



Bulletin: OCFO 18-03

Date: October 23, 2018

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.

A **noncancelable lease** is not subject to cancellation. A lease which is cancelable (i) only upon the occurrence of some remote contingency, (ii) only with the permission of the lessor, (iii) only if the lessee enters into a new lease with the same lessor, or (iv) only upon payment by the lessee of a penalty in an amount such that continuation of the lease appears, at inception, reasonably assured shall be considered “noncancelable” in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases.

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 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 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)
- Federal (Y/N)
- 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- Fixed non-cancellable term of the lease
- Future Payment Due- Period covered by renewal options (cancelable)
- Less: Imputed Interest

- Less: Executory Costs
- Net Capital Lease Liability
- Lease Liabilities Covered by Budgetary Resources
- Lease Liabilities Not Covered by Budgetary Resources.

Operating Leases:

- Lease Number
- Lessor Name
- Major assets category (Land and Buildings, Machinery and Equipment, and Other)
- Federal (Y/N)
- Renewal Options (Y/N)
- Escalation Clauses (Y/N)
- Contingent Rental Restrictions (Y/N)
- Other Information
- Lease Period
- Future Payments Due-Fixed non-cancellable term of the lease
- Future Payment Due- Period covered by renewal options (cancelable)

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 or (202) 720-1888.

EFFECTIVE DATE

This bulletin supersedes 17-06, Leases Financial Statements Disclosure, dated August 31, 2017, and is effective immediately.

/s/

STANLEY MCMICHAEL
Associate Chief Financial Officer for Financial Operations

Attachment