



Bulletin: OCFO 17-06

Date: August 31, 2017

To: USDA Agencies

Subject: Leases Financial Statements Disclosure

# OCFO BULLETIN

## PURPOSE

The purpose of this bulletin is to provide departmental guidance to USDA agencies to improve process for collecting and disclosing lease data in the financial statements.

## DEFINITIONS

**Capital leases** are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an **Operating lease**.

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

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

## BACKGROUND

The Office of the Inspector General (OIG) noted certain matters, including misclassification of leases, as a significant deficiency in its fiscal year 2016 audit report.

The OIG recommended additional oversight to ensure that lease agreements are classified properly.

## RESPONSIBILITIES

The Chief Financial Officer (CFO) of each USDA organization is responsible for collecting and maintaining lease data for footnote disclosure.

The Office of the Chief Financial Officer (OCFO) is responsible for oversight to ensure that each USDA organization collects and maintains lease data for footnote disclosure.

## POLICY

Agencies must collect and maintain lease data for capital leases and non-cancellable operating leases. Agencies will submit lease data to OCFO once a year to correspond with the yearend footnotes and additional disclosure information.

## PROCEDURES

Complete the Lease Data template ([Attachment](#)) and submit it to OCFO for all capital leases and non-cancellable operating leases by providing the following for each lease agreement separately:

### Capital Leases:

- Lease Number
- Lessor Name
- Major assets category (Land and Buildings, Machinery and Equipment, and Other)
- Renewal Options (Y/N)
- Escalation Clauses (Y/N)
- Contingent Rental Restrictions (Y/N)
- Other Information
- Amortization Period
- Gross Assets under Capital Lease
- Total Accumulated Amortization
- Future Payments Due
- Less: Imputed Interest
- Less: Executory Costs
- Net Capital Lease Liability
- Lease Liabilities Covered by Budgetary Resources
- Lease Liabilities Not Covered by Budgetary Resources.

### Non-cancellable Operating Leases:

- Lease Number
- Lessor Name
- Major assets category (Land and Buildings, Machinery and Equipment, and Other)
- Renewal Options (Y/N)
- Escalation Clauses (Y/N)
- Contingent Rental Restrictions (Y/N)
- Other Information
- Lease Period
- Future Payments Due.

Complete additional disclosure template in accordance with the instructions for the preparation of the consolidated financial statements.

## INQUIRIES

Any question concerning this bulletin should be directed to Hesham Aziz at [Hesham.Aziz@cfo.usda.gov](mailto:Hesham.Aziz@cfo.usda.gov) or (202) 720-1888.

## EFFECTIVE DATE

This bulletin is effective immediately.

/s/

STANLEY MCMICHAEL

Associate Chief Financial Officer for Financial Operations

[Attachment](#)

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