

FINANCIAL MANAGEMENT OF LEASES

By

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[Reference: DSAA article in "Security Assistance Community" Section, Subject: "Lease of Defense Equipment Under Chapter 6, AECA to Foreign Countries and International Organizations."]

DISAM has recently received a copy of the revised Chapter P, Part III of the MASM. The following information has been derived from Chapter P and from discussions with DSAA and SAAC.

The U.S. Government does not lease defense articles indiscriminately. Only under exceptional circumstances will a lease agreement be accepted as the most appropriate method whereby U.S. defense articles can be made available to eligible foreign countries or international organizations. The DoD component logistically responsible for the defense article(s) being leased has the responsibility for preparing and administering the lease.

The MASM, Part III, Chapter P contains the basic lease format. However, this format may be amended or expanded to cover special provisions, circumstances, or particular component practices -- with the concurrence of the appropriate legal office of the DoD component concerned and with DSAA approval. The lease is signed by the appropriate DoD component and provided to the DSAA for staffing and countersignature. After the DSAA has authorized the DoD component to enter into the lease, all parties have signed the lease, and any required initial deposit has been received by the SAAC, the lease is executed. Overseas Security Assistance Organizations (SAOs) will receive copies of leases applicable to their countries and are responsible for direct monitorship of the use of U.S. Government owned equipment in the host country. The lease is a "stand alone" document. It is not provided on a DD Form 1513.

Each lease contains a Schedule A which identifies the replacement cost of the item(s) being leased and the schedule for rental payment to the U.S. Government. The country or international organization must pay in U.S. dollars all costs incurred by the U.S. Government in leasing such articles, including reimbursement for depreciation of the articles while leased. The charge for depreciation is the rental payment and will be based on the current procurement value, actual acquisition cost or latest procurement cost. Schedule A also identifies the amount of Initial Deposit required and provides a quarterly payment schedule. The lease with its Schedule A is provided to the SAAC for loading in the Defense Integrated Financial System (DIFS) for billing purposes. A separate DD Form 645 will be provided the country or international organization with its quarterly DD Form 645, FMS Billing Statement. An administrative charge will not be applied. FMS credits are not authorized for payments of lease rental payments. Receipts from lease rental payments will be deposited by the SAAC in the U.S. Treasury, Miscellaneous Receipts Account.

All costs incurred by the U.S. Government incident to the leasing arrangement must be reimbursed to the U.S. Government using a DD Form 1513. For example, the DD Form 1513 will reflect "above-the-line" such applicable costs as packing, crating and handling (PC&H), transportation, the sale of associated articles, services, spare parts, materials, and other support, as well as refurbishment, restoration, replacement, loss and destruction of leased items. The normal DD Form 645 billing system with applicable administrative and asset use charges will be used to collect costs. When authorized by DSAA, FMS credit funds may be used for FMS cases prepared in support of a lease. Each DD Form 1513 will be assigned a case designator and each lease will have a lease designator. The designators must be cross referenced on the applicable documents.

It is expected that the foregoing procedures will help resolve some of the financial management problems identified by the General Accounting Office. All costs associated with leasing will be identified, tracked and appropriately billed. In fact, each quarter the SAAC must provide the DSAA Operations Directorate the financial status of each lease. The report will include data concerning the country, lessee, defense article(s) leased, identified replacement cost of the leased property, funds collected and deposited or to be deposited to miscellaneous receipts, and amounts due.

For additional information concerning leases, such as their specific use, DoD approval channels (DSAA and Congressional notification requirements), component responsibilities, terms and conditions and reporting requirements, see MASM, Part III, Chapter P.

ABOUT THE AUTHOR

Mr. Clive D. Luckenbill has been a member of the DISAM faculty since 1977, and specializes in the financial aspects of security assistance management. He holds a Master of Arts degree (Management and Supervision: Logistics Management) from Central Michigan University, and is a retired Air Force Lieutenant Colonel with extensive management and staff experience within the Air Force Logistics Command and with the Joint Logistics Commanders.