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Capital Leases Policy

Responsible Office: Controller's Division / Financial Accounting

Originally Issued: June 2005

Revised: Not Applicable

1.0 Purpose

To set forth procedures and instructions for setting up and processing capital leases.

2.0 Policy

The Capital Asset Guide for University System of Georgia lists the criteria for capital leases. If determined to be a capital lease, the following procedures will be used to process the capital lease.

3.0 Procedure

3.1 Responsibility: User

Forward a signed copy of all leases to the Materials Management Department immediately upon execution of the lease.

3.2 Responsibility: Materials Management Department

3.2.1 Materials Management will review the documentation and determine whether the lease is or is not a capital lease based on the criteria listed in the Capital Asset Guide for University System of Georgia. If determined to be a capital lease, the appropriate information will be added to the Lease and Rental Contracts spreadsheet maintained in the Materials Management Department. Lease payments will be split between the principal and interest accounts (accounts 818100 and 818200 respectively).

NOTE: Prior to fiscal year 2005, if the lease is for a flat rate and the vendor indicates there is no interest expense included in the monthly payment, the entire payment amount will be booked to the principal account (account 818100). Incidental expenses such as a one-time delivery/setup charge will be expensed in the current year.

NOTE: As required by the State Auditors, from fiscal year 2005 forward, all leases must have an interest rate so that an amortization schedule can be prepared if one is not provided by the vendor. If the vendor cannot provide an amortization schedule OR an interest rate, then GHSU will not enter into a lease with that vendor.

NOTE: No lease will be set up in the system without prior approval from the Controller or Assistant Controller for Financial Accounting and Reporting.

3.2.2 An updated copy of the lease spreadsheet and a copy of the lease will be provided to the Controller/Assistant Controller for Financial Accounting and Reporting for review and approval. Documentation provided to Financial Accounting should include paperwork that is available to indicate the total lease liability (amount of monthly payment x number of payments and, if applicable, any other charges that are part of the total liability for the lease), and must also include the interest rate and amortization schedule.

3.2.3 Once approval is obtained from the Controller/Assistant Controller for Financial Accounting and Reporting, Materials Management will be responsible for setting the lease up in the system.

3.2.4 The purchase order (PO) will be established with a principal and interest line for each month and identified numerically in agreement with the amortization schedule. For example; principal and interest line would each indicate month 1 principal, month 1 interest, month 2 principal, month 2 interest, and so forth.

3.2.5 If leases are renewed/extended, appropriate supporting documentation should be provided immediately to the Financial Accounting Division.

3.2.6 The Property Control Officer should be notified of the lease liability and any other appropriate information immediately in order to add the asset to the AM Module.

3.3 Responsibility: Financial Accounting Division

3.3.1 A notebook of current leases will be maintained. This will facilitate the monitoring of monthly payments to insure payments are made on schedule and correct amounts are posted to the principal and interest expense accounts. Total principal, as indicated on the amortization schedule for each month, will never change. Therefore, if there are rounding adjustments necessary to tie to the total lease liability for each fiscal year, interest expense will be adjusted.

3.3.2 A copy of the amortization schedule will be provided to Accounts Payable immediately.

At month-end closing:

- Lease liability and payment amounts will be reconciled/verified to the lease schedule.
- A spreadsheet will be maintained for each lease with the monthly payments due during the fiscal year.
- The liability amount as well as the principal and interest expense accounts will be reconciled to the total lease payments due each month. Any exceptions will be documented.
- The spreadsheet for each month, with the queries of the various accounts attached, will be signed off to indicate leases have been reconciled for the month.

At fiscal year end:

- The summary spreadsheet compiling all capital lease activity—payments, additions and/or adjustments—will be prepared/updated. The lease spreadsheet will be used to track the activity on each lease from inception to completion. The lease spreadsheet will also be used to reflect the fiscal year payments on each lease. Total lease payments per spreadsheet will be tied to total principal and interest booked in accounts 818100 and 818200.
- This will be documented by attaching a query of the two accounts.
- Any remaining lease payments at year-end (net of interest) will be shown on the lease spreadsheet by fiscal year in order to facilitate the preparation of the lease note to the financial statements.
- Any payments due within one year or less will be considered current lease liability (account 219400). Any payments due more than one year from fiscal year end will be considered long-term lease liability, and an entry will be made to move that portion of the liability to the appropriate account (account 291100).
- This will be documented by attaching a query of the two lease liability accounts.
- If leases are renewed/extended, appropriate supporting documentation should be maintained with the original lease and reflected on the lease schedule.
- A copy of the renewal/extension should be provided to Accounts Payable in a timely manner.
- As leases are completed, they should be marked finalized.
- All documentation should be maintained until an audit for the fiscal year has been performed. At that time, the documentation can be removed from the lease notebook and maintained in the files.

Each year prior to the preparation of the financial statements and notes:

- The lease spreadsheet and all supporting documentation will be reviewed for correctness. The current and long-term liability, as calculated on the spreadsheet, should tie directly to the amounts booked in the current and long-term liability accounts.
- Lease payments for the current fiscal year will be reviewed and should tie to the amounts booked in the principal and interest expense accounts.
- The above information will be used to document/verify/support leases on the Capital Assets Footnote.

Prior to arrival of the state auditors:

The following information will be compiled to provide to the auditors:

- A copy of the summary spreadsheet
- Copies of any new leases, renewals or extensions entered into during fiscal year under audit

- Queries to document the amounts booked in the liability, principal and interest accounts.

3.4 Responsibility: Accounts Payable

3.4.1 Financial Accounting will provide an amortization schedule to Accounts Payable personnel responsible for making monthly lease payments upon inception of every lease. Financial Accounting will also inform AP of any lease renewals or extensions.

3.4.2 The documentation of each lease furnished to Accounts Payable will be used to verify monthly lease payments to the vendor to ensure the correct amount is paid, the payments are on schedule and the proper amount is booked in the principal and interest accounts.

NOTE: Any exceptions should be fully documented (e.g., any extra amounts paid for additional copies, etc.) to aid in reconciling payments on the lease schedule.

3.4.3 Additional charges should be booked in a supplies account.

3.4.4 Accounts Payable personnel will be responsible for informing and providing supporting documentation of any exceptions immediately to Financial Accounting.

3.4.5 Accounts Payable will be responsible for ensuring that monthly payments are made on time.

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