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TO: Rural Utilities Service (RUS) Borrowers, Grant Recipients and Certified Public Accountants Who Audit RUS Borrowers and Grant Recipients

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SUBJECT: Accounting for Leases within the Uniform System of Accounts for Electric and Telecommunications Borrowers and Grant Recipients

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Accounting Standards Codification (ASC) 842, Leases, is effective for public companies for interim and annual reporting periods beginning after December 15, 2018, and for non-public companies for periods beginning after December 15, 2019. Many RUS borrowers have requested updated accounting guidance from RUS regarding the new standard as it relates to leases.

On December 13, 2018, the Federal Communications Commission (FCC) issued Order 18-176, which included a section amending Part 32 guidance on leases that incorporates ASC Topic 842. For Telecommunications Program recipients, RUS recommends the guidance on leases in FCC Order 18-176 found in Section 8, Paragraphs 152-165. For the most up-to-date changes to the Uniform System of Accounts provided by the FCC (47 CFR Part 32) visit www.ecfr.gov.

The guidance below supersedes the guidance provided for RUS Electric borrowers in 7 CFR 1767.41 – Interpretation 403 Leases.
**Accounting Journal Entries for Electric Borrowers**

**Finance Leases:**

101.1 Property Under Capital Leases  
243 Obligations Under Capital Leases-Current  
227 Obligations Under Capital Leases-Noncurrent  

*To record the finance lease agreement.*

404 Amortization of Limited-Term Electric Plant  
111 Accumulated Provision for Amortization of Electric Utility Plant  

*To record the amortization of finance lease over the useful life of the asset.*

243 Obligations Under Capital Leases-Current  
431 Other Interest Expense  
131 General Funds  

*To record the finance lease payment and interest expense.*

**Operating Leases:**

101.1 Property Under Capital Leases  
243 Obligations Under Capital Leases-Current  
227 Obligations Under Capital Leases-Noncurrent  

*To record the operating lease agreement.*

243 Obligations Under Capital Leases-Current  
111 Accumulated Provision for Amortization of Electric Utility Plant  

*To record the amortization of operating lease and recognition of the obligation over the useful life of the asset.*

XXX Plant specific or plant nonspecific operation and maintenance expense (500 series), as appropriate  
131 General Funds  

*To record operating lease payment.*

*Note: Borrower has the option to create subaccounts for purposes of tracking operating and finance leases.*

**Short-Term Lease:**

XXX Plant specific or plant nonspecific operation and maintenance expense (500 series), as appropriate  
131 General Funds  

*To record the short-term lease payment.*
Accounting Journal Entries for Telecommunications Borrowers

Finance Leases:

2681 Finance Leases
   4130 Other Current Liabilities
   4200 Long-term Debt and Funded Debt
To record finance lease at present value.

6563 Amortization Expense – Tangible
   3410 Accumulated Amortization – Capitalized Leases
To record amortization of finance lease over the useful life of the asset (represents an amount equal to the portion of each lease payment allocated to the reduction of the obligation, when the payment is treated as a payment on an installment obligation (liability) and allocated between interest expense and a reduction of the obligation to produce a constant periodic rate of interest on the remaining balance).

4130 Other Current Liabilities (equals the amortization from the above entry)
7500 Interest and Related Items
   1120 General Funds
To record finance lease payment.

Operating Leases:

2681 Finance Leases
   4130 Other Current Liabilities
   4200 Long-term Debt and Funded Debt
To record operating lease at present value.

4130 Other Current Liabilities
   3410 Accumulated Amortization – Capitalized Leases
To record amortization of operating lease and recognition of the obligation over the useful life of the asset (represents an amount equal to the portion of each lease payment that would have been allocated to the reduction of the obligation, if the payment had been treated as a payment on an installment obligation (liability) and allocated between interest expense and a reduction of the obligation so as to produce a constant periodic rate of interest on the remaining balance).

XXXX Plant specific or plant nonspecific operating expense, as appropriate
   1120 General Funds
To record operating lease payment.