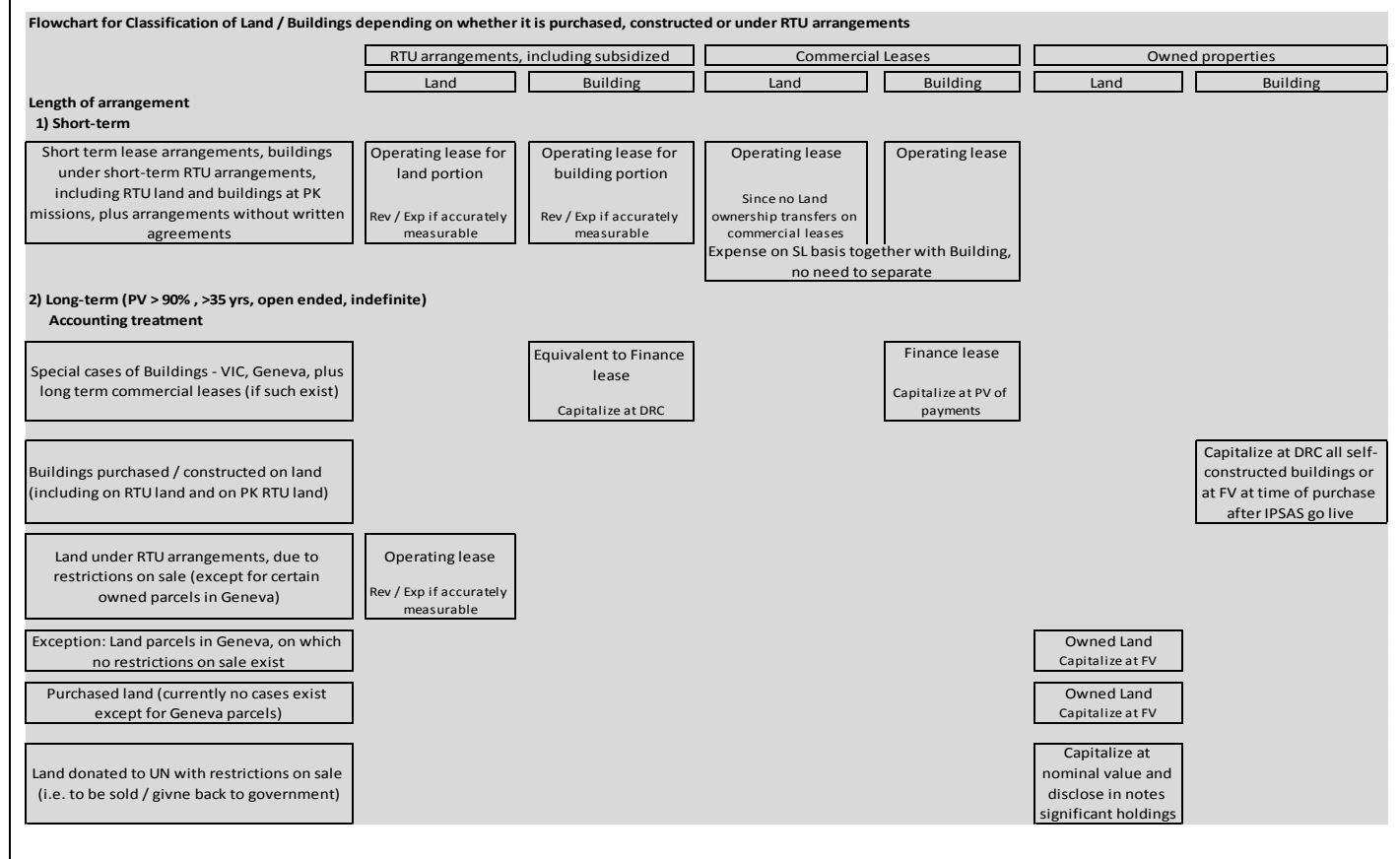
# Flowchart – Lease classification under IPSAS

*NB: This is a summary of the lease classification process under IPSAS; it must be read in conjunction with full corporate guidance. For information on how to account for lease of land and buildings under IPSAS, please refer to relevant corporate guidance. NG*

## Real Estate Arrangement/Lease Classification Under IPSAS



## Flowchart - Classification of Land / Buildings depending on whether it is purchased, constructed or donated under right-to-use (RTU) arrangements



Lease classification can be difficult in certain situations. The following criteria, either individually or in combination, imply that risks and rewards have passed to the lessee and as such indicate a finance lease:

### I. Ownership transferred to the lessee by the end of the lease term

Where the lease automatically transfers ownership of the asset at the end of the lease term, it can be presumed that the lessor will look to recover his investment in the leased asset over the term of the lease. The arrangement will be in substance akin to a financing arrangement.

### II. Lease contains a bargain purchase option

Where the lessee has an option to purchase, which is priced in such a way as to make exercise reasonably certain, it can be presumed that the lessor will look to recover his investment in the leased asset over the term of the lease. That is, the arrangement will be, in substance, akin to a financing arrangement.

### III. The lease term is for the major part (in practice, at least 75%) of the economic life of the asset

The **lease term** is the non-cancelable period for which the lessee has contracted to lease the asset, together with any renewal option(s), when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

A non-cancellable lease is a lease that is cancellable only:

- Upon the occurrence of some remote contingency;
  - With the permission of the lessor;
  - If the lessee enters into a new lease for the same or an equivalent asset with the same lessor;
- OR**
- Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

#### *Example – Remote cancellation clause*

The UNDC1 building lease includes the following provision which states that

*“If a determination has been made by the appropriate authorities of the UN that all or substantially all of the UN building located east of First Avenue between 42<sup>nd</sup> and 48<sup>th</sup> Streets in NYC (the “Headquarters Buildings”) will cease to be occupied by the Secretariat or other organs or agencies of the UN, **tenant shall have the right to terminate this lease**”*

Considering the likelihood that the UN would actually cease to occupy the Secretariat building is very unlikely, this would be considered a remote contingency and will not affect the lease term measurement.

#### *Example - Clean break clause (Cancellable lease = cancellation is not linked to some remote contingency)*

If a lease contains a clean break clause, that is, where the lessee is free to walk away from the lease agreement after a certain time without penalty, then the lease term for accounting purposes will normally be the period between the commencement of the lease and the earliest point at which the break option is exercisable by the lessee.

An example of breaking a lease without penalty is the Albano building in New York City. The United Nations has the right to leave the building after 8 years, paying only 9 months of rent, rather than the entire remaining 2 years of the lease. The lease term is therefore 8 years.

Economic life is either:

- The period over which an asset is expected to yield economic benefits or service potential to one or more users; **or**
- The number of production or similar units expected to be obtained from the asset by one or more users.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the United Nations. Please refer to Corporate Guidance on PP&E for further information.

***Example - The lease term is for the major part of the economic life of equipment***

When the lease term is for at least 75% of the economic life of leased equipment, the lease should be classified as a finance lease.

<u>Economic life</u>	<u>Lease term</u>	<u>Percentage</u>	<u>Finance lease indicator</u>
10 years	8 years	80%	Yes
10 years	7.5 years	75%	Yes
10 years	7 years	70%	No

**IV. The present value of the minimum lease payments amounts to at least substantially all (in practice, at least 90%) of the fair value of the leased asset.**

If the present value of the minimum lease payments is reasonably close to the fair value of the leased asset at the inception of the lease, the asset is effectively being purchased. Use the formula below to calculate the present value (“PV”) of the minimum lease payments (“MLP”) using a discount rate (“i”):

$$PV\{MLP\} = \frac{MLP}{(1+i)^1} + \frac{MLP}{(1+i)^2} + \dots + \frac{MLP}{(1+i)^n} \geq 90\% \text{ of the fair value of the leased asset}$$

Minimum lease payments (“MLP”) are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with the guaranteed residual value being:

- For a *lessee*, any amounts guaranteed by the lessee or by a party related to the lessee; **or**
- For a *lessor*, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However, if the lessee has a bargain purchase option, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required exercising it.

Contingent rent<sup>3</sup> is the portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future prices indices, and future market rates of interest).

<sup>3</sup> *Contingent rent: An example of contingent rent at the United Nations is “Sales based rent”*

The appropriate discount rate (“i”) needs to be determined in order to effectively calculate the present value of the minimum lease payments:

- The **interest rate implicit in the lease** can be derived from the formula below and should be used as the discount rate if it is practical to be determined by the lessee. Refer to example in the section 4.1.1.1 for an illustration of how the interest rate implicit in the lease can be determined.

$$\underbrace{\frac{MLP}{(1+i)^1} + \frac{MLP}{(1+i)^2} + \dots + \frac{MLP}{(1+i)^n}}_{PV\{MLP\}} + \frac{\text{Unguaranteed residual value}}{(1+i)^n} = \text{Fair value asset} + \text{Initial direct costs of the lessor}$$

Unguaranteed residual value is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease.

- If the interest rate implicit in the lease is not practical to determine, the **lessee’s incremental borrowing rate** will be appropriate (only applicable for lessee accounting).

The use of the lessee’s incremental borrowing rate is common practice in the private sector; however it is not applicable to the United Nations because the United Nations does not borrow money from external parties. Therefore, in practice, the United Nations opportunity cost of earning a return on cash pool holdings can be used as a proxy for the lessee’s incremental borrowing rate.

V. **The leased assets are of such a specialized nature that only the lessee can use them without major modifications.**

*Example - Specialized nature of leased assets*

The United Nations leases an installation, which is used for material handling in the harbor. The installation is specifically designed and tailored to meet specific needs of the United Nations in such a way that it is virtually impossible for others to use the installation without making significant changes to it. The specialized nature of the leased asset is a finance lease indicator.

VI. **The leased assets cannot easily be replaced by another asset.**

*Example - Leased asset cannot easily be replaced by another asset*

A machine is embedded in the premises of the United Nations and cannot easily be replaced by another asset.



The following indicators may also contribute or lead to a finance lease classification:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Below is an example illustrating the lease classification under IPSAS

***Example – Lease classification***

Should a lease with the following fact set be classified as an operating or finance lease?

- The UN leases machinery from a company. The machinery is expected to have an economic life of 10 years. The non-cancellable lease period is 6 years (6 out of 10 years), i.e. the lease term is less than 75% of the economic life of the asset;

The lease provides the option of paying a further \$1,000 at the end of six years to transfer ownership of the machinery to the lessee. To purchase the machinery normally would cost \$250,000. The present value of the minimum lease payments equals \$240,000, including the present value of the bargain purchase option.

IPSAS only requires that **one** of the finance lease criteria be met for the lease to be classified as a **finance** lease. The lease in question is determined to be finance as it meets several finance indicators:

- The present value of the minimum lease payments (\$240,000) amounts to greater than 90% of the fair value of the leased asset (\$250,000);
- There is a bargain purchase option.

**Land** lease arrangements will always be treated as operating unless legal title is expected to pass to the UN at the end of the lease term because land has an indefinite economic life.

***3.1.1 Contingent owned equipment (COE)***

The United Nations uses equipment provided by Troop/Police Contributing Countries (TCC/PCC) in overseas missions and agrees to the terms and conditions of use through Memoranda of Understanding (MoU) signed by the United Nations and the TCC/PCC in question. Such arrangements are considered to be operating leases, due to the short-term timeframe of missions, under IPSAS and therefore expense is recognized on a straight-line basis from the lease commencement date.

### 3.2 Finance lease recognition threshold – Equipment [Lessee Accounting (UN acts as a Lessee)]

In addition to meeting one or more of the above mentioned finance lease indicators (see section 3.1), the PV{MLP} of an item should at least amount to:

- All United Nations reporting entities other than Volumes I & II: **USD 5,000**;
- Volumes I and II: **USD 20,000** except for the following commodity groups for which the lower threshold of **USD 5,000** is applicable:
  - Vehicles;
  - Prefabricated buildings;
  - Satellite communication systems;
  - Generators; and
  - Network equipment.

In other words, leases that meet one or more of the finance lease indicators (see section 3.1), but are below the above mentioned thresholds, will be accounted for as **operating leases**.

### 3.3 Both land and buildings included in the same lease agreement

When a lease includes **land and buildings** elements, the United Nations assesses the classification of each element as finance or an operating lease separately. In determining whether the land element is an operating or a finance lease, an important consideration is whether legal title is passed to the lessee at the end of the lease term because land normally has an indefinite economic life.

Whenever possible in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

The below example demonstrates a case where both lease for land and buildings have been separately determined as operating; therefore the entire lease is classified as operating.

<b><i>Example – Land and building lease (Peacekeeping)</i></b>
--

Both elements of the Monusco-Goma lease (land and buildings) have been determined operating as:

- 1) Title to the land is not expected to be transferred to the UN at the end of the lease term, leading to the arrangement being classified as operating; and
- 2) The lease for the building is a short term arrangement which does not meet any of the finance lease criteria. The entire arrangement is therefore determined to be operating.

The entire lease is therefore classified as operating.

## REAL ESTATE ARRANGEMENT ANALYSIS Under IPSAS 13

MONUSCO/con/11/106

OFFICE MONUSCO - GOMA

DUTY STATION Kinshasa, DRC

FINANCIAL STATEMENT Volume II

LANDLORD Adju Leguma Jacob

IPSAS ASSET SUB-CLASS Buildings &amp; Land Leased

LANDLORD ADDRESS: ETS LVC, 14 Boulevard de Liberation, Bunia, DRC

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCEPTION DATE:	1 January 2012	Arrangement Term: 1 year 3 months		COMMENCEMENT DATE:	1 January 2012			
EXPIRATION DATE:	31 March 2013			NEW PERIOD:	N/A			
IPSAS Classification Indicators								
<b>A finance lease is a lease that transfers substantially all the risks &amp; rewards incidental to ownership of an asset (Title may/ may not be transferred - Principal Indicators, Individually or in Combination, That Lead to Finance Lease</b>				<b>Other Factors That May Indicate a Finance Lease</b>				<b>Operating</b>  A lease other than a finance lease  ***Land is classified as "operating" unless title is transferred to the UN.
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	X (Commercial)
<b>SUPPORTING ARGUMENTS:</b> The entire lease is classified as <u>operating commercial</u> as both elements of the lease (land and buildings) are determined to be operating. The lease term is for a short period of time and title to the land is not expected to be transferred to the UN as the end of the lease term. Therefore, the entire arrangement is determined to be operating.								
<b>RELEVANT PROVISIONS:</b> <u>Renewal Option:</u> The initial agreement is for 1 year 3 months starting 1 January 2012 and ending 31 March 2013. This lease is renewable for an additional period of 45 months, up to 31 December 2016, at the option of MONUSCO, with 30 days prior written notice to the Landlord. <u>Restoration Clause:</u> (Article 9.2) – MONUSCO shall not be under any obligation to restore the demised premises to the state & condition existing prior to occupancy. <u>Cancellation Privilege:</u> (Article 21) The UN may terminate the lease by providing a minimum of 30 days written notice to the Lessor in any case in which the mandate or funding of MONUSCO is curtailed or terminated either in whole or in part or if the premises no longer comply with UN MOSS or if the Lessor is adjudged bankrupt, is liquidated or becomes insolvent.								
ADDITIONAL COMMENTS								
Under this contract, the fixed rent is US\$5,000 per month.								

## 4 Recognition and measurement of leases in the financial statements

### 4.1 Lessee accounting

#### 4.1.1 Finance lease

The objective of the chart below is to assist in accounting for a finance lease by a lessee.

*Flowchart - Accounting for a finance lease by a lessee*



#### 4.1.1.1 Measurement at initial recognition

At the commencement of the lease term, lessees recognize finance lease assets and liabilities in their statement of financial position.

The amounts to be recognized are determined at the inception of the lease. The assets and liabilities are recognized at amounts:

- Equal to the **fair value** of the leased asset; or
- If lower than the fair value, the **present value of the minimum lease payments**

In order to determine the present value of the minimum lease payments, the following steps need to be completed:

##### 1. Calculate the minimum lease payments (MLP)

- MLP are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services (such as insurance and maintenance) and taxes to be paid by and reimbursed to the lessor, together with the guaranteed residual value.

##### 2. Determine the discount rate

- The discount rate to be used is the interest rate implicit in the lease if this is practical to determine. However, the United Nations will use their opportunity cost of earning a return on cash pool holdings as a proxy for the discount rate, given the fact that the United Nations does not borrow from external parties.

### 3. Calculate the present value of MLP (PV{MLP})

#### *Example - Calculating the interest rate implicit in the lease per IPSAS 13*

Agency X enters into a finance lease agreement to acquire a motor vehicle. The fair value of the motor vehicle at the inception of the lease is \$25,000; the annual lease payments are \$5,429 payable in arrears; the lease term is four years; and the guaranteed residual value is \$10,000 (unguaranteed residual value = 0). The lease agreement does not provide for any services additional to the supply of the motor vehicle. There are no initial direct costs of the lessor.

Agency X is responsible for all the running costs of the vehicle, including insurance, fuel, and maintenance. The lease agreement does not specify the interest rate implicit in the lease. The entity's incremental borrowing rate is 7%\* per annum. Several financial institutions are advertising loans secured by motor vehicles at rates varying between 7.5% and 10%.

To calculate the interest rate implicit in the lease (r), the entity uses the following formula:

$$\text{PV (MLP)} + \frac{\text{Unguaranteed residual value}}{(1+r)^n} = \text{Fair value of asset} + \text{Initial direct costs of the lessor}$$

$$= 0 \qquad \qquad \qquad = 0$$

Of which:

$$\text{PV(MLP)} = \frac{S}{(1+r)^n} + \frac{A}{r} \left[ 1 - \frac{1}{(1+r)^n} \right]$$

Where:

- S = \$10,000;
- n = 4;
- r = Annual interest rate expressed as a decimal;
- A = \$5,429;
- Fair value of asset = \$25,000

Agency X would begin calculations using a best estimate – for example its incremental borrowing rate of 7% per annum, which is too low. It would then use the maximum feasible rate – for example the 10% per annum rate offered for loans secured by a motor vehicle, which would prove too high. After several calculations, it would arrive at the correct rate (r) of 8.5% per annum.

However, in practice, the “**Goal Seek**” function in Excel is generally used to determine the appropriate rate.

*\*This borrowing rate (7%) is provided as an example only. In practice, given that the UN does not borrow money from external sources, the opportunity cost on cash pool holdings should be used instead of the borrowing rate.*

The lease liability is split up in current and non-current portions. The finance lease assets are classified under property, plant, and equipment by nature (e.g. finance lease buildings are booked under the buildings section).

#### 4.1.1.2 Subsequent measurement

### Leased asset

The leased asset is depreciated as follows:

- If ownership is expected **to transfer** at the end of the lease term, then the asset should be depreciated in the same way as owned asset (i.e. depreciate over useful life), however;
- If the expectation is that ownership **will not transfer** at the end of the lease term, then the asset should be depreciated over the shorter of the lease term or its useful life.

To determine whether a leased asset has become impaired<sup>4</sup>, the United Nations applies relevant impairment tests<sup>2</sup> as developed in the corporate guidance on Impairments.

The component approach<sup>5</sup> is not applicable with respect to leased PP&E held under finance leases.

### Lease liability

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Example - Apportionment of lease payments (figures are rounded)*

Agency X will now use the interest rate of 8.5%\* (see previous example) to record the lease in its books and apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below:

	Year 0	Year 1	Year 2	Year 3	Year 4
<b>Opening PV of Lease Liability</b>	25,000	25,000	21,696	18,110	14,211
<b>Interest Expense</b>	-	2,125	1,844	1,539	1,209
<b>Reduction of Liability</b>	-	3,304	3,585	3,890	14,221
<b>Total</b>		5,429	5,429	5,429	
<b>Closing Lease Liability</b>	25,000	21,696	18,110	14,221	-

\*Given that the UN does not borrow money from external sources, the opportunity cost on cash pool holdings should be used.

<sup>4</sup> Refer to corporate guidance on impairments

<sup>5</sup> Refer to corporate guidance on PP&E

## Contingent rents

Contingent rents are charged as expenses in the period in which they are incurred. They are not included in the measurement of the lease or liability.

### *Example - Contingent rent*

A car is leased (finance lease) under a three year contract. The lease rentals during the three years are fixed provided the mileage does not exceed a maximum amount during the period. Any mileage incurred above the maximum is subject to an additional charge.

The minimum lease payments should include only the fixed rent. The charges for excess mileage are contingent and should not be included in the minimum lease payments, but should be recorded as an expense in the statement of financial performance of the lessee in the period to which the additional mileage relates.

### 4.1.2 Operating lease

Lease payments (excluding costs for services such as insurance and maintenance) are recognized as an expense on a straight-line basis<sup>6</sup>, even if the payments are not on that basis. The rent expense should for example be spread on a straight-line basis over the lease term if the lease payments increase over the lease term.

### *Example - Operating lease incentives*

Prospective lessees are sometimes given incentives to sign operating leases. The aggregate benefit of incentives (e.g. rent-free rental periods) should be recognised by the lessee as a reduction of the rental expense over the lease term on a straight-line basis.

Refer below for examples of incentive clauses found in agreements entered into by the United Nations.

### *Example – Incentive clause in United Nations lease (Rent free period in Albano lease)*

#### **Albano building**

- **Commencement date:** 24 July 2007;
- **Rent commencement date:** 1 February 2008;
- **Rent free period:** *“The period commencing on the Commencement Date and ending on the day immediately preceding the Rent Commencement Date.”*

<sup>6</sup> The straight line basis spreads out the actual cost of lease equally over the lease term



See below for an illustration of an operating lease with free rent where the straight-lining method has been applied.

***Example – Straight-lining operating lease***

- **Lease term:** 5 years, \$12,000 per year with escalation of 11% annually;
- **Lease classification:** Operating lease;
- **Rent free period:** First 2 months in Year 1 are free.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>TOTAL</b>
Payments	10,000	13,200	14,520	15,972	17,569	<b>71,261</b>
Average	14,252	14,252	14,252	14,252	14,252	
<b>Entries</b>						
Dr. Rent expense	14,252	14,252	14,252	14,252	14,252	<b>71,261</b>
Cr. Cash	(10,000)	(13,200)	(14,520)	(15,972)	(17,569)	<b>(71,261)</b>
Cr. Lease SL Liability	(4,252)	(1,052)	268	1,720	3,317	<b>0</b>
Cumulative lease liability	(4,252)	(5,304)	(5,037)	(3,317)	0	

***Straight-lining calculation template***



Straight lining  
template.xlsx

**Example – Operating building lease (Peacekeeping)**

**REAL ESTATE ARRANGEMENT ANALYSIS**  
Under IPSAS 13

10MIL/CON/378\_Amdt1

OFFICE	UNMIL	DUTY STATION	LIBERIA
FINANCIAL STATEMENT	Volume II	LANDLORD	Rebecca Taylor
IPSAS ASSET SUB-CLASS	Land	LANDLORD ADDRESS:	Kpandonin Town, Foya City, Lofa County, Liberia

**REAL ESTATE ARRANGEMENT CLASSIFICATION**

INCEPTION DATE:	1 August 2009	DATE:	1 August 2011
EXPIRATION DATE:	31 July 2011	NEW PERIOD:	1 August 2011 - 31 July 2013

Arrangement Term: 2 years

**IPSAS Classification Indicators**

A finance lease is a lease that transfers substantially all the risks & rewards incidental to ownership of an asset (Title may/ may not be transferred - Principal Indicators, Individually or in Combination, That Lead to Finance Lease)								Other Factors That May Indicate a Finance Lease		Operating
A	B	C	D	E	F	G	H	A lease other than a finance lease		
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	****Land is classified as "operating" unless title is transferred to the UN.		
								X (Commercial)		

**SUPPORTING ARGUMENTS:** The lease is classified as operating commercial as title has not been transferred to UNMIL. Per the UN Policy Framework, land is classified as "operating" unless title is transferred to the UN at the end of the lease term.

**RELEVANT PROVISIONS:**

**Renewal Option:** This is a 2 year lease with options to renew for further periods of 2 years (1 August 2011 to 31 July 2013) and 1-year (1 August 2013 to 31 July 2014).

**Restoration Clause:** N/A as article 7.3 of the lease states that "the Lessee shall not be required to reinstate the Premises to the same condition they were in at the commencement date."

**Cancellation Privilege:** In the event of breach by one of the Parties of an essential provision or provisions of the Lease Agreement, the other Party may for valid cause terminate the Lease Agreement upon 30 days written notice to the Party in default, stating the reason for the termination. Also, notwithstanding the foregoing provisions concerning termination, in the event that the Government or relevant authorities make arrangements for the provision of the Premises or alternatively suitable premises to the Lessee free of charge or if there is lack of funding or the mandate of UNMIL is terminated by the Security Council, the Lessee shall have the right to terminate this lease agreement upon 30 days written notice to the lessor.

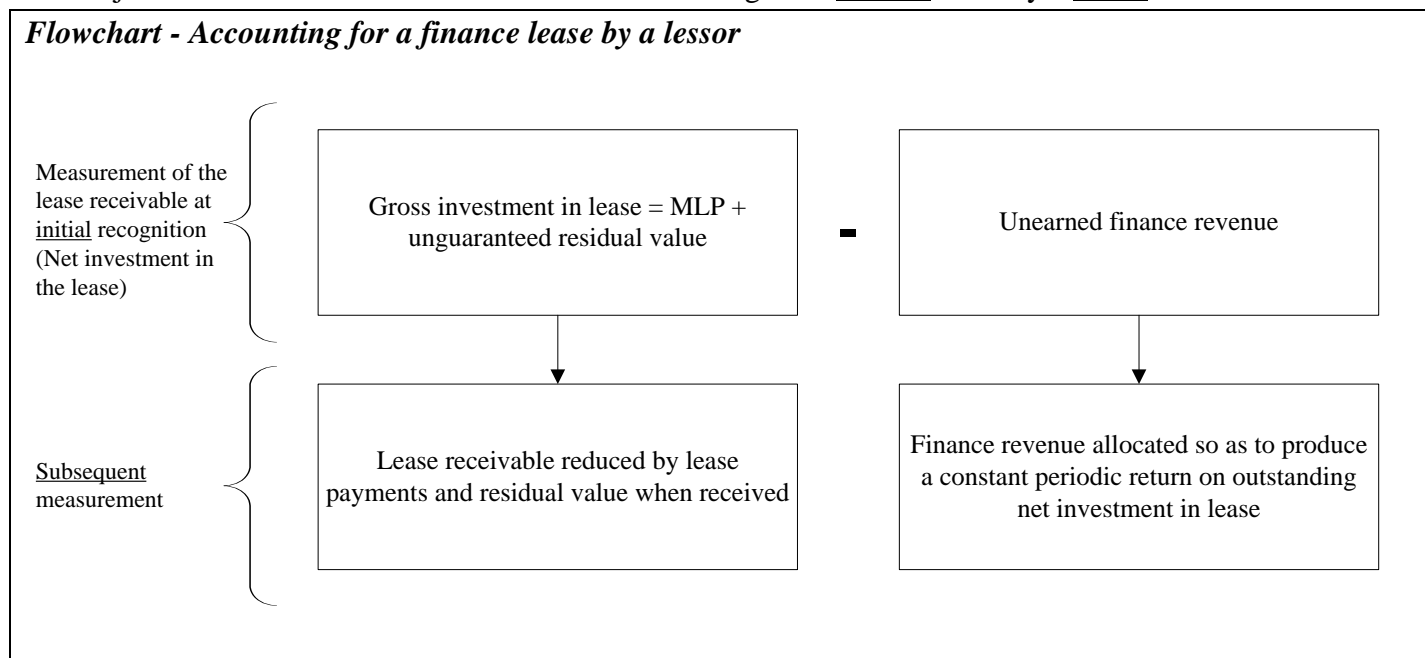
**ADDITIONAL COMMENTS**

Under the current amendment, the fixed rent is US\$ 150 per month – all other terms and conditions of the original contract remain unchanged.

## 4.2 Lessor accounting

### 4.2.1 Finance lease

The objective of the below chart is to assist in accounting for a finance lease by a lessor



#### 4.2.1.1 Measurement at initial recognition

Lessors recognize lease payments receivable under a finance lease as receivables (these receivables are reduced by lease payments when received and do NOT represent future revenues) in their statement of financial position. They present such assets as a receivable at an amount equal to the **net investment in the lease**.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

#### 4.2.1.2 Subsequent measurement

Lease payments relating to the accounting period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal<sup>7</sup> and the unearned finance revenue.

The recognition of finance revenue is based on a constant periodic rate of return on the lessor's net investment in the lease.

<sup>7</sup> *Principal is a portion of the original amount invested in the lease*

#### 4.2.2 Operating lease

Lease revenue (excluding receipts for services provided, such as insurance and maintenance) is recognized as revenue on a straight-line basis over the lease term, even if the receipts are not on such a basis.

##### ***Example - Operating lease incentives***

Lessors sometimes give their prospective lessees incentives to sign operating leases. The aggregate cost of incentives (E.g. rent-free rental periods) should be recognised by the lessor as a reduction of the rental income over the lease term on a straight-line basis.

Under a ten year lease agreement, the lessor may give a one year rent-free period followed by a fixed rent of \$11,000 per annum for 9 years. This is equivalent to 10 years rent of \$9,900 per annum. The cost of the incentive should be spread over the lease term on a straight-line basis. Therefore, each year \$9,900 of rental revenue will be recognized in the statement of financial performance. At the end of the first year, the lessor will recognize accrued rent receivable of \$9,900, which will be reduced by \$1,100 each year for the next 9 years.

##### **Journal Entries of Lessor:**

###### **Year 1**

<i>Dr. Lease straight-lining asset</i>	<b>9,900</b>
<i>Cr. Revenue</i>	<b>9,900</b>

###### **Years 2 through 9**

<i>Dr. Cash</i>	11,000
<i>Cr. Revenue</i>	9,900
<i>Cr. Lease straight-lining asset</i>	1,100

Lessors present assets subject to operating leases in their statements of financial position according to the nature of the asset.

The depreciation policy<sup>8</sup> for depreciable leased assets should be consistent with the lessor's standard depreciation policy for similar assets.

To determine whether a leased asset has become impaired, an entity applies relevant impairment tests as developed in the corporate guidance on impairment of PP&E.

<sup>8</sup> Refer to corporate guidance on PP&E and Infrastructure assets for details on depreciation

## 5 Donated "right-to-use" arrangements (DRU)

Donated right-to-use arrangements refer to situations where a donor gives the United Nations the right of use and occupancy of an asset (either for some period of time or indefinitely) without transfer of ownership and requires zero or a nominal payment (very small payment) in return. IPSAS 13 *Leasing* does not specifically address donated “rights-to-use” arrangements but they are quite common in the United Nations. Donated “right-to-use” arrangements are covered by IPSAS 23 *Non-exchange revenues*.

### ***Example – Donated “right-to-use” arrangement***

Excerpt from a “right-to-use” agreement between the Liberian Government and UNMIL:

“The government shall provide without cost to UNMIL and in agreement with the Special Representative such areas for headquarters, camps or other premises as may be necessary for the conduct of the operational and administrative activities of UNMIL.

Without prejudice to the fact that all such premises remain Liberia territory, they shall be inviolable and subject to the exclusive control and authority of the United Nations.

The government shall guarantee unimpeded access to such United Nations premises. Where United Nations troops are co-located with military personnel of the host country, a permanent, direct and immediate access by UNMIL to those premises shall be guaranteed.”

### 5.1 Lease classification of donated "right-to-use" arrangements

Donated right-to-use arrangements are considered similar in nature to leases and, as such, are classified as either finance or operating depending on the terms of the arrangements.

**Land:** Land lease agreements are classified as **operating lease** unless legal title is expected to pass to the UN at the end of the lease term because land has an indefinite economic life.

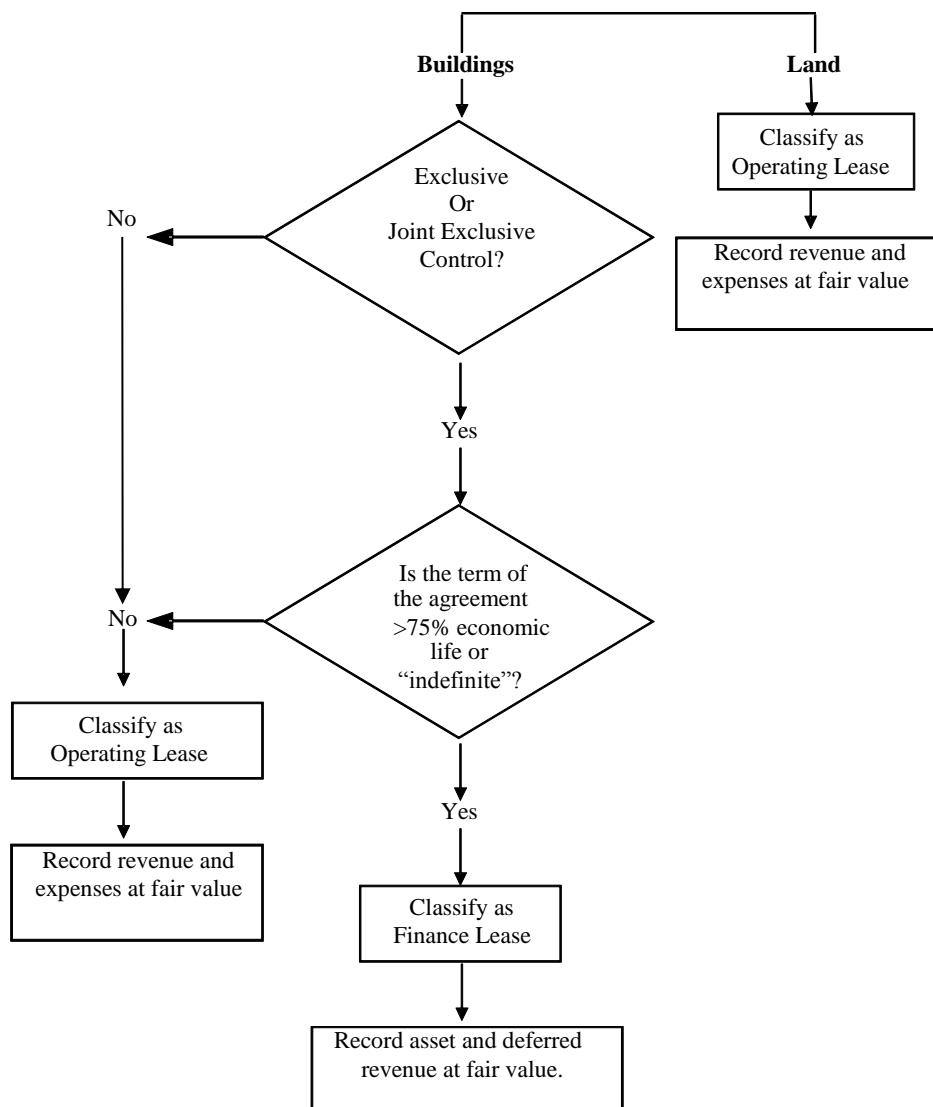
#### **Buildings:**

- Short term arrangements<sup>9</sup>: **Operating lease (for both PK and non PK).**
  - Field Missions Land and Buildings: Peacekeeping and SPM real estate arrangements, including the donated right to use ones, are generally classified as operating because of the short term nature (annual renewal of their mandate) of peacekeeping and SPM operations. However, each agreement should be considered individually to assess the length and the nature of the agreement.
  - Field Missions Infrastructures Assets: It is common for missions to be granted use of infrastructure assets together with premises. Donated right to use infrastructure assets arrangements are more likely to be treated as operating leases aligning their treatment with other peacekeeping real estate arrangements.

<sup>9</sup> Among other short-term arrangements, Status of force agreements “SOFA” and Status of mission agreements “SOMA” are classified as operating leases due to the short term nature of the peacekeeping operations.

- Long term arrangements (lease term over 35 years (75% of the 50 year maximum economic life of buildings) or when the arrangement is for an indefinite term):
  - The United Nations does not have exclusive control<sup>10</sup> (or joint exclusive control with other United Nations agencies) over the building: **Operating lease**;
  - For donated “rights- to-use” buildings where the United Nations has exclusive control<sup>11</sup> (or joint exclusive control with other United Nations agencies): **Finance lease**<sup>12</sup>.

**Flowchart – Donated “right-to-use” arrangement treatment within the United Nations**



<sup>10</sup> Such arrangements typically involve the use of a room or a floor of a building.

<sup>11</sup> The discussion on “arrangement conveys a right to use the asset” in section 6.1.1.2 offers examples of indicators of control.

<sup>12</sup> Please note that finance leases with PV{MLP} below the recognition threshold will be accounted for as operating leases.

## 5.2 Recognition and measurement of assets received through donated "right-to-use" arrangements

### 5.2.1 Recognition

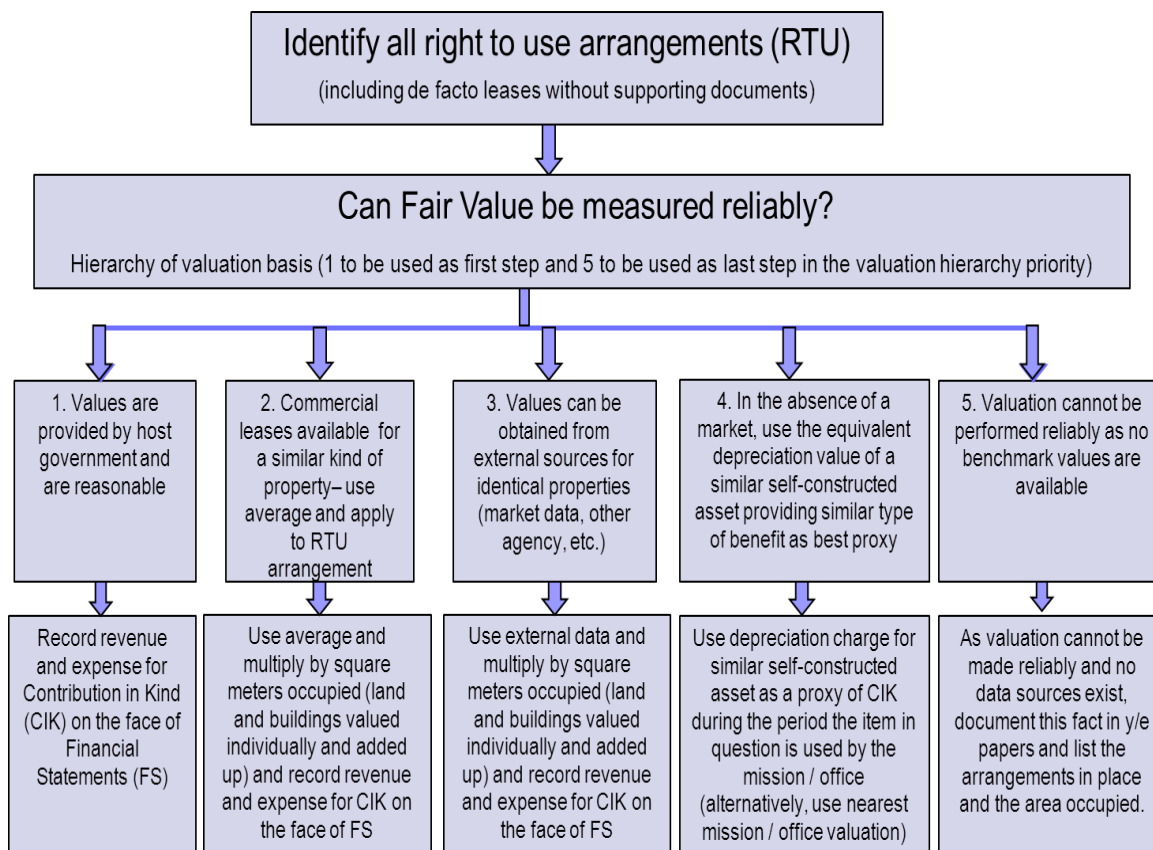
Donated “right-to-use” arrangements are recognized as follows:

**Operating leases:** Amounts equal to what the United Nations would pay to rent the asset in the marketplace will be recognized as revenue and expenses on the face of financial statements. In other words, the amounts should reflect what the United Nations would otherwise have to pay in return for use of similar assets in the market. This includes donated right to use lands, buildings and infrastructure assets arrangements.

**Finance leases:** The United Nations will capitalize (recognize an asset) buildings that it controls (or portion of the building that it jointly controls) at the fair value and credit deferred revenue for a like amount. Capitalized buildings will be depreciated over the lesser of the term of the arrangement or the useful life of the buildings with a maximum of 50 years. At the time the depreciation is recognized, an equal amount should be recognized as revenue by debiting deferred revenue and crediting revenue for the same amount.

### 5.2.2 Measurement of assets received through donated right-to-use arrangements

Steps 1 to 3 are applicable to tradable assets while steps 4 and 5 apply to the non- tradable assets.



### 5.2.2.1 Methodology to determine fair value of tradable assets

In order to determine the fair value equivalent of tradable/marketable assets received through donated right-to-use agreements—treated as “operating” nominal leases, the rental value equivalent for the time period the asset brings benefit to the mission / office needs to be assessed and contribution recognized as revenue and expenses on the face of financial statements. The best benchmarks for the valuation are data provided by the donor (assuming the values provided are reasonable) or market data for a similar asset rented in the same location. DRTU asset is measured as follows:

- i. **Operating lease:** It is only necessary to determine the rentable cost of the asset for the period that it is used.
- ii. **Finance lease:** The fair value measurement requires the United Nations to determine the fair value of the donated asset that it controls over the lease term.

#### *i. Measurement of assets received through operating leases*

When the right of use the asset is donated under an operating lease, the fair value is equal to the annual rentable cost of the asset in the marketplace. The best method of measurement is to make direct observation within the marketplace. In the context of a **building**, ideally these observations will be developed based on discussions with a local market expert such as a real estate broker or leasing agent. In the context of **machinery and equipment**, the best method of measurement is to make direct observation of the rental price within the marketplace; however, recognizing that the marketplace may not be local as machinery and equipment can be leased from a vendor in one location and transported to the desired location for use.

#### *Example of rental equivalent determination for a DRTU building*

From the perspective of the field analyst, an assessment needs to be made with regard to the donated building space. Assume the United Nations is being granted the right-to-use a 2,000 square meter building for 10 years. The field analyst should assess the physical attributes of the office space, including the desirability of its location, its physical condition, and its functionality. Next the field analyst needs to identify suitable alternatives. If the United Nations was not provided with the amount of donation in question, the analyst needs to identify the most similar alternative office space available for lease in the local market. Ideally, this process is best conducted through conversations with local real estate brokers. Nevertheless, data may be available in the local market from which the analyst can develop conclusions directly.

Absent any market data indications in the local market, the analyst should consider the nearest market in which such data is available. For example, if the office building described above is located in a remote area, 100 kilometres outside of the closest central business district, the analyst should observe market lease rates for the most similar asset in that market and then make adjustments to that lease rate giving consideration to the superior location of the comparable asset.

Absent any relevant market data, the cost of the asset must be considered. Using the same example of the 2,000 square meter office building, the analyst will have to make a determination of its value or cost to the



owner and then make a determination of the fair economic rent for the building from the perspective of the landlord.

### *Measuring DRTU Machinery and Equipment*

With regard to measuring the fair value equivalent of donated right to use machinery and equipment, the following procedures are recommended in **descending** order of best practice:

- The analyst should attempt to obtain a market lease rate for a similar asset;
- If market lease rate is not practically available, the analyst should reference recent lease for recent similar item;
- If a rate cannot be obtained from the market or internal data, the analyst should solicit an indication of market rent from donor. In this instance, the analyst needs to assess the reasonableness of the data provided and if it is deemed reasonable, use the provided value as a representation of the fair value rental rate;
- If none of the above methods can be relied upon, an alternative procedure to determine the market rent needs to be identified. For example, make inquiries from other agencies with experience in leasing similar items and document the information received for audit proof;
- Lastly, if the machinery and equipment in question is thought to have significant values, solicit the services of a third party valuation expert.

For field missions, the government provided rate should be applied first (reasonableness assessment is still necessary). If government rate is not available, then default to the other methods noted above.

#### ***Reasonableness Test:***

In order to determine whether the rate provided by the government is reasonable, price comparison needs to be made to similar asset in the local market. Absent local market data, the analyst should consider the nearest market in which such data is available. For example, if the asset in question is located in a remote area, 100 – 200 kilometres outside of the closest central business district, the analyst should observe market rental cost for the most similar asset in the central business district then adjust it taking the superior location of the comparable asset into consideration.

#### *ii. Measurement of assets received through finance leases*

As previously indicated, donated “right-to-use” arrangement is treated as finance lease when the term of the arrangement is equal to or greater than 75% of the useful life of the asset. In the case of a building with a useful life of 50 years, the minimum length of the “right-to-use term” must be 35 years in order for it to be recognized as a finance lease.

The fair value of the right-to-use an asset received under a finance lease is equal to the lower of the depreciated replacement<sup>13</sup> cost or the present value of the avoided cost associated with renting the asset over the donated term. In order to measure the fair value of the donated right-to-use, three basic inputs are required:

<sup>13</sup> Depreciated replacement cost methodology is determined to be the best proxy to measure the fair value of assets in the United Nations context.

- (i) The Depreciated Replacement Cost needs to be determined;
- (ii) The length of the lease term (typically expressed in months or years);
- (iii) An appropriate discount rate (or opportunity cost); and
- (iv) Market rental rates and typical rental terms available in the local market place on the fair value measurement date. Rental value equivalent provided by the government should be used (reasonableness assessment is still necessary) but if government rate is not available, default to other methods indicated above.

The analyst should compare the DRC and the PV and apply the lower of the two.

Refer to the following for an example on how to determine the fair value of the donated “right-to-use” finance lease.

***Example – Donated “right-to-use” arrangement classified as a finance lease***

A government agency donates to the United Nations a right-to-use a 2,000 square meter office building for a 40 year period. The following observations and data are collected:

- (i) The length of the right-to-use is 40 years;
  - (ii) The opportunity cost is determined to be 2.0%, and;
  - (iii) Based on discussions with real estate agents with knowledge of the local market it is determined that market leasing rates for a similar office building are \$400 per square meter per year.
- With regard to determining an appropriate market lease rate, the analysis requires subjectivity. From the perspective of the field analyst, an assessment needs to be made with regard to the donated asset. Assume the United Nations is being granted the right-to-use a 2,000 square meter building for 10 years. The field analyst should assess the physical attributes of the office space, including the desirability of its location, its physical condition, and its functionality. Next the field analyst needs to identify suitable alternatives. Assume that the United Nations was not provided with the donation, the field analyst needs to identify the most similar alternative office space available for lease in the local market. Ideally, this process is best conducted through conversations with local real estate brokers. Nevertheless data may be available in the local market from which the analyst can develop conclusions directly;
  - Absent any market data indications in the local market, the analyst should consider the nearest market in which such data is available. For example, if the office building described above is located in a remote area 100 kilometers outside of the closest central business district, the analysis should observed market lease rates for the most similar asset in that market and then make adjustments to that lease rate giving consideration to the superior location of the comparable data;
  - Absent any relevant market data, the depreciated replacement cost of the asset must be considered. Further, the lower of DRC value or the calculated value of DRTU asset made similar to the example in the bullet below needs to be chosen by the analyst.
  - Using the same example of the 2,000 square meter office building, the analyst will have to make a determination of its value or cost to the owner and then make a determination of the fair economic rent for the building from the perspective of the landlord.

**Calculation:**

Leased area	2,000 sq m
Annual market rent	<u>\$400 / sq m</u>
Total annual market rent	\$800,000
Annual rent increase	3.0%
Discount rate (opportunity cost)	2.0%

	Year 1	Year 2	Year 3	Year 4	.....	Year 40
Total annual market rent	\$800,000	\$824,000	\$848,720	\$874,182		\$2,533,622
Present Value Factor	<u>0.9804</u>	<u>0.9612</u>	<u>0.9423</u>	<u>0.9238</u>		<u>0.4529</u>
Present value per period	\$784,314	\$792,003	\$799,768	\$807,609		\$1,147,453
Fair Value of donated right-to-use	\$38,187,652					

Lower of DRC or calculated value of \$38,187,652 is to be used by the analyst to setup the asset.

**Template for calculation:**

Right to Use  
Template Calculation.

#### 5.2.2.2 Methodology to determine fair value of non-tradable assets

Some assets (e.g. DRTU infrastructure assets) are non-tradable or rentable in the marketplace, thus making it difficult to determine their rental value equivalent when provided to missions by host governments. The following steps should then be followed to determine the best proxy of the value of the right to use the asset (refer to step 4 of the flowchart in section 5.2.2):

- 1) Use equivalent depreciation charge for the period the asset is used and consider it as a proxy to the rental equivalent of the asset which will be recorded as a contribution in kind (CIK) received from the donor in the financial records of the mission / office. Such value of CIK can be determined by using the most recent value of a similar item built by the mission / office and dividing it by useful life assigned to the asset, and further applying this depreciation charge to the period that the mission / office uses the asset during the financial year. For opening balance purposes and during the financial years when depreciated replacement cost (DRC) valuation methodology is used instead of actual costs to value such assets, DRC value of the asset should be used to determine the equivalent depreciation charge. The offsetting amount for the CIK revenue received from the donor should be recorded as rental expense which will correspond to the benefit that is provided by the asset.
- 3) In the absence of similar construction data from which equivalent cost values can be derived, the mission may use another mission's valuation data (e.g. data from the closest geographically located mission) to arrive at the depreciation charge. This step would be applicable when actual costs data is available for valuation purposes (i.e. after depreciated replacement cost methodology is no longer used and Umoja tracks costs on an actual basis). However, during the period when DRC methodology is used for valuation of assets, the baseline costs will be used as the benchmark for calculating the equivalent depreciation charge.

- 4) In the worst case scenario (i.e. there is no way value can be determined), the efforts made to research and conclusions reached need to be documented and retained for purposes of audit.

The same valuation principles described above can be applied to any DRTU assets that cannot be easily rented in the marketplace or for which donor would not provide any data on the rental value equivalent.

#### *5.2.2.3 Pre-fabs*

The depreciation value for a similar module of pre-fab as reported by Galileo should be used as proxy for the rental equivalent of DRTU prior to decommissioning of Galileo. Subsequently, when Umoja is used to report prefabs, the values from Umoja should be used to determine the value of DRTU pre-fabs.

#### *5.2.2.4 Annual valuation of right-to-use arrangements*

Assets accounted for in the previous reporting years need to be reassessed to reflect changes due to passage of time and inflation. In other words, the valuation of assets received under DRTU needs to be done/reviewed annually as the value should reflect the most recent values available for the year under purview.

The impact of inflation on existing arrangements needs to be assessed for materiality, and if material, the contribution received (e.g. rental value equivalent) needs to be adjusted in the current reporting year.

## 6 Specific topics

### 6.1 Embedded leases

The United Nations may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant or equipment) in return for payments.

Examples of arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser, being the United Nations), often— together with related services— include:

- Outsourcing arrangements (e.g. the outsourcing of the data processing functions of an entity);
- Take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services (e.g. a take-or-pay contract to acquire substantially all of the output of a supplier’s power generator).

#### ***Example – Outsourcing arrangements - Embedded lease contract***

The United Nations outsources contracts as a way to reduce costs, increase efficiency and focus on the core mission of the organization.

There are many different types of outsourcing arrangements, and the financial reporting of them can be complex. In general, these outsourcing contracts will be treated as service arrangements while in reality they may involve a lease of an asset.

The United Nations will need to assess the outsourcing contracts to determine whether they include a lease.

Most outsourcing contracts include assets. The challenge is to assess whether specific assets exist in the arrangement. This determination should be made on an individual basis. This includes obtaining a precise understanding of the use of the asset:

- Is the service based on that specific asset; **OR**
- Could it be delivered, in accordance with the terms of the contract by other means?

For example, a catering outsourcer may provide rations for the United Nations from its central facilities, which are also used for other customers; conversely, it may use a dedicated facility constructed solely for the purpose of the United Nations’ contract. If the asset is used solely for the United Nations, it would be a lease of the specific asset by the United Nations. The asset is not deemed specific to the United Nations if the outsourcer uses the asset for a number of customers, and no lease would exist.

If it is concluded that the arrangement concerns a lease in substance, then the lessee guidance (lease classification, recognition and measurement) in IPSAS 13 *Leases* is to be applied by the United Nations on the arrangement.

In order to apply the requirements of IPSAS 13 *Leasing*, payments made for the lease must be split from other payments made under the arrangement (such as maintenance or insurance). This split is made on the basis of the relative fair values of the lease and the other elements of the arrangement.

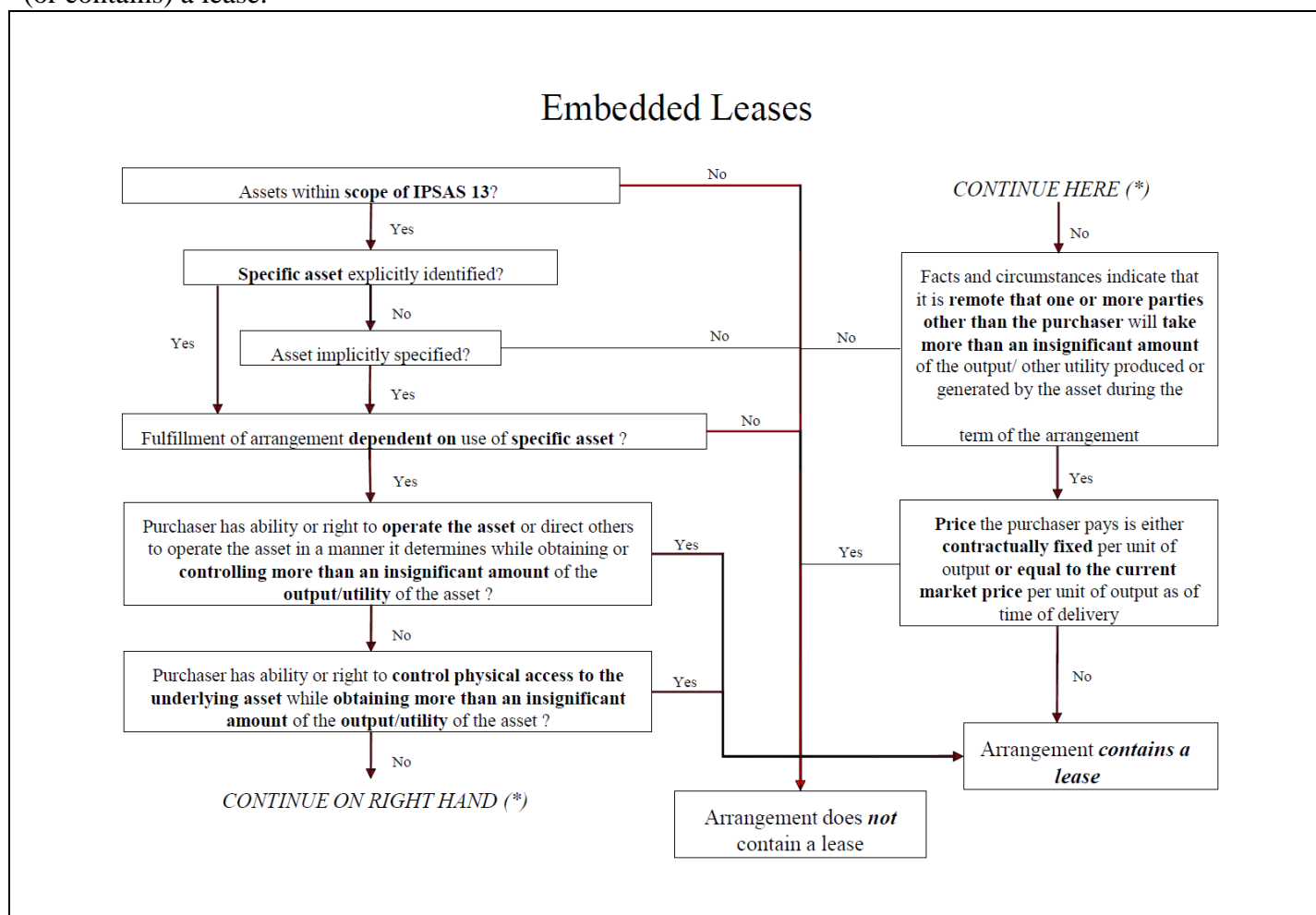
### 6.1.1 Determine whether an arrangement is (or contains) a lease<sup>14</sup>

Determining whether an arrangement is (or contains) a lease should be based on the substance of the arrangement and requires an assessment of whether:

- Fulfillment of the arrangement is dependent on the use of a specific asset; **AND**
- The arrangement conveys a right to use the asset.

In other words, the United Nations should look out for specific assets (see section 6.1.1.1 below) where the United Nations receives substantially all of the output of that asset (see section 6.1.1.2 below). Such arrangements may need to be accounted for as a lease in accordance with IPAS 13 *Leasing*.

The flowchart below illustrates the application of the conditions for determining whether an arrangement is (or contains) a lease.



<sup>14</sup> Determining whether an arrangement contains a lease based on IFRIC 4.

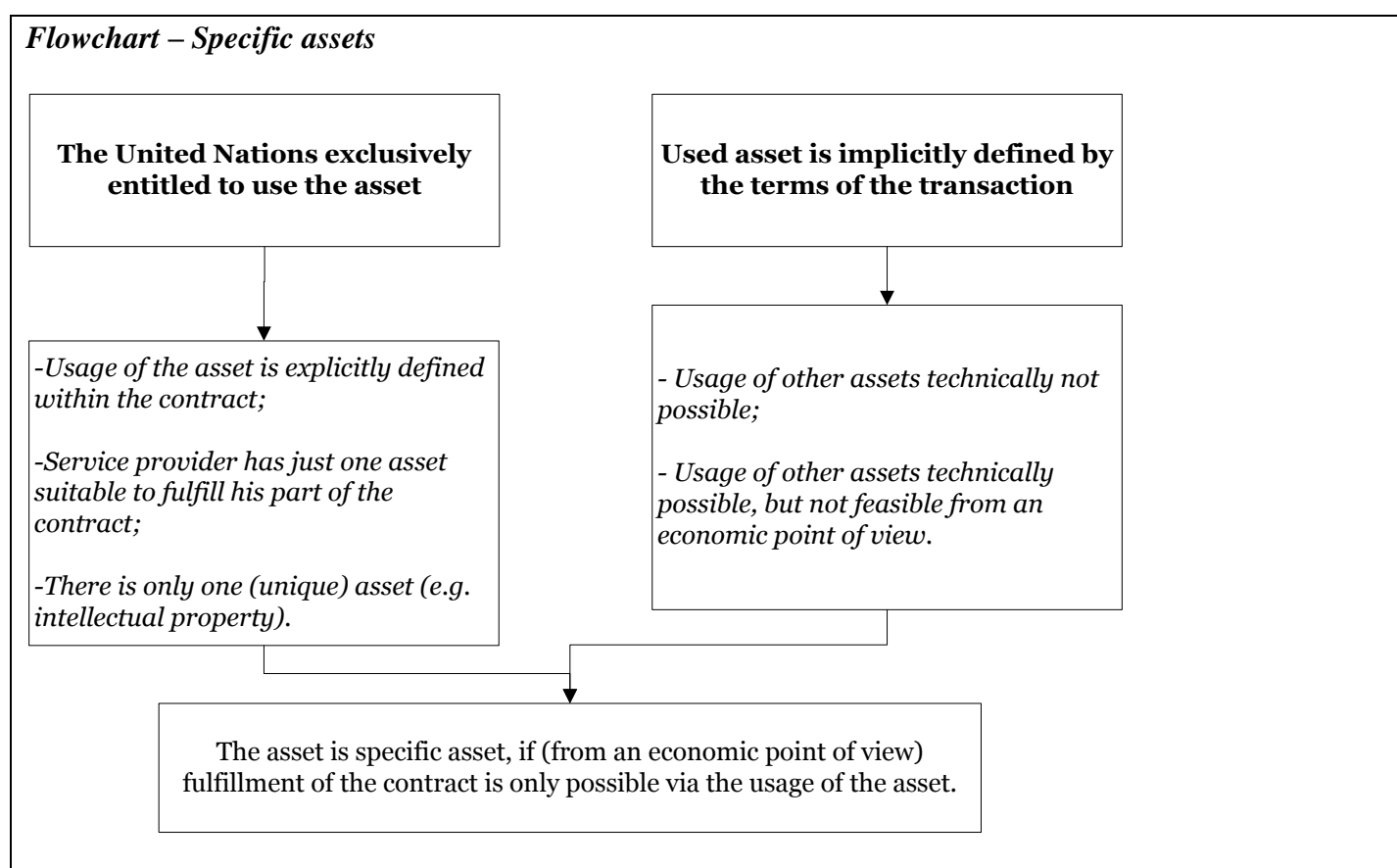
### 6.1.1.1 Fulfillment of the arrangement is dependent on the use of a specific asset

Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfillment of the arrangement is not dependent on the use of the specified asset. For example, if the supplier is obliged to deliver a specified quantity of goods or services and has the right and ability to provide those goods or services using other assets not specified in the arrangement, then fulfillment of the arrangement is not dependent on the specified asset and the arrangement does not contain a lease.

An asset has been implicitly specified if, for example, the supplier owns (or leases) only one asset with which to fulfill the obligation and it is not economically feasible or practicable for the supplier to perform its obligation through the use of alternative assets.

Factors that might impact the assessment of whether it is economically feasible or practical to use alternative assets are the assets' location, the availability of alternative assets, the assets' cost of installation, any interruption to customer service as a result of replacing the assets, whether the replaced assets could be used for other customers and any asset replacement patterns specified in the contract.

Refer to the flowchart below for an illustration of this concept.

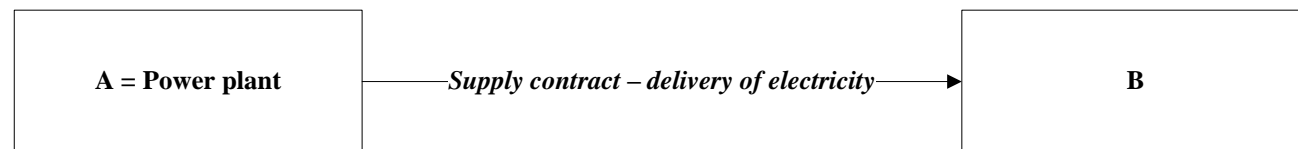


Refer to the flowchart below for an example of how to evaluate an arrangement involving a specific asset.

***Example – Evaluation of the arrangement is dependent on the use of a specific asset***

Entity A enters into an agreement to sell electricity to entity B. In order to fulfill this agreement, entity A builds a power station next to entity B. Entity A does not have access to any other electricity generating assets.

In this case, it is clear that fulfillment of the agreement is dependent on the use of the power station built next to entity B.



Arrangements often contain contractual clauses that are designed to protect the customer. The underlying reason for these clauses are usually to ensure continued provision of goods or services at the end of an arrangement, to protect the customer's interests, through protecting image or data, or to ensure that the assets deliver the appropriate quality and are fit for their purposes. Such clauses will often have the result that the assets governed by them are specific to the arrangement.

#### *6.1.1.2 Arrangement conveys a right to use the asset*

An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee, being the United Nations) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The United Nations (the purchaser) has direct physical control (ability or right to operate) over the asset; **OR**

The ability or right to direct others to operate a specific asset is distinct from adherence to agreed supply terms and goes further than that. Examples of situations where the ability or right to direct has been conveyed to the purchaser are where the purchaser has the ability to hire, fire or replace the operator and the ability to specify significant operating policies and procedures in the arrangement. Also where in respect of just-in-time delivery situations the purchaser has the right to manage and change deliveries on a very short-term basis (for example, daily or hourly); **OR**

- The United Nations controls physical access to the asset; **OR**
- The United Nations takes a significant part of the output and the price the United Nations will pay for the output is **NOT**:
  - Contractually fixed price per unit of output; **OR**
  - Current market price per unit of output as of the time of delivery of the output.

This indicates that the purchaser is effectively paying for the asset's availability, rather than its output. An example of this is where payments made for the asset are based upon when the asset is available for use, rather than on the output generated or consumed.



## 6.2 Subsidized leases

The United Nations may enter into lease agreements that are considered subsidized in nature irrespective of whether or not the agreement so specifies.<sup>15</sup> In essence, these agreements have a subsidized portion, which *offsets* the commercial amount the United Nations would have been required to pay per the lease term.

Subsidized operating leases should recognize the economic impact of the commercial lease terms as operating expense in each period. The subsidized component of the operating lease should be recognized on a straight line basis as revenue, therefore offsetting the expense for the subsidized portion in each period.

If a subsidy is embedded in the agreement and the market equivalent rent can be reliably measured then the following should be recorded:

Operating expense = market equivalent rent;  
 Revenue = embedded subsidy;  
 Net statement of financial position impact = paid rent.

### ***Example – Straight line subsidized lease example***

Leased asset: Building  
 Lease classification: Subsidized operating lease  
 Lease term: 5 years  
 Annual rent: \$250,000  
 Total subsidized amount (for 5 years): \$500,000

See schedule below for example of how subsidized portion of lease will offset commercial amount paid annual and recognized as an expense.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>Operating expense recognized</b>	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
<b>Revenue recognized (annual subsidized portion)</b>	100,000	100,000	100,000	100,000	100,000
Net income statement impact	150,000	150,000	150,000	150,000	150,000

## 6.3 De-facto leases and unsigned agreements

Situations where the United Nations enters into an implied lease agreement, i.e. no formal agreements have been signed by the parties, are referred to as de-facto leases. De-facto leases will be classified as operating leases.

Unsigned agreements refer to situations where formal arrangements have been finalized but, for some reasons, never been signed by the parties. Unsigned arrangements will be classified as operating leases.

<sup>15</sup> Distinction needs to be made between subsidized rate and discounted price which is simply a reduction of the normal price offered by landlord to any tenants (i.e. not necessarily UN agencies) for whatever reason sometimes based on the amount of space occupied by tenants.

#### 6.4 Common premises

The concept of common premises was created in an effort to build closer ties among United Nations agencies and promote a more unified presence at country level in a cost-effective manner.

Example – Common premises outlined in a note by Secretary General

In note by the Secretary General dated June 14, 1991, common premises are outlined as:

**29. The General Assembly, a paragraph 15 (d) of its resolution 44/211, decided "to request all organs, organizations and bodies of the United Nations system to make, without delay, the necessary arrangements, in cooperation with host Governments and without additional cost to developing countries, to establish common premises at the country level, and to request the Director-General to include in his annual report on operational activities information on progress in that area".**

As any other real estate arrangement, common premises arrangements are to be classified as operating or finance leases. In addition to applying the IPSAS classification indicators, consideration may need to be given to the amount of space occupied by the participating agencies in the common premises. For example, assume an agency leases an entire office tower. The agency that leases the original lease occupies 98% of the available space by itself and allows other agencies to occupy small offices (i.e. one room) within the tower. In substance, this agency occupies the entire building and the common premises concept would not be applicable.

As a rule, when none of the agencies occupies more **than 95%** of the total available space, the arrangements are to be classified as operating lease. They can be either commercial or donated “right-to-use” in nature.

Also, particular attention needs to be given to the structure and role of the participating agencies as this may impact the classification and accounting treatment.

Refer to the flowchart below for the determination of common premises.

The analysis of common premise arrangements is based on the terms and conditions of the **head lease** agreement. The arrangement may identify:

- One agency as the primary or lead agency<sup>16</sup>, giving that agency the right to use space and allow other agencies to share the premises, referred to as participating agencies<sup>17</sup>; OR
- All agencies involved as independent common tenants, resulting in joint control.

In the first instance, the arrangement between the lead agency and the participating agencies is expected to be classified as operating since risks and rewards are not generally transferred to the participating agencies.

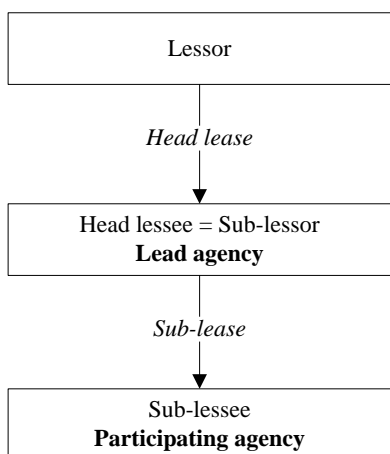
<sup>16</sup> Premises are rented exclusively by the lead agency, because they independently signed the head-lease.

<sup>17</sup> Participating agencies sub-lease space from the lead agency.

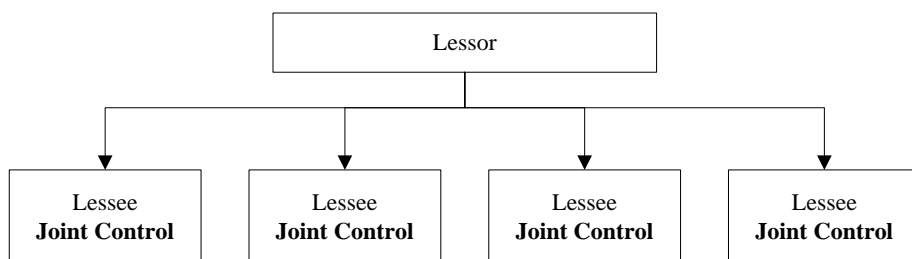
However, when all participating agencies are on the same footage (i.e. they all sign the agreements with the landlord), arrangement can either be classified as operating or finance leases depending on their terms. In the case of a finance lease, the agencies capitalize portions of the building they occupy.

Refer to the flowcharts below for the relationship between agencies under both types of agreements.

***Flowchart – Common premise lease with lead and participating agencies (lessee = tenant)***



***Flowchart – Common premise lease where joint control exists***



When analyzing common premises arrangements, the assessment should be based on the actual use and occupancy of the premises. For example, an arrangement may allow the lead agency to give space out to participating agencies, but initially the space was only occupied by the lead agency. In this case, accounting treatment should be based on the actual use of the building not the initial use by the lead agency.

6.4.1 *Common premise lease (commercial head lease)*

- **Commercial head finance lease (United Nations is tenant) treatment under common premise arrangement**

	<b>Lead agency</b>	<b>Participating agency</b>
<b>Premises are rented by the lead agency exclusively.</b>	Capitalize the preset value of the minimum lease payments (PV{MLP}) of the entire premise, as at the date of acquisition.  Dr PP&E Cr Lease liability	If participating agencies occupy the space rent free, then record rent expense and corresponding revenue for an in-kind contribution for the space occupied. If rent paid, then record the rent they pay as an expense.  Dr Expense Cr Lease liability (rent is paid) or revenue (no rent paid)
<b>Premises are leased jointly by the listed UN agencies.</b>	<b>Joint control</b>	
	UN agencies listed in the agreement capitalize their share of the PV{MLP}. Each agency records:  Dr PP&E Cr Lease liability	

Currently, there are no known common premise arrangements that would qualify as commercial finance leases. In case the UN may have such arrangements in the future, the guidance noted above should be applied.

- Commercial head operating lease treatment under common premise arrangement.

**Example – Commercial operating lease under common premises**
**REAL ESTATE ARRANGEMENT ANALYSIS**  
**Under IPSAS 13**


OCHA T8\_011012\_ Myanmar

OFFICE	OCHA	DUTY STATION	Myanmar - Hakha
FINANCIAL STATEMENT	Volume I	LANDLORD	WFP Myanmar
IPSAS ASSET SUB-CLASS	Building [WFP Common Premises]	LANDLORD ADDRESS:	Myanmar

**REAL ESTATE ARRANGEMENT CLASSIFICATION**  
**JUSTIFICATION**

INCEPTION DATE:	01 January 2012	Arrangement Term: 1 year	COMMENCEMENT DATE:	01 January 2012
EXPIRATION DATE:	31 December 2012		NEW PERIOD:	

**IPSAS Classification Indicators**

Finance								Operating
A finance lease is a lease that transfers substantially all the risks & rewards incidental to ownership of an asset. Title may/ may not be transferred - Indicators, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				
A	B	C	D	E	F	G	H	A lease other than a finance lease
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term ≥75 % of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV ≥ 90% of the fair value)	The leased assets are of such a <b>specialized nature</b> that only the lessee can use them without major modifications	The leased assets <b>cannot easily be replaced</b> by another asset	If the lessee can cancel the lease, the <b>lessor's losses</b> associated with the cancellation are <b>borne by the lessee</b>	<b>Gains or losses</b> from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is <b>substantially lower than market rent</b>	
								X Commercial

**SUPPORTING ARGUMENTS:** Lease is classified as operating (commercial) as none of the finance criteria is met and OCHA pays market rental rate in exchange of the right to use the Premises. Under this arrangement, WFP acts as the lead agency and OCHA as a sub-tenant. OCHA pays MMK 90,000 monthly, which represents 45% of its proportionate share, and WFP pays MMK 110,000 (be 55% of the total monthly rent).

**RELEVANT PROVISIONS:**

**Renewal Option:** None

**Restoration Clause:** Article 6.2 states that OCHA will reimburse to WFP all expenditures incurred in connection with minor alterations to the space allocated for office and will return the office space to the state they found in when occupying it unless WFP agrees to allow the alterations to remain.

**Cancellation Privilege:** Article 11 indicates that "an agency may terminate the arrangements set forth in this MoU, as they apply to it, if it intends to relocate permanently its offices." An Agency seeking to terminate these arrangements shall give at least three months prior written notice of its intention to terminate the arrangement (see also Article 12.2).

It is further indicated in Article 12.5 that if "OCHA decides to close down the office, or to remove it from Myanmar or to change the level of its representation in the country, or changes in the declared security requirements would render the premises untenable as an official OCHA office, or decides to move its office into the United Nations common premises, it shall have the right to terminate this agreement upon giving written notice to the WFP not less than ninety (90) days in advance without the WFP having the right to any payment, other than for rent, to the date OCHA vacates the demises Premises.

**ADDITIONAL COMMENTS**

Lease agreement of the Premises to be reviewed

6.4.2 *Common premise arrangement (donated "right-to-use")*

- **Donated "right-to-use" head finance lease under common premise arrangement with joint control**

**REAL ESTATE ARRANGEMENT ANALYSIS**  
Under IPSAS 13

UNOV T1\_01011979\_ Republic of Austria

OFFICE	UNOV	DUTY	Vienna
FINANCIAL STATEMENT	Volume I	LANDLORD	Republic of Austria
IPSAS ASSET SUB-CLASS	Buildings (VIC)	LANDLORD ADDRESS:	Vienna

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION							
INCEPTION DATE:	29 November 1995	Arrangement Term: 98 years and 8 months	COMMENCEMENT DATE: 01 January 1979 (per UNOV Submissions)				
EXPIRATION DATE:	31 August 2078						
IPSAS Classification Indicators							
Finance							Operating
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred - Indicators, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease			
A	B	C	D	E	F	G	H
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq$ 75 % of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq$ 90% of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
		Donated right-to-use (Nominal)					
<p><b>SUPPORTING ARGUMENTS:</b> This arrangement is classified as finance (donated right-to-use/nominal) as use of the premises has been granted to the occupying UN Agencies at nominal cost (1 Austrian Schilling per annum) for the major part of the economic life of the Buildings (section 4). Article 11 (b) indicates that "the seat of the United Nations in Vienna shall be within the area specified in sub-section (a) and shall not be removed therefrom unless the United Nations should so decide..." <b>This option is considered remote and will not affect the lease term measurement as there is not a reasonable likelihood the UN would remove its seat from Vienna.</b></p> <p>In addition to that, the occupying agencies (i.e. UNOV, UNIDO, IAEA, CTBTO) have joint exclusive control over the premises. And, as indicated in the UN Policy Framework, the UN is expected to capitalize the buildings that it controls and/or portions of the building that it jointly controls at fair value.</p>							
<p><b>RELEVANT PROVISIONS:</b></p> <p><b>Restoration Clause:</b> Under Section 14 of the Arrangement, the UN is not required to restore the seat to its shape and state prior to any alteration (Section 14).</p>							
ADDITIONAL COMMENTS							
<ul style="list-style-type: none"> <li>▪ The Republic of Austria retains ownership over the area constituting the seat of the UN (Section 3, page 775).</li> <li>▪ UNOV may, if acceptable to the Government, let space in the seat of the UN, but the rent must be based on commercial rates and be transferred, except payments received for operational costs, in its entirety to the Government.</li> <li>▪ Section 5 indicates that "alterations which may result in a change of a structural nature or architectural appearance may be carried by the UN, at its own expense and without the right to reimbursement, only after having obtained the consent of the government. Other alterations to the buildings or facilities forming part of the seat of the UN may be carried out by the UN at its expense and without the right to reimbursement."</li> </ul>							

- Donated “right-to-use” head operating lease under common premise arrangement

	Lead agency	Participating agency
The right to use is given to the lead agency exclusively which assumes significant risks and rewards of the transaction and is acting as a principal.	Record expense and corresponding revenue for an in-kind contribution at fair market value of the period’s rent of the entire premises space provided on a right-to-use basis.  Dr Rent expense Dr Grant out Cr Revenue	Record expense and corresponding revenue for an in-kind contribution at fair market value of rent of the space occupied.  Dr Rent expense Cr Revenue
	<b>Joint control</b>	
The right to use is given to all occupying agencies	Record expense and corresponding revenue for in-kind contribution at fair value of rent based on each agency’s portion of space occupied.  Dr Rent expense Cr Revenue	

**Example – Lead agency in donated “right-to-use” head operating lease under common premises**

**REAL ESTATE ARRANGEMENT ANALYSIS**  
Under IPSAS 13

OFFICE		UNISDR	DUTY STATION		Almaty, Kazakhstan
FINANCIAL STATEMENT		Volume I	LANDLORD		UNDP (Lead Agency)
IPSAS ASSET SUB-CLASS		Building (UN House in Almaty)	LANDLORD ADDRESS: 67, Tolebistr, Almaty 050000, Kazakstan		

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION							
INCEPTION DATE:	17 November 2009	Arrangement Term: Open ended	COMMENCEMENT DATE: 17 November 2009				
EXPIRATION DATE:	Open ended						
IPSAS Classification Indicators							
Finance							Operating
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred: Factors, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease			
A	B	C	D	E	F	G	H
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term ≥ 75 % of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to “substantially” all of the fair value of the leased asset (PV ≥ 90% of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor’s losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
							X (In-kind)
SUPPORTING ARGUMENTS: This arrangement pertains to a common premises shared by 12 agencies (UNDP, UNHCR, UNFPA, UNESCO, UNIFEM, UNOCHA, UNAIDS, UNODC, UNDSS, UNDPI, ILO/IPEC, ILO/TCRAM) with UNDP being the lead agency. It is classified as operating (donated right-to-use-in-kind) as the head agreement has been classified as operating by UNDP and use of the premises has been granted for free to the occupying agencies. Open ended: Art 3.0 stipulates that “this MOU shall be effective upon the date of signature by the Parties and shall remain in effect until it is terminated by one or more Parties.”							
RELEVANT PROVISIONS:							
<u>Restoration Clause:</u> None.							
<u>Cancellation Privilege:</u> MoU, in article 9.3, indicates that “a service user (i.e. participating agency) may withdraw from this MOU with written notice of not less than three months to the Service Provider/Manager and the other Service Users (remote contingency, therefore does not affect the lease term calculation).”							
ADDITIONAL COMMENTS							
<ul style="list-style-type: none"> <li>• <b>Ownership, Recording and Disposition of Assets:</b> All assets acquired for the purposes of the Common Services arrangements shall be recorded as such by the Service provider in that Agency’s asset inventory records and the Service Users (participating agencies) shall retain part ownership of such assets in proportion to their financial contributions.</li> <li>• It is unclear from the language of the MoU whether UNDP owns the premises or not. UNISDR to provide underlying agreement between the government and UNDP, if possible, as it may contain provisions that may impact the financial statements.</li> </ul>							

**Example – Jointly controlled donated “right-to-use” operating lease under common premises****REAL ESTATE ARRANGEMENT ANALYSIS**  
**Under IPSAS 13**

UNISDR T4\_050604\_Bonn, Germany

OFFICE UNISDR DUTY STATION Bonn, Germany  
 FINANCIAL STATEMENT Volume I LANDLORD Gov of the Federal Republic of Germany  
 IPSAS ASSET SUB-CLASS Building ( Common Premises – UNBONN Premises) LANDLORD ADDRESS: Martin-Luther King

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCEPTION DATE:	01 January 2012	Arrangement Term: Open-ended						
EXPIRATION DATE:	Open-ended							
IPSAS Classification Indicators								
Finance							Operating	
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred: Factors, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				A lease other than a finance lease
A	B	C	D	E	F	G	H	
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	
								X (In-kind)
<p><b>SUPPORTING ARGUMENTS:</b> This arrangement is classified as operating (donated right-to-use-in-kind). It pertains to the UNBONN premises whose use has been granted at no cost to UN agencies by government of Germany. Approximately 14 UN agencies occupy the premises (UNV, UN Framework Convention on Climate Change- UNFCCC, the Secretariat of the UN Framework Convention to Combat Desertification-UNCCD, the International Centre for Technical and Vocational Education and Training-UNESCO-UNEVOC, WHO, UNEP(CMS, ASCOBANS, EUROBATS), UNESCO, UNISDR-PPEW, UNU, UNOOSA/UN-SPIDER) including UNDP whose administrator has been delegated by the Secretary-General of the United Nations to be responsible for the coordination and management of the UNBONN Premises.</p> <p>Article 2 stipulates that "No Organization shall be obligated to vacate or relinquish its UN Organization Assigned Areas or any portions thereof, or to accept relocation to other areas within or outside of the UNBONN Premises without the prior written consent of its representative in the country"</p>								
<p><b>RELEVANT PROVISIONS:</b></p> <p><b>Renewal Option:</b> None as arrangement is open-ended.</p> <p><b>Cancellation Privilege:</b> Article 10 indicates that "an organization seeking to terminate such arrangements shall give at least six months prior written notice of its intention to do so to the UN Representative through the Executive Coordinator of UN." And section 2 indicates that "the withdrawing Organization shall continue to be financially responsible for ensuring the payment of its portion of the costs for the Common Services and other costs and expenses determined by the relevant Articles of this MOU, its proportionate share of the UN Common Assigned Areas, as well as its proportionate share of the UN Organizations Assigned Areas for a period of 12 months after notice was given by the withdrawing Organization."</p> <p><b>Restoration Clause:</b> None indicates in the MoU.</p>								
ADDITIONAL COMMENTS								
This agreement is supplemented by a premise agreement which governs the occupancy and use of the UNBONN premises.								



- **Field Missions (SPMs and PKs) Context**

The concept of common premises does not apply in the context of field missions. However, it happens quite often that host governments give use and occupancy of assets to missions, which, in turn, sublease the assets to other missions for free or other UN entities for a fee. The accounting entries are essentially the same:

Lead mission allows other mission(s) to share the given space for free:

	<b>Lead Mission</b>	<b>Participating Mission (s)</b>
<b>The right-to-use the assets is given to the lead mission exclusively which assumes significant risks and rewards of the transaction and is acting as a principal.</b>	Record expense and corresponding revenue for an in-kind contribution at fair market value of the period's rent of the entire premises space provided on a right-to-use basis.	Record expense and corresponding revenue for an in-kind contribution at fair market value of rent of the space occupied.
	Dr Rent expense Dr Grant out Cr Revenue	Dr Rent expense Cr Revenue

Lead mission subleases the given space for a fee to other mission(s):

	<b>Lead Mission</b>	<b>Tenant (s)</b>
<b>The right-to-use the assets is given to the lead mission exclusively which in turn subleases the assets to other UN entities for a fee.</b>	Record expense and corresponding revenue for an in-kind contribution at fair market value of the period's rent of the entire premises space provided on a right-to-use basis.	Record rent paid to lease agency as rental expense.
	Dr Rent expense Cr Revenue  Rent recovered: Dr Receivable Cr Revenue	Dr Rent expense Cr Liability

Lead mission sometimes rents the space for a fee and subleases portions of the space to other mission (s):

	<b>Lead Mission</b>	<b>Tenant (s)</b>
<b>Lead mission signs the lease and bears all the risks related to the lease and subleases the lease to other missions (tenants).</b>	Record full amount of rent paid to third party as an expense and record the portion of rent recovered from the participating agencies as revenue.	Record rent paid to lead agency as rental expense.
	<i>Rent paid:</i> Dr Rent expense 100 Cr Liability 100 <i>Rent recovered:</i> Dr Receivable 60 Cr Revenue 60	Dr Rent expense 60 Cr Liability 60

## 6.5 Shared premises vs. common premises

Not all shared premises are qualified as common premises. The UN sometimes allows other UN agencies to use and occupy its owned property for a certain period of time in return for payments (commercial leases) or no payment (donated right-to-use). The occupant agencies are tenants of the UN. These arrangements are more likely to be classified as operating leases as risks and rewards are not generally transferred to the tenants. However, each agreement should be considered on an individual basis to assess the length and nature of the agreement before a final determination can be made.

See below for an example of a lease that pertains to a shared premise.

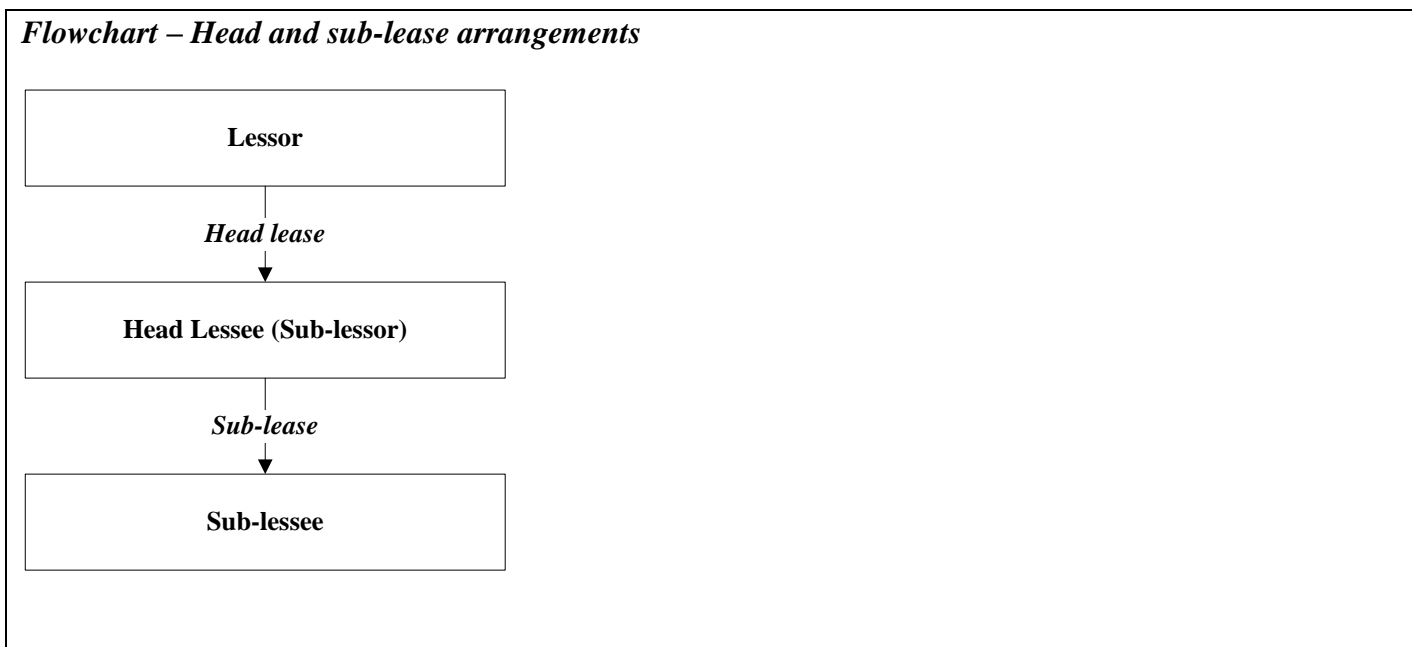
REAL ESTATE ARRANGEMENT ANALYSIS Under IPSAS 13							
ESCAP L18_01012012_Bangkok, Thailand							
OFFICE	ESCAP			DUTY STATION	Bangkok, Thailand		
FINANCIAL STATEMENT	Volume I			TENANT/ LESSEE	The Siam Commercial Bank		
IPSAS ASSET SUB-CLASS	Building (UNESCAP Service Building)			LANDLORD:	ESCAP - Ratchadamnoen Nok Ave Bangkok 10200, Thailand		
REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION							
INCEPTION DATE:	1 January 2012		Arrangement Term: 1 year	COMMENCEMENT DATE: 1 January 2012			
EXPIRATION DATE:	31 December 2012			NEW PERIOD			
IPSAS Classification Indicators							
Finance							Operating
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred - Factors, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease			
A	B	C	D	E	F	G	H
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term ≥ 75 % of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV ≥ 90% of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
							***Land is classified as "operating" unless title is transferred to the UN  X commercial
SUPPORTING ARGUMENTS: This arrangement is classified as operating commercial as it does not meet the criteria of a finance lease. The annual rent charged to the tenant is fixed at USD 79,870 payable in two equal installments of USD 39,935.00.							
RELEVANT PROVISIONS: <b>Renewal Options:</b> The lessee shall have the option to renew the lease for a term of no more than 1 year under the same terms and conditions except for the rent which shall be adjusted within the agreed limits on the basis of the rate of increase or decrease of the official consumer price index in Bangkok, Thailand or such other index as the Parties may agree. <b>Restoration Clause:</b> "Where minor alterations, renovations or additions are made on the Demised Premises, the Lessee, at the request of the Lessor, shall restore the Demised Premises to the same condition as that existing at the time prior to which such minor alterations, renovations or additions were made, reasonable wear and tear and damage by the elements or by circumstances over which the Lessee has no control, excepted" (art.6, p. 4). "Exceptions are made for the removal of such trade and special fixtures installed by the Lessee for commercial purposes at or before the expiration of the Lease provided that the Lessee shall repair and make good all damage caused to the Demised Premises or any part thereof by such removal" (art. 6 – <i>ajnsac</i> ).							
ADDITIONAL COMMENTS							
Termination Rights/Cancellation Privilege: In the event ESCAP decides to close down the office of its Representative in Thailand, or to remove it, or to change the level of the representation in the Thailand, ESCAP shall have the right to terminate the lease upon giving notice to the Lessee not less than 30 days in advance without the Lessee having the right to any payment other than for refund of advance payment.							

## 6.6 Sub-leases

In sub-lease agreements the following parties are identified:

- Lessor;
- Head lessee (acts as sub-lessor);
- Sub-lessee.

See flowchart below for an illustration of sub-lease arrangements.



Classification of sub-lease by sub lessee depends on the classification of the **head lease** by the head lessee.

- Where the **head lease** is an operating lease, the **sub-lease** must also be an operating lease.
- Where the **head lease** is a finance lease, the **sub-lease** could be either a finance lease **OR** an operating lease.
  - Where the sub-lease is an operating lease, the sub-lessor will retain both the leased asset and the lease liability on the statement of financial position with respect to the finance head lease;
  - Where the sub-lease is a finance lease, the sub-lessor (head lessee) will derecognize the lease asset and recognize a lease receivable in respect of the finance sub-lease. The finance lease liability is retained in the books of the sub-lessor (or head-lessee).

In sections 6.4.1 and 6.4.2, treatment of agreements under common premise arrangements is outlined. Agreements in which the head lease is signed by a lead agency, a sub-lease between the lead agency and a participating agency is thus created.

## 6.7 Symmetry accounting

All lease arrangements entered into by the United Nations should be analyzed on an independent and individual basis regardless of other UN agencies' determination. Ideally, joint control arrangements should be treated the same way by all participating agencies. However, if a contradictory classification is obtained (i.e. head lease has been classified as an operating lease and sub-lease has been assessed as a finance lease), the situation should be elevated to the Director of Accounts Division.

## 7 Disclosures requirements

### 7.1 Lessee accounting

#### 7.1.1 Finance lease

In respect to commercial finance lease, the following information is to be disclosed in a lessee's financial statements:

- For each class of asset, the net carrying amount at the statement of financial position date.
- Reconciliation between the total of future minimum lease payments at the statement of financial position date and their present value. In addition, an entity should disclose the total of future minimum lease payments at the statement of financial position date, and their present value, for each of the following periods:
  - Not later than one year;
  - Later than one year and not later than five years; and
  - Later than five years.

Refer to the follow example for a sample reconciliation disclosure.

<i>Example – Finance lease disclosure (lessee)<sup>18</sup></i>		20X2	20X1
	2012	2011	
Gross finance lease liabilities– minimum lease payments:			
No later than 1 year	2,749	3,203	
Later than 1 year and no later than 5 years	6,292	7,160	
Later than 5 years	2,063	2,891	
	<b>11,104</b>	13,254	
Future finance charges on finance lease liabilities	<b>(2,106)</b>	(2,656)	
<b>Present value of finance lease liabilities</b>	<b>8,998</b>	10,598	
The present value of finance lease liabilities is as follows:		<b>20X2</b>	<b>20X1</b>
	2012	2011	
No later than 1 year	2,192	2,588	
Later than 1 year and no later than 5 years	4,900	5,287	
Later than 5 years	1,906	2,723	
	<b>8,998</b>	10,598	

<sup>18</sup> Figures determined for illustrative purposes.

- Contingent rents recognized as an expense in the period.
- The total of future minimum sub-lease payments expected to be received under non-cancellable subleases at the statement of financial position date.
- A general description of the lessee's material<sup>19</sup> leasing arrangements including, but not limited to, the following:
  - The basis on which contingent rent payments are determined;
  - The existence and terms of renewal or purchase options and escalation clauses; and
  - Restrictions imposed by lease arrangements, such as those concerning additional debt and further leasing.

### 7.1.2 Operating lease

In respect to commercial operating leases, the following information needs to be disclosed in a lessee's financial statements:

- The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
  - Not later than one year;
  - Later than one year and not later than five years; and
  - Later than five years.

Refer to the example below for a sample operating lease disclosure.

#### ***Example – Operating lease disclosure (lessee)<sup>20</sup>***

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	20X2	20X1
No later than 1 year	11,664	10,604	
Later than 1 year and no later than 5 years	45,651	45,651	
Later than 5 years	15,710	27,374	
<b>Total</b>	<b>73,025</b>	<b>83,629</b>	

- The total of future minimum sub-lease payments expected to be received under non-cancellable subleases at the statement of financial position date.
- Lease and sub-lease payments recognized as an expense for the period, with separate amounts for minimum lease payments, contingent rents and sublease payments.
- A general description of the lessee's **significant**<sup>21</sup> leasing arrangements including, but not limited to, the following:

<sup>19</sup> Refer to corporate guidance on materiality.

<sup>20</sup> Figures determined for illustrative purposes.

- The basis on which contingent rent payments are determined;
- The existence and terms of renewal or purchase options and escalation clauses; and
- Restrictions imposed by lease arrangements, such as those concerning return of surplus;
- Restrictions imposed by lease arrangements, such as those concerning additional debt and further leasing.

## 7.2 Lessor accounting

### 7.2.1 Finance lease

In respect of finance leases, the following information is required to be disclosed in a lessor's financial statements:

- Reconciliation between the gross investment in the lease at the statement of financial position date, and the present value of the minimum lease payments receivable at the statement of financial position date. In addition, a lessor should disclose the gross investment in the lease and the present value of the minimum lease payments receivable at the statement of financial position date for each of the following periods:
  - Not later than one year;
  - Later than one year and not later than five year; and
  - Later than five years.

Refer to the example below for a sample lessor finance lease disclosure.

<b>2012</b>		<b>2011</b>		<b>20X2</b>		<b>20X1</b>	
<b>Example – Sample finance lease disclosure (lessor)<sup>22</sup></b>							
Gross receivables from finance leases:							
– No later than 1 year		1,336		316			
– Later than 1 year and no later than 5 years		1,810		630			
– Later than 5 years		–		–			
		<b>3,146</b>		<b>946</b>			
Unearned future finance income on finance leases		(362)		(136)			
<b>Net investment in finance leases</b>		<b>2,784</b>		<b>810</b>			
The net investment in finance leases may be analysed as follows:							
No later than 1 year		1,196		278			
Later than 1 year and no later than 5 years		1,588		532			
Later than 5 years		–		–			
		<b>2,784</b>		<b>810</b>			

<sup>21</sup> Refer to corporate guidance on materiality.

<sup>22</sup> Figures determined for illustrative purposes.

- Unearned finance revenue (i.e. the difference between the gross investment in the lease and the net investment in the lease).
- The unguaranteed residual values accruing to the benefit of the lessor.
- The accumulated allowance for uncollectible minimum lease payments receivable.
- Contingent rents recognized in income in the period.
- A general description of the lessor's **material**<sup>23</sup> leasing arrangements.

### 7.2.2 Operating lease

In respect of commercial operating leases, the following information is required to be disclosed in a lessor's financial statements:

- The future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:
  - Not later than one year;
  - Later than one year and not later than five years; and
  - Later than five years.

Refer to example below for a sample lessor operating lease disclosure.

#### ***Example – Sample operating lease disclosure (lessor)***<sup>24</sup>

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2012	20X2	20X1
No later than 1 year	12,920	12,920	
Later than 1 year and no later than 5 years	41,800	41,800	
Later than 5 years	840	10,840	
	55,560	65,560	

- Total contingent rents recognized in statement of financial performance in the period.
- A general description of the **significant**<sup>25</sup> lessor's leasing arrangements.

<sup>23</sup> Refer to corporate guidance on materiality.

<sup>24</sup> Figures determined for illustrative purposes.

<sup>25</sup> Refer to corporate guidance on materiality.

## 8 Workflow changes related to IPSAS implementation

The following steps illustrate the process and decisions necessary to appropriately classify and account for lease agreements entered into by the United Nations. Applying these procedures across the United Nations will lead to a comprehensive and consistent approach of reviewing, classifying, and accounting for leases.

### 8.1 Identify lease contracts

First, it is important to identify leasing arrangements and confirm documented agreements are in place for all arrangements, these agreements include:

- Equipment leases;
- Real estate leases;
- Donated “right-to-use” arrangements (in-kind or nominal lease);
- Status of Forces Agreement “SOFA” / Status of Mission Agreement “SOMA” arrangements;
- Common premises arrangements; and
- Shared premises arrangements

### 8.2 Review of lease agreement

Prior to determining lease classification, a review of leasing agreements should be completed. Appropriate classification is the result of an effective review and analysis, which requires collecting sufficient and appropriate information from the offices.

The review initially begins with collection of lease data (existing and new agreements), which will typically be performed by facilities management, engineering or Self Accounting Unit “SAUs.” A lease data template has been developed by the IPSAS team in order to streamline lease documentation across entities, and highlight specific information that is necessary to determine appropriate lease classification. The template captures the following information:

- Legal document ID number;
- Landlord (lessor) or Tenant name and address;
- Type of arrangement/lease; equipment lease, real estate lease, donated “right-to use” arrangement (in-kind or nominal lease), SOFA/SOMA, shared premises arrangements, common premises arrangements;
- Inception date (the earlier of the signature dates);
- Expiration date (initial expiration date);
- Lease term;
- Commencement date (the date the UN is entitled to exercise its right to use the asset)
- New period;
- Rent amount;
- Intended use of leased assets;
- Fair value of leased asset (if mentioned in the lease agreement);
- Relevant provisions and clauses, such as:
  - Renewal options;
  - Escalation clause (increase in lease rents over time due to inflation);



- Restoration clause (i.e. requirement to bring land to original condition, in which case details of original state need to be documented);
- Cancellation clauses;
- Any bargain purchase option, if applicable.

**Example – Lease data template**

REAL ESTATE ARRANGEMENT ANALYSIS Under IPSAS 13								
10MIL/CON/378_Amdt1								
OFFICE	UNMIL	DUTY STATION		LIBERIA				
FINANCIAL STATEMENT	Volume II	LANDLORD		Rebecca Taylor				
IPSAS ASSET SUB-CLASS	Land	LANDLORD ADDRESS: <u>Kpandonon Town, Foya City, Lofa County, Liberia</u>						
REAL ESTATE ARRANGEMENT CLASSIFICATION								
INCEPTION DATE	1 August 2009	Arrangement Term: 2 years		DATE:	1 August 2011			
EXPIRATION DATE	31 July 2011	NEW PERIOD: 1 August 2011 - 31 July 2013						
IPSAS Classification Indicators								
A finance lease is a lease that transfers substantially all the risks & rewards incidental to ownership of an asset (Title may/ may not be transferred - Principal Indicators, Individually or in Combination, That Lead to Finance Lease						Other Factors That May Indicate a Finance Lease		Operating
A	B	C	D	E	F	G	H	
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	***Land is classified as "operating" unless title is transferred to the UN.
								X (Commercial)
SUPPORTING ARGUMENTS: The lease is classified as <u>operating commercial</u> as title has not been transferred to UNMIL. Per the UN Policy Framework, land is classified as "operating" unless title is transferred to the UN at the end of the lease term.								
RELEVANT PROVISIONS:								
<u>Renewal Option:</u> This is a 2 year lease with options to renew for further periods of 2 years (1 August 2011 to 31 July 2013) and 1-year (1 August 2013 to 31 July 2014).								
<u>Restoration Clause:</u> N/A as article 7.3 of the lease states that "the Lessee shall not be required to reinstate the Premises to the same condition they were in at the commencement date."								
<u>Cancellation Privilege:</u> In the event of breach by one of the Parties of an essential provision or provisions of the Lease Agreement, the other Party may for valid cause terminate the Lease Agreement upon 30 days written notice to the Party in default, stating the reason for the termination. Also, notwithstanding the foregoing provisions concerning termination, in the event that the Government or relevant authorities make arrangements for the provision of the Premises or alternatively suitable premises to the Lessee free of charge or if there is lack of funding or the mandate of UNMIL is terminated by the Security Council, the Lessee shall have the right to terminate this lease agreement upon 30 days written notice to the lessor.								
ADDITIONAL COMMENTS								
Under the current amendment, the fixed rent is US\$ 150 per month – all other terms and conditions of the original contract remain unchanged.								

Special attention should be given to the identification of the following arrangements:

- Donated "right-to-use" arrangements (refer to section 5);
- Common Premises arrangements (refer to section 6.4)
- Shared Premises arrangements (refer to section 6.5);
- Embedded leases (refer to section 6.1);
- De-facto leases (refer to section 6.3).

For all shared premises, the United Nations should ensure that proper documentation (MOU/ agreement) is in place which should include details on any cost-sharing arrangements agreed upon by the parties.

### 8.3 Lease classification

Once the lease data template has been compiled and review of the information completed, classification as either finance or operating lease can be made. This determination is made by applying the IPSAS 13 *Leasing* corporate guidance (refer to section 3) presented herewith in to the terms of the agreements.

### 8.4 Accounting for leases (lessee)

#### 8.4.1 Finance lease

##### **Measurement at initial recognition**

- PPE and lease liability measured at PV{MLP}. A discount rate needs to be determined from the lease contract (interest rate implicit in the lease). However, since the United Nations does not borrow money from external sources, the opportunity cost of rate of return earned on cash pool holdings should be used.
- Donated "right of use" arrangements classified as finance lease: determine the fair value.

##### **Subsequent measurement**

- Asset: Determine the depreciation period (shorter of useful life or lease term);
- Liability: Each lease payment must be apportioned between finance expenses (interest charge) and reduction of the outstanding liability (capital).

##### **Disclosure requirements**

- All information has to be compiled in order to comply with the disclosure requirements (refer to section 7.1.1).
- For example: a reconciliation between the total of future MLP and their present value and disclose the future MLP (and their present value) broken down into 1 year, 1 to 5 years, and more than 5 years buckets.

#### 8.4.2 Operating lease

##### **Measurement (straight lining)**

- Create worksheets that support the straight-line basis of calculation.
- Donated "right of use" arrangements classified as operating leases: determine the fair value of rental equipment.
- Straight-lining template:



Straight lining  
template

##### **Disclosure requirements**

- Make sure that all information is compiled in order to comply with the disclosure requirements. For example: disclose the future MLP broken down into 1 year, 1 to 5 years, and more than 5 years buckets.

## 9 Appendices

### 9.1 Equipment finance lease (lessee)

#### Terms

**Asset:** Mercedes Vehicle

**Fair value:** \$50,000

**Lease term:** 5 years, \$10,000/yr

**Useful and economic life:** 6 years

**Interest rate implicit in the lease:** 2%

**Present value of the minimum lease payments:** \$47,135

**No bargain purchase option or transfer of title at end of lease term**

Date	Lease liability at the beginning of the year	Lease payments	Capital	Interest	Lease liability at the end of the year
Year 1	47,135	10,000	9,057	943	38,077
Year 2	38,077	10,000	9,238	762	28,839
Year 3	28,839	10,000	9,423	577	19,416
Year 4	19,416	10,000	9,612	388	9,804
Year 5	9,804	10,000	9,804	196	-
<b>Total</b>		<b>50,000</b>	<b>47,134</b>	<b>2,866</b>	

#### Lease classification

<i>Lease term &gt; than 75% of useful life?</i>	Yes	83%	= $[5/6]$
<i>Present value of the minimum lease payments (PV{MLP}) &gt; than 90% of fair value?</i>	Yes	94%	= $[47,135/50,000]$
<i>PV{MLP} &gt; Threshold</i>	Yes		

Lease classification: **Finance lease.**

#### Present value calculation

	Commencement	End of Year 1	End of Year 2	End of Year 3	End of Year 4	End of Year 5
<b>Asset</b>	\$ 47,135	\$ 37,708	\$ 28,281	\$ 18,854	\$ 9,427	\$ -
	= $[PV(2\%,5,10,000)]$	= $[47,135-9,427]$	= $[37,708-9,427]$	= $[28,281-9,427]$	= $[18,854-9,427]$	= $[9,427-9,427]$
<b>PV of the minimum lease payments (PV{MLP})</b>	\$ (47,135)	\$ (38,077)	\$ (28,839)	\$ (19,416)	\$ (9,804)	\$ -
	= $[PV(2\%,5,10,000)]$	= $[(-47,135)+(10,000-943)]$	= $[(-38,077)+(10,000-762)]$	= $[(-28,839)+(10,000-577)]$	= $[(-19,416)+(10,000-388)]$	= $[(-9,804)+(10,000-196)]$
<b>Interest Expense</b>	\$ 943	\$ 762	\$ 577	\$ 388	\$ 196	
	= $[47,135*0.02]$	= $[38,077*0.02]$	= $[28,839*0.02]$	= $[19,416*0.02]$	= $[9,804*0.02]$	

**Depreciation calculation**

<b>Annual depreciation</b>	<b>\$ 9,427</b> <small>=<math>[47,135/5]</math></small>
----------------------------	---

As there is no certainty that the lessee will obtain legal ownership by the end of the lease term the asset is fully depreciated over the shorter of the lease term (**5 years**) or its useful life (6 years).

**Journal Entries*****Commencement of Lease***

Dr. PP&E Vehicle	\$ 47,135		
Cr. Lease liability - Short Term		\$ (9,057)	
Cr. Lease liability - Long Term		\$ (38,077)	

***Annual Entries***

	Year 1		Year 2		Year 3		Year 4		Year 5	
Dr. Depr. Exp	\$ 9,427		\$ 9,427		\$ 9,427		\$ 9,427		\$ 9,427	
Cr. Accum Depr - Vehicle	\$ (9,427)		\$ (9,427)		\$ (9,427)		\$ (9,427)		\$ (9,427)	
Dr. Lease liability - Long Term	\$ 9,238		\$ 9,423		\$ 9,672		\$ 9,804			
Cr. Lease liability - Short Term	\$ (9,238)		\$ (9,423)		\$ (9,672)		\$ (9,804)			
Dr. Lease liability - Short Term	\$ 9,057		\$ 9,238		\$ 9,423		\$ 9,612		\$ 9,804	
Dr. Interest expense	\$ 943		\$ 762		\$ 577		\$ 388		\$ 196	
Cr. Cash (Lease payment)	\$ (10,000)		\$ (10,000)		\$ (10,000)		\$ (10,000)		\$ (10,000)	

**Disclosures*****At end of Year 1***

	<b>Year 1</b>
Gross finance lease liabilities– minimum lease payments:	
No later than 1 year	10,000
Later than 1 year and no later than 5 years	30,000
Later than 5 years	-
	<b>40,000</b>
Future finance charges on finance lease liabilities	(1,923)
<b>Present value of finance lease liabilities</b>	<b>38,077</b>

The present value of finance lease liabilities is as follows:

	<b>Year 1</b>
No later than 1 year	9,238
Later than 1 year and no later than 5 years	28,839
Later than 5 years	-
	<b>38,077</b>

## 9.2 Commercial operating lease (lessor)

### Terms

**Asset:** Building (Gigiri Complex, Nairobi)

**Landlord:** UNON

**Lessee:** UNSACCO

**Lease term:** 8 years 5 months

**Inception date:** 1 January 2005

**Rent:** \$90 per sq meter (market rent)

**Renewal:** Both parties agree

**Classification:** Operating

Given the lease term is significantly lower than the assets useful life, the classification for this lease is deemed to be operating.

### Journal entries

<i>Year- end entry</i>	<u>31 December 2005</u>
	\$
Dr. Rent receivable / cash	24,437
	\$
Cr. Revenue	24,437

### Disclosures

The future minimum lease payments under non-cancellable operating leases are as follows:

	<u>31 December 2005</u>
No later than 1 year	24,437
Later than 1 year and no later than 5 years	73,311
Later than 5 years	83,493
	<u>181,241</u>

**Lease classification summary****REAL ESTATE ARRANGEMENT ANALYSIS  
Under IPSAS 13**

UNON L50\_01012005\_ Nairobi, Kenya

OFFICE: UNON DUTY STATION: Nairobi Kenya  
 FINANCIAL STATEMENT: Volume I TENANT/ LESSEE: UNSACCO  
 IPSAS ASSET SUB-CLASS: Building (Gigiri Complex) LANDLORD: Nairobi, Kenya, UN Avenue – Gigiri Complex

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCEPTION DATE:	6 November 2008	Arrangement Term: 8 years 5 months	COMMENCEMENT DATE:	1 January 2005				
EXPIRATION DATE:	31 May 2013		NEW PERIOD:					
IPSAS Classification Indicators								
Finance							Operating	
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred - Factors, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				A lease other than a finance lease
A	B	C	D	E	F	G	H	
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq$ 75 % of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq$ 90% of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	***Land is classified as "operating" unless title is transferred to the UN
								X commercial
SUPPORTING ARGUMENTS: This arrangement is classified as operating commercial as it does not meet the criteria of a finance lease and UNON charges UNSACCO (the tenant) market rental rate. The annual rent paid by UNSACCO is USD 90 per square meter (24,437.70) payable annually in advance.								
RELEVANT PROVISIONS: <b>Renewal Options:</b> UNON may, (within 90 days prior to the completion of the amortization period), extend the contract for an additional term of 5 years, subject to mutual agreement by the parties. If either party does not wish to renew the Lease, it shall express its wish by giving notice of termination in writing not less than 90 days prior to the expiration of the contract. <b>Restoration Clause:</b> None								
ADDITIONAL COMMENTS								
<b>Rent:</b> The total rent shall be amortized effective 01 Jan 2005, for a period of 8 years and 5 months, to offset the cost of construction undertaken by the Bank amounting to USD 208,781.14 (equivalent to Kes. 13,925,702.00). <b>NB:</b> The inception date is defined as the date of commitment by the parties to the principal provisions of the lease which is, in general, the earlier of the date of the lease agreement. However, in this case, the inception is determined to be 1 January 2005 as access to the property was granted to UNSACCO at this time. It is therefore reasonable to assume, although the agreement was signed on 6 November 2008, that the parties mutually agreed on the terms and conditions before the date of the signature of the agreement.								

### 9.3 Donated “right-to-use” finance lease (lessee), VIC

#### Terms

**Asset:** Building (VIC, Vienna)

**Lessor:** Austrian Government

**Lease term:** 98 years 8 months

**Cancellation clause:** Considered remote

**Shared space:** Yes (UNOV, UNIDO, IAEA, CTBTO share the building)

**Classification:** Finance

A finance lease classification is triggered by the 98 year lease term in the donated “right-to-use” arrangement of the VIC building in Vienna.

Other terms of the lease also need to be analyzed before determining accounting treatment. Specifically, the summary indicates the building is shared with other agencies. Since this is a donated “right-to-use” space and not owned by the United Nations, refer to the common premises section of the guidance. Note that the arrangement between the participating agencies and the government of Austria is under Joint Control.

The treatment of donated “right-to-use” finance head leases under common premises is outlined in section 6.4 above:

	<b>Joint control</b>
<b>Premises are donated to the occupying UN agencies.</b>	UN agencies listed in the agreement capitalize their share of the fair value of the donated “right-to-use”.
	Dr PP&E Cr Deferred Revenue

The fair value of the “right-to-use” must be determined using the guidelines outlined in the corporate guidance (refer to section 5).

#### Journal entries

<i>Commencement of the lease term</i>	
<b>January 1979</b>	
Dr. Building	Share of the fair value donated "right-to-use"
Cr. Deferred Revenue	Share of the fair value donated "right-to-use"
<i>Year end entry</i>	
<b>31 December</b>	
Dr. Depreciation expense	Fair value donated "right-to-use" / shorter of useful life or lease term
Cr. Accumulated depreciation: building	Fair value donated "right-to-use" / short of useful life or lease term

Dr. Deferred revenue

Fair value donated "right-to-use"/shorter of useful life or lease term

Cr. Revenue

Fair value donated "right-to-use"/shorter of useful life or lease term

**Disclosures**

As this is a donated "right-to-use" arrangement, the present value of future lease liabilities is zero and does not require disclosure. The carrying value of the "right-to-use" / leased building (classified as a finance lease) included in the PP&E line of the statement of financial position should be disclosed in the notes.

**Lease classification summary**

**REAL ESTATE ARRANGEMENT ANALYSIS**  
Under IPSAS 13

UNOV T1\_01011979\_ Republic of Austria

OFFICE	UNOV	DUTY	Vienna					
FINANCIAL STATEMENT	Volume I	LANDLORD	Republic of Austria					
IPSAS ASSET SUB-CLASS	Buildings (VIC)	LANDLORD ADDRESS:	Vienna					
REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCEPTION DATE:	29 November 1995	Arrangement Term:	98 years and 8 months					
EXPIRATION DATE:	31 August 2078	COMMENCEMENT DATE:	01 January 1979 (per UNOV Submissions)					
IPSAS Classification Indicators								
Finance							Operating	
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred - Indicators, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				A lease other than a finance lease
A	B	C	D	E	F	G	H	
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	***Land is classified as "operating" unless title is transferred to the UN at the end of the lease term.
		Donated right-to-use (Nominal)						
<p><b>SUPPORTING ARGUMENTS:</b> This arrangement is classified as finance (donated right-to-use/nominal) as use of the premises has been granted to the occupying UN Agencies at nominal cost (1 Austrian Schilling per annum) for the major part of the economic life of the Buildings (section 4). Article 11 (b) indicates that "the seat of the United Nations in Vienna shall be within the area specified in sub-section (a) and shall not be removed therefrom unless the United Nations should so decide..." <u>This option is considered remote and will not affect the lease term measurement as there is not a reasonable likelihood the UN would remove its seat from Vienna.</u></p> <p><u>In addition to that, the occupying agencies (i.e. UNOV, UNIDO, IAEA, CEBIQ) have joint exclusive control over the premises. And, as indicated in the UN Policy Framework, the UN is expected to capitalize the buildings that it controls and/or portions of the building that it jointly controls at fair value.</u></p>								
<p><b>RELEVANT PROVISIONS:</b></p> <p><b>Restoration Clause:</b> Under Section 14 of the Arrangement, the UN is not required to restore the seat to its shape and state prior to any alteration (Section 14).</p>								
ADDITIONAL COMMENTS								
<ul style="list-style-type: none"> <li>▪ The Republic of Austria retains ownership over the area constituting the seat of the UN (Section 3, page 775).</li> <li>▪ UNOV may, if acceptable to the Government, let space in the seat of the UN, but the rent must be based on commercial rates and be transferred, except payments received for operational costs, in its entirety to the Government.</li> <li>▪ Section 5 indicates that "alterations which may result in a change of a structural nature or architectural appearance may be carried by the UN, at its own expense and without the right to reimbursement, only after having obtained the consent of the government. Other alterations to the buildings or facilities forming part of the seat of the UN may be carried out by the UN at its expense and without the right to reimbursement."</li> </ul>								



#### 9.4 Donated “right-to-use” operating lease (lessee), ICJ

##### **Terms**

**Asset:** Building (ICJ – The “Peace Palace” and the “Wing”)

**Lessor:** Carnegie Foundation

**Lease term:** Indefinite

**Cancellation clause:** Considered remote

**Shared space:** Yes (Occupies 30% of peace palace, occupies 100% of the Wing)

**Classification:** Operating

The United Nations (ICJ) has been occupying the Peace Palace and Wing buildings in The Hague, Netherlands, since 1946 and 1997 respectively. The lease term is indefinite. The lessor is Carnegie Foundation in the Netherlands. The arrangement is determined to be operating for the following reasons:

- 1) The finance criteria are not applicable to this arrangement as ICJ only occupies 30% of the space and does not control the asset (the premises are being shared with the Carnegie Foundation/landlord, the Permanent Court of Arbitration and the Hague Library of International Law). Per the UN Policy Framework, finance criteria are not applicable to portions of buildings.
- 2) The two buildings are considered one complex, linked by a bridge, and covered by the same arrangement with the landlord - the Peace Palace and the Wing should therefore be treated the same way. The entire arrangement is determined to be operating.

The annual entries should reflect the total fair value of the space occupied, which in this case is 30% of the Peace Palace and the entire Wing building. It has been determined that the fair value of the space occupied is Euro 350/ sq meter, for a total fair value of EUR 2,868,950. This amount should be revisited annually and updated for inflation. For discussion purposes, assume an exchange rate of 1.28 EUR to USD, the fair value would be \$3,672,256.

##### **Journal entries**

###### *Year end entry*

	<b>31 December 2014</b>
Dr. Rent expense	\$3,672,256
Cr. Revenue	\$3,672,256

##### **Disclosures**

There are no future lease commitments to disclose as there is no future cash out laid.

Lease classification summary

**REAL ESTATE ARRANGEMENT ANALYSIS**  
Under IPSAS 13

T1 &amp; T2\_010446\_Carnegie

OFFICE	ICJ	DUTY STATION	The Hague, <u>Netherlands</u>
FINANCIAL STATEMENT	Volume I	LANDLORD	Carnegie Foundation
IPSAS ASSET SUB-CLASS	Buildings (« Peace Palace » and « The Wing »)	LANDLORD ADDRESS	<u>Carnegieplein 2, 2517 KJ Den Haag</u>

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCEPTION DATE:		1 April 1946; 4 April 1978 and 1 January 1997/						
EXPIRATION DATE:		Indefinite						
IPSAS Classification Indicators								
Finance								Operating
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred: Factors, Individually or in Combination, Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				A lease other than a finance lease
A	B	C	D	E	F	G	H	
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	
								DRU – In Kind
<p><b>SUPPORTING ARGUMENTS:</b> The arrangement is classified as operating donated right-to-use in kind as it does not meet the criteria of a finance lease and use of the premises has been granted to ICJ at no cost by Carnegie Foundation. The agreement could have been qualified as a finance lease had ICJ occupied the whole Building. Article 1 of the ICJ arrangement states that the "Carnegie Foundation shall allow the ICJ, for so long as the said Court shall be sitting at the Hague, the use of the Peace Palace as from 1 April 1946." However, because ICJ occupies only 30% and does not control the asset (the premises are being shared with the Carnegie Foundation/landlord, the Permanent Court of Arbitration and the Hague Library of International Law), the finance criteria are not applicable. Per the UN Policy Framework, the finance criteria do not apply to portions of buildings.</p> <p><b>The WING:</b> On 1 January 1997, the UN and the Carnegie signed a supplementary agreement whereby exclusive use of "the Wing" (the whole building) was granted to the UN. The question is whether the UN should capitalize the Wing? The UN is not expected to capitalize "the Wing" as the Peace Palace and the Wing are covered under one single arrangement and the buildings are considered one complex with the same address.</p>								
RELEVANT PROVISIONS: None								
ADDITIONAL COMMENTS								
A new service agreement is being prepared by OLA/UNHQ as the current agreement came to expiration in June 2011.								

## 9.5 Donated “right-to-use” operating lease (lessee), ECA

### **Terms**

**Asset:** Executive Secretary’s Residence (ECA)

**Lessor:** Ethiopian Government

**Lease term:** De facto lease as the Ethiopian government and the United Nations have not signed a formal agreement

**Shared space:** No

**Classification:** Operating

A letter written, January 26, 1977, by the Ministry of Foreign Affairs confirms the Government of Africa decided to allocate a house as the official residence of the Executive Secretary as of January 1, 1977. The residence could be used by successive Executive Secretaries free of any rental charge and the only condition attached was that proper maintenance and all repairs to the site are the responsibility of the Commission (ECA). In later communication (June 10, 1977) it was decided that a fair rent of the property would be determined and this amount would be set aside for maintenance and repairs, which had been done in similar circumstances by UNDP. A market value of the rent is estimated to be \$15, 000/month in year 2013. Since there is no “formal” lease agreement in place, then the lease would be considered a de-facto lease, which as indicated in section 6.3 should be classified as operating.

### **Journal entries**

#### *Year end entry*

		<b>31 December 2014</b>
Dr. Rent expense		Yearly market equivalent rent
Cr. Revenue		Yearly market equivalent rent

There are no future lease commitments to disclose as there is no future cash out laid.

## 9.6 Donated “right-to-use” operating lease (lessee), Brindisi

### **Terms**

**Asset:** Building (Brindisi)

**Lessor:** Italian government

**Lease term:** 36 months

**Cancellation clause:** Cancellable lease

**Shared space:** Yes (sub-leases space to WFP)

**Classification:** Operating

The agreement indicates that it "may be terminated by the Parties on a mutually agreed date or by either of the Parties providing thirty-six months written notice to the other Party". The lease term is therefore 36 months (3 years). The lease term (3 years) is below 75% of the economic life of the building and the lease is consequently classified as an operating lease.

### **Journal entries**

#### *Year end entry*

		<b>31 December 2014</b>
Dr. Rent Expense		Yearly market equivalent rent
Cr. Revenue		Yearly market equivalent rent

There are no future lease commitments to disclose as there is no future cash out laid.

**Lease classification summary****REAL ESTATE ARRANGEMENT ANALYSIS  
Under IPSAS 13**

PKOT1-231194-Brindisi – Rome/ Italy

OFFICE Brindisi DUTY STATION Brindisi, Rome - Italy  
 FINANCIAL STATEMENT Volume II LANDLORD Republic of Italy (Ministry of Defence)  
 IPSAS ASSET SUB CLASS UN Logistic Base LANDLORD ADDRESS: Rome, Italy

REAL ESTATE ARRANGEMENT CLASSIFICATION JUSTIFICATION								
INCERPTION DATE:	23 November 1994		Arrangement Term: 36 months					
EXPIRATION DATE:	Open-ended							
IPSAS Classification Indicators								
Finance								Operating
A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not be transferred - Principal Indicators, Individually or in Combination, That Lead to Finance Lease				Other Factors That May Indicate a Finance Lease				
A	B	C	D	E	F	G	H	A lease other than a finance lease
Ownership transferred to the lessee by the end of lease term	Option to purchase the asset at a price that is expected to be sufficiently lower than fair value	Lease term is for the major part of the economic life of the asset, even if title is not transferred (Term $\geq 75\%$ of useful life = 35 years +)	At the inception of the lease, the present value of the minimum lease payments amounts to "substantially" all of the fair value of the leased asset (PV $\geq 90\%$ of the fair value)	The leased assets are of such a specialized nature that only the lessee can use them without major modifications	The leased assets cannot easily be replaced by another asset	If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee	Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee, and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent	
								Donated Right-to-Use In-kind
<p><b>SUPPORTING ARGUMENTS:</b> PK's real estate arrangements are classified as operating because of the short term nature (annual renewal of their mandate) of the Peace Keeping Operations. And because UNLB's objective is to support these field missions, its arrangement is also classified as operating. Moreover, the MoU between the UN and the Gov of Italy clearly indicates that "the Agreement may be terminated by the Parties on a mutually agreed date, or by either of the Parties providing thirty-six months written notice to the other Party" – making the non-cancelable period 36 months (Article VXII). The term of the arrangement is therefore determined to be 36 months, leading to the arrangement being classified as operating.</p>								
<p><b>RELEVANT PROVISIONS:</b>  <b>Renewal Option:</b> NONE as the arrangement is open-ended.  <b>Restoration Clause:</b> The UN is not required to restore the UN logistic Base to the same condition existent prior to any modification, remodeling or construction pursuant to Article VI thereof or as otherwise authorized by the ItAE (Italian Air Force). However, if the ItAE's approval of a particular modification, remodeling or construction was expressly conditioned on the UN restoring upon surrender a part of the UN Logistic Base to the same condition existent prior to that particular modification, remodeling or construction the UN accepted said condition, then the UN shall restore that part of the Base to the same condition existent prior to the work (Article XIV – para 40).</p>								
<p><b>ADDITIONAL COMMENTS</b></p> <p>Article V, para 8, of the Agreement states that (1) "The Government of the Republic of Italy retains ownership of the territory on which the UN Logistic Base is located, of the pre-existing fixed infrastructures and utilities, and any infrastructures and utilities constructed by the UN on the UN Logistic Base";</p> <p>Article XIV – para 41 indicates that no residual value shall be recognized on any modification, remodeling or construction undertaken by the United Nations on the UN Logistic Base;</p> <p>Article III states that "the provisions of the Memorandum of Understanding" shall apply to the present Agreement. And Article XXV of the MoU, dated 23 November 1994, says that "The present Memorandum of Understanding may be terminated by either the United Nations or the Government providing thirty-six months prior notice in writing."</p>								

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