	The Johns Hopkins Health System Policy & Procedure	<i>Policy Number</i>	FIN102
	<i>Subject</i> LEASES – CLASSIFICATION AND FUNDING	<i>Effective Date</i>	10-01-06
		<i>Page</i>	1 of 4
		<i>Supersedes</i>	7-01-05

Revisions noted by vertical bar in right margin

POLICY


For purposes of this policy, the Johns Hopkins Health System Corp. (JHHS) and the following entities: The Johns Hopkins Hospital (JHH), Johns Hopkins Bayview Medical Center (JHBMC), Howard County General Hospital (HCGH), Johns Hopkins Community Physicians (JHCP), Johns Hopkins International (JHI), Ophthalmology Associates (OA), Johns Hopkins Employer Health Programs (EHP), Johns Hopkins Medical Management Corporation (JHMMC), Priority Partners (PP), Johns Hopkins Pharmaquip, Inc. (JHPQ), Johns Hopkins Home Health Services, Inc. (JHHHS), Johns Hopkins Pediatrics Home, Inc. (JHPAHI), Johns Hopkins HealthCare (JHHC), Johns Hopkins Home Care Group (JHHCG), Suburban Health Center (SHC), Broadway Acquisition and Development, and Integrated Renal Solution.

Purpose

The purpose of this policy is to establish the process and procedures for the classification of all lease transactions as operating or capital leases and the adjustments required to appropriately fund capital leases originally budgeted as operating leases.

Definitions

- Capital Lease: An equipment lease is a capital lease when the equipment being leased meets the definition of capital set forth below and one or more of the following criteria (from Financial Accounting Standards Board Statement of Financial Accounting Standards No. 13, Accounting for Leases):
- a) Equipment title transfers at the end of the lease.
 - b) The lease contains a bargain equipment purchase option (i.e., the lessee can purchase the equipment at less than fair market value).
 - c) The lease duration is at least 75% of the equipment useful life.
 - d) The present value of all lease payments (minus maintenance agreement costs) exceeds 90% of the equipment fair market value.
- Operating Lease: A lease agreement which means none of the criteria of a capital lease.
- Capital: A capital asset is defined as having an estimated useful life of at least two years with a cost of at least \$2,500. The cost of these assets must be capitalized and depreciated over the estimated useful life of the asset.
- Cost: The cost of an asset is defined as all expenditures reasonable and necessary in acquiring the asset and placing it in a position and condition for use and operation. Cost includes purchase price of the asset and any expenditures for freight, insurance, transit, installation, trial runs and any other expenditures necessary to make the asset ready for use.

	The Johns Hopkins Health System Policy & Procedure	<i>Policy Number</i>	FIN102
		<i>Effective Date</i>	10-01-06
	<i>Subject</i> LEASES – CLASSIFICATION AND FUNDING	<i>Page</i>	2 of 4
		<i>Supersedes</i>	7-01-05

Revisions noted by vertical bar in right margin

It is the policy of JHHS and its affiliates to follow generally accepted accounting principles in all leasing transactions. All lease transactions must be completed in accordance with JHHS Finance Policies No. FIN035 - Leases and No. FIN036 - Signature Authority - Leases.

To ensure the appropriate accounting treatment of all lease transactions, the Finance Department should review all lease transactions and properly classify them as operating or capital leases, according to the requirements described in FASB Statement of Financial Accounting Standards No. 13, Accounting for Leases. Operating leases will be approved if appropriate amounts have been included in the departmental budget to cover the annual lease payments. Capital leases will be approved if sufficient capital was budgeted, or if sufficient operating funds were included in the departmental budget to cover the annual lease payments. In the latter case, the departmental expense operating budget will be reduced by the amount of the annual lease cost. These funds are then set-aside in a special separate account controlled by the Finance Department. This adjustment must be approved in writing by the requesting department. The capital budget will then be increased by the value of the annual lease payments for the leased item. The Finance Department will maintain a detailed schedule of all adjustments to the capital budget related to capitalized leasing transactions. The amounts reflected in this schedule will included as adjustments to future capital budgets while the lease is in effect.

Capital leases not submitted for approval in the annual capital budget process or for which sufficient operating costs were not included in departmental operating budgets must be approved through the contingency capital process, in accordance with Finance Policy No. FIN001 - Allocation of Capital and Contingency Funds, or by the Vice President of Finance/Chief Financial Officer (CFO) (for JHMSC). No adjustment to the overall capital budget will be required for leases approved through the contingency capital process or by the CFO for JHMSC.

REFERENCE

JHHS Finance Policies and Procedures Manual


- Policy No. FIN001 - Allocation of Capital and Contingency Funds
- Policy No. FIN035 - Leases
- Policy No. FIN036 - Signature Authority - Leases
- Policy No. FIN046 - Signature Authority : Real Property

FASB Statement of Financial Accounting Standards No. 13, Accounting for Leases

RESPONSIBILITIES

- | | |
|---|---|
| Functional Unit Administrator,
Department Director, Site Manager
(requestor) | Submit request for equipment in annual budget process or through contingency capital funding process. |
| Functional Unit Administrator,
Department Director (JHH and
JHBMC)/Chief Financial Officer
(JHMSC) | Approve necessary budget adjustments in writing if capital lease is approved and original funding is included in departmental operating budget. |
| Finance Department | Review all transactions for leases approved in the annual budget process and classify them as operating or capital leases.

Approve operating leases if appropriate amounts are included in departmental operating budget to cover annual lease payments. |

	The Johns Hopkins Health System Policy & Procedure	<i>Policy Number</i>	FIN102
		<i>Effective Date</i>	10-01-06
	<i>Subject</i> LEASES – CLASSIFICATION AND FUNDING	<i>Page</i>	3 of 4
		<i>Supersedes</i>	7-01-05

Revisions noted by vertical bar in right margin

Approve capital leases if capital costs were budgeted or if sufficient operating funds were included in the departmental budget to cover annual lease payments.

Make the necessary adjustments to the operating and capital budgets if capital lease is approved that is budgeted as operating, sufficient operating funds were included in the departmental budget to cover annual lease payments.

Capital and Contingency
Committee or affiliate equivalent
(CFO for JHMSC)

Review and approve all requests for capital lease equipment not included in the annual budget process

SPONSOR

Vice President of Finance/Chief Financial Officer and Treasurer, JHHS

REVIEW CYCLE

Three (3) years

APPROVAL

President, JHHS


Date

PROCEDURES

- | | |
|---|--|
| 1. Functional Unit Administrator, Department Director, Site Manager (requestor) | a. Submit request for equipment in annual budget process or through contingency capital funding process. |
| 2. Functional Unit Administrator, Department Director/CFO (JHMSC) | a. Approve necessary budget adjustments in writing if capital lease is approved and original funding is included in departmental operating budget. |
| 3. Finance Department | a. Review all transactions for leases approved in the annual budget process and classify them as operating or capital leases.

b. Approve operating leases if appropriate amounts are included in departmental operating budget to cover annual lease payments.

c. Approve capital leases if capital costs were budgeted or if sufficient operating funds were included in the departmental |

 JOHNS HOPKINS MEDICINE <hr/> JOHNS HOPKINS HEALTH SYSTEM	The Johns Hopkins Health System Policy & Procedure	<i>Policy Number</i>	FIN102
	<i>Subject</i> LEASES – CLASSIFICATION AND FUNDING	<i>Effective Date</i>	10-01-06
		<i>Page</i>	4 of 4
		<i>Supersedes</i>	7-01-05

Revisions noted by vertical bar in right margin

budget to cover annual lease payments.

- d. If capital lease is approved that is budgeted as operating, make the following adjustments to the operating and capital budgets:
 - i. Reduce the departmental expense operating budget by the amount of the annual lease cost and set these funds aside in a special separate account to be controlled by the Accounting Department.
 - ii. Increase the capital budget by the value of the annual lease payments for the item being leased.
 - iii. Maintain a detailed schedule of all such increases to the capital budget in order to adjust future capital budgets while leases are still in effect.
4. Capital and Contingency Committee or affiliate equivalent (CFO for JHMSC)
 - a. Review and approve all requests for capital lease equipment not included in the annual budget process.