



MEMORANDUM

From: Jack Swart – Manager Financial Control
To: Deans, DVC's, Directors, Heads of School
Date: Tuesday, 5 December 2006
Subject: Year End 2006– lease commitments

JACK SWART
MANAGER - FINANCIAL REPORTING
FINANCIAL CONTROL

Please forward this email to the person responsible in your school / unit.

In accordance with Australian Accounting Standards, lease commitments must be disclosed separately in the 2006 Annual Report of the University of New South Wales.

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, for example, photocopier rental, hardware/software rental, building & office rental etc. If the rental agreement has a life not less than 1 year or the lease is likely to be renewed and a penalty applies when it's cancelled before contract end date, it should be regarded as a lease.

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.

In order to prepare the notes to the annual report on lease commitments, I would like to ask for your assistance to start reviewing your lease agreements and register all of them. Please use the attached Lease Agreement Register Template.

Please email the completed Lease Agreement Register to Chloe Lin (chloe.lin@unsw.edu.au) by **Friday 15th December 2006**. If you don't have any leases, please also reply this email with a nil return.

Determining whether any OTHER arrangement may contain a lease:

We also have to consider whether we have ANY arrangements which are in fact of the nature of a lease.

To assist you in this assessment, there are three criteria which would all need to be satisfied for an arrangement to be, or contain, a lease:

- a) The arrangement depends upon a specific item or items (the item). The item need not be explicitly identified by the contractual provisions of the arrangement. Rather it may be implicitly identified because it is not economically feasible or practical for the supplier to fulfil the arrangement by providing use of alternative items.
- b) The arrangement conveys a right to use the item for a specific period of time such that the purchaser is able to exclude others from using the item.
- c) payments under the arrangement are made for the time that the item is made available for use rather than for actual use of the item.

A specific example of what such an arrangement would be, is included as Appendix A.

Should you have any arrangements/contracts which are not leases in the legal sense, but which meet the criteria above, please include it in the template provided, otherwise indicate that you do not have any such arrangements.

I appreciate for your co-operation.

Should you have any questions, please do not hesitate to contact myself on 9385 21729 (or j.swart@unsw.edu.au) , or Chloe Lin on 9385 2169 (or chloe.lin@unsw.edu.au).

Regards

Jack Swart
Manager, Financial Control

Appendix A

Example of an arrangement that contains a lease (UIG4)

A production company (the purchaser) enters into an arrangement with a third party (the supplier) to supply a minimum quantity of gas needed in its production process for a specified period of time. The supplier designs and builds a facility adjacent to the purchaser's plant to produce the needed gas and maintains ownership and control over all significant aspects of operating the facility. The agreement provides for the following:

- The facility is explicitly identified in the arrangement, and the supplier has the contractual right to supply gas from other sources. However, supplying gas from other sources is not economically feasible or practicable
- The supplier has the right to provide gas to other customers and to remove and replace the facility's equipment and modify or expand the facility to enable the supplier to do so. However, at inception of the arrangement, the supplier has no plans to modify or expand the facility. The facility is designed to meet only the purchaser's needs.
- The supplier is responsible for repairs, maintenance, and capital expenditures.
- The supplier must stand ready to deliver a minimum quantity of gas each month.
- Each month, the purchaser will pay a fixed capacity charge and a variable charge based on actual production taken. The purchaser must pay the fixed capacity charge irrespective of whether it takes any of the facility's production. The variable charge includes the facility's actual energy costs, which amount to about 90 per cent of the facility's total variable costs. The supplier is subject to increased costs resulting from the facility's inefficient operations.
- If the facility does not produce the stated minimum quantity, the supplier must return all or a portion of the fixed capacity charge.

Assessment

The arrangement contains a lease within the scope of AASB 117 *Leases*.