LEASING ARRANGEMENTS

UNSW Accounting Procedure	
Linked UNSW Policy	Leases
Responsible Officer	Director, Corporate Finance and Advisory Services and Shared Services
Contact Officer	Senior Manager, Capital Asset Management Reporting, Corporate Finance and Advisory Services (CFAS)
Review	Every year
Effective Date	31 December 2013

1. Objective

This procedure outlines the process to account for ‘Lease Arrangements’ where the University is the lessee in accordance with AIFRS, at an operating level (i.e. Faculties, Divisions & Schools) in NS Financials.

2. Basis for recognising lease arrangements

By way of an agreement the lessor conveys to the lessee the right to use an asset for an agreed period of time for payment(s). There are primarily two types of leases finance and operating leases.

A finance lease is where it transfers substantially all the risks and rewards incidental to ownership. An operating lease does not transfer substantially all the risks and rewards incidental to ownership. Lease classification is made at the inception of the lease. Changes in estimates like the estimate of economic life, residual value, or changes in circumstances such as default of the lessee do not give rise to a new classification of a lease for accounting purposes.

A finance lease gives rise to depreciation expense for depreciable assets as well as a finance expense for each reporting period.

Leases for land and buildings are classified as operating or finance leases as any other asset. Land has an indefinite economic life and if title is not expected to pass to the lessee at the end of the lease and the lessee does not receive substantially the entire risks and rewards incidental to ownership, the lease of land will be an operating lease.

Lease payments under the operating lease shall be recognised as an expense on a straight line basis over the lease term.

Commencement of a lease term is the date from which the lessee (UNSW) is entitled to use the leased asset. It is the date for recognition of assets, liabilities, income and or expenses associated with the lease. Minimum lease payments are payments over the lease term that the University is required to make, excluding contingent rent, costs for services and taxes to be paid to the lessor, together with any amounts guaranteed by the University. Minimum lease payments represent a ‘Commitment’ as at year end and are disclosed in the Financial Report by way of Notes to it. (Also refer ‘Accounting for Commitments’ procedure.)

Leases are accounted for using Peoplesoft and information required for year end reporting purposes is automated.

3. Accounting procedure

Finance leases

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term, and charged to the relevant business unit. Finance leases also give rise to depreciation expenses for the depreciable assets. Accounting entries are system generated.

Operating leases

A lease under an operating lease the University will recognise lease payments as an expense on a straight line over the lease term. The expenses are charged to the relevant business units. Accounting entries are system generated.

Sale and leaseback

The accounting treatment of a sale and lease back transaction depends on the type of the lease involved. If the sale and lease back transaction results in a finance lease, any excess of sales proceeds over the carrying amounts shall not be immediately recognised as income by a seller-lessee, instead it shall be deferred and amortised over the lease term.

If the resulting transaction is an operating lease any profit or loss should be recognised immediately. If the loss is compensated by future lease payments below market value, it should be amortised in proportion to the lease payments over the period the asset is expected to be used. If the sale price is above fair value the excess will be deferred and amortised over the period in which the asset is expected to be used.

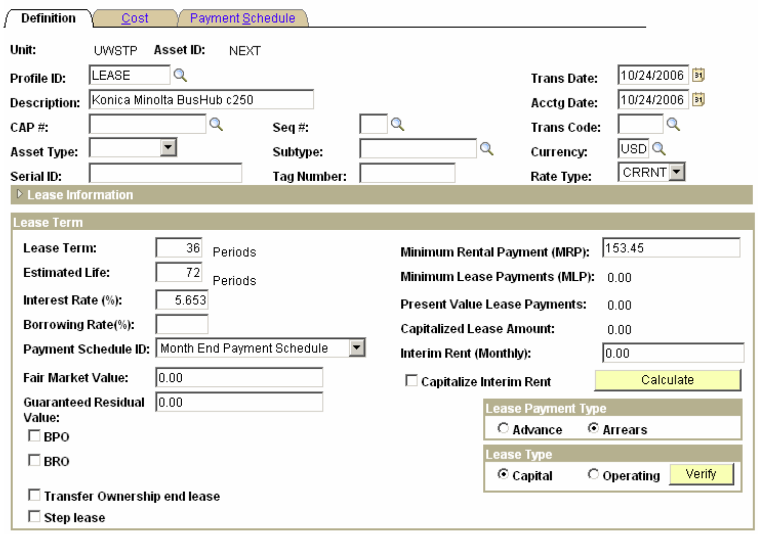
Systems solution - adding and maintaining leases

Lease costs and general data of leases should be captured at commencement of the lease. Electronic registers are preferable to manual registers. Excel registers are to avoided. An electronic register that drives the accounting entries and has the reporting capability as well as an audit capability is preferred.

Yardi

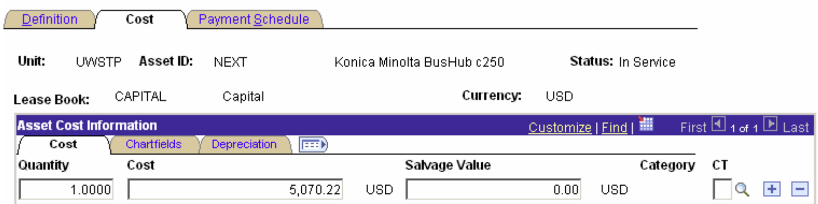
All leasing arrangements for Commercial, Retail and Anzac properties are entered into a property system called Yardi. Yardi is an ASP based program which captures property lease agreement data, with a billing function which is interfaced with the University's financial system NSF.

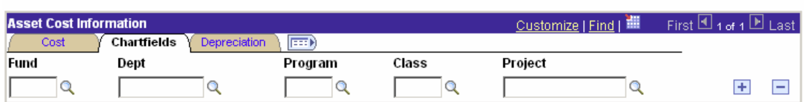
Yardi efficiently categorises each property, automatically calculates annual rent increases, it has flexible reporting and budgeting tools, a calendar to remind you of key lease dates and a simplistic monthly billing system.



Cost Page

Enter the cost and salvage values for the leased asset. Enter the Chart fields used for this lease.





Payment Schedule

This is where you view the payment schedule that was calculated when you selected the ‘calculate’ button on the definition page.

Definition | Cost | **Payment Schedule**

Unit: UWSTP **Asset ID:** NEXT Konica Minolta BusHub c250 **Status:** In Service

Lease Book: CAPITAL Capital **Currency:** USD

Payment Schedule — Customize | Find | View All | First 1-8 of 36 Last

	Payment Date	Payment Total		Interest Expense	Obligation Reduction	Payment Type
1	10/31/2006	153.45	USD	23.88	129.57	N
2	11/30/2006	153.45	USD	23.27	130.18	N
3	12/31/2006	153.45	USD	22.66	130.79	N
4	01/31/2007	153.45	USD	22.05	131.40	N
5	02/28/2007	153.45	USD	21.43	132.02	N
6	03/31/2007	153.45	USD	20.80	132.65	N
7	04/30/2007	153.45	USD	20.18	133.27	N
8	05/31/2007	153.45	USD	19.55	133.90	N

Financial disclosure at year end:

a) Finance leases

For each class of asset, the net carrying amount at the reporting date, a reconciliation between the total of future minimum lease payments at the reporting date, and their present value.

In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years;
(iii) later than five years

Contingent rents recognised as an expense in the period, the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date, and a general description of the lessee's material leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;
(ii) the existence and terms of renewal or purchase options and escalation clauses; and
(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

b) Operating leases

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;
(ii) later than one year and not later than five years;
(iii) later than five years;

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date, the lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments, a general description of the lessee's significant leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;
(ii) the existence and terms of renewal or purchase options and escalation clauses; and
(iii) restrictions imposed by lease arrangements, such as those concerning dividends,

4. Operational Aspects

4.1 Involvement of Faculty Finance Managers (FFMs):

It is the responsibility of the business units to ensure that leases are loaded into the system properly, ensuring that all relevant fields are populated in the system. Responsibility goes beyond financial journal generation. It also covers auxiliary information of lease arrangements.