

Business Administrator Forum

11/21/2019



WAKE FOREST
UNIVERSITY

Benson 401



Lease Accounting

Jessica Gorrell,

Senior Manager, Capital Assets and Debt

FY20 Mid-Year Close Calendar

Judy Sigmon,

Accounting Analyst



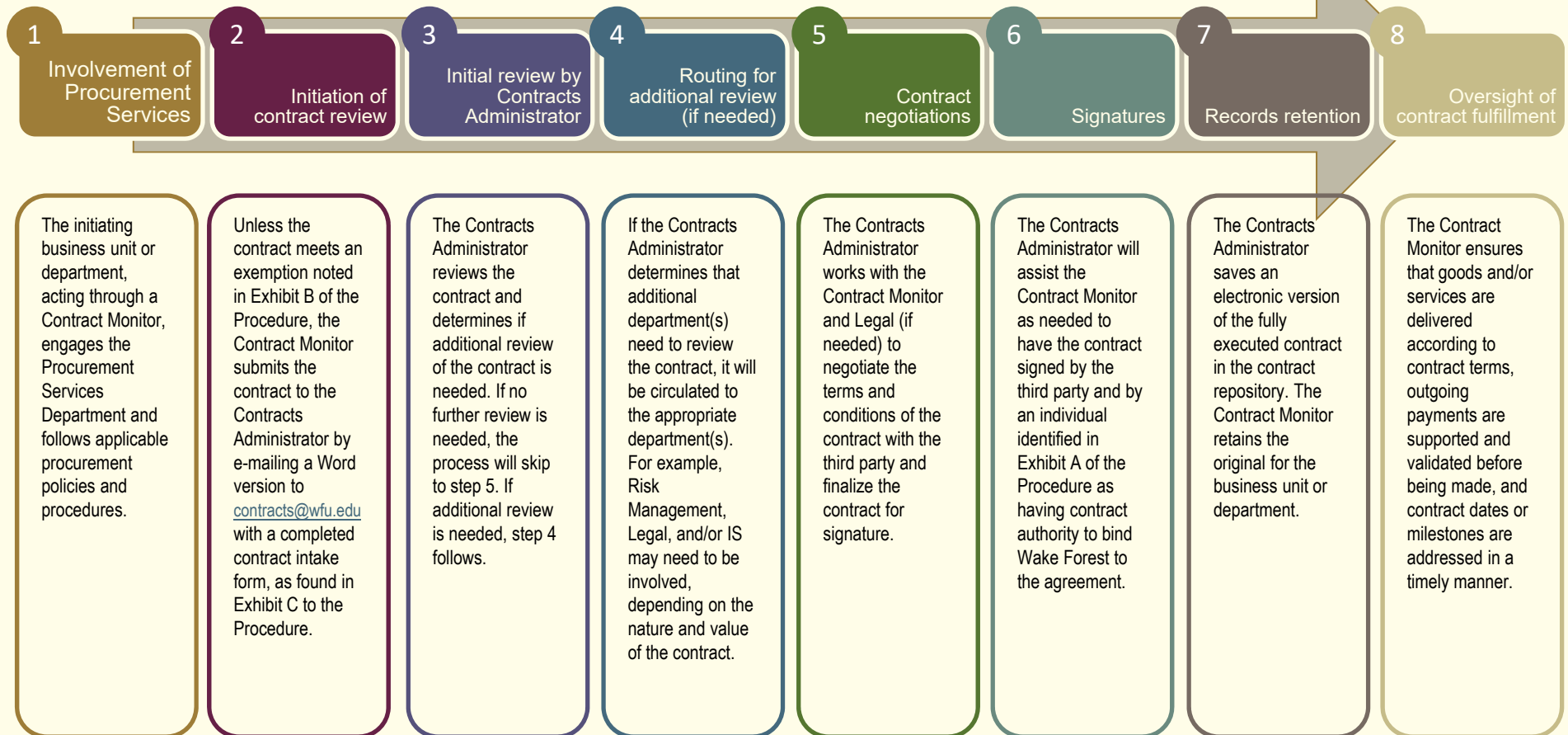
Lease Accounting

Jessica Gorrell,

Senior Manager, Capital Assets and Debt



Current Contract Management Workflow





OVERVIEW

The Financial Accounting Standards Board (FASB) has issued new lease accounting guidelines that will directly affect operating leases with terms exceeding 12 months, particularly in areas with contractual / embedded lease agreements.

Effective for Wake Forest for the fiscal year which began 7/1/2019 (FY20).

Link to new standard - [Leases - Topic 842 \(ASC 842\)](#)



PRIOR ACCOUNTING (Lessee)

Two Types of Leases – Capital and Operating

	Capital Leases	Operating Leases
Balance sheet	Asset and Liability recorded	No presentation
Income Statement	Amortization of the Asset monthly (included in Fixed Assets) and recognition of interest expense	Lease payment expense as incurred (i.e. Monthly)
Frequency	WFU recognized 8-10 a year – mainly for IS Equipment	WFU did not capture these leases centrally



PRIOR ACCOUNTING (Lessee)

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	Capital Leases	Operating Leases
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So why did we need a change?

A user of the financial statements had no way to know how many contracts a company had signed that contained leases that bound them to future payments. At the same time, the company is also receiving the right to use an asset for the term of the lease.

The inclusion of leased assets and lease liabilities on the balance sheet is an improvement over previous GAAP.

CURRENT ACCOUNTING (Lessee)**Two Types of Leases – Finance and Operating**

	Finance Leases	Operating Leases
Balance sheet	Right of use (ROU) Asset Finance Lease Liability	Right of use (ROU) Asset, Operating Lease Liability
Income Statement	Amortization of the Asset on a straight line basis; Interest Expense (typically) declines during lease term	Lease expense on a straight line basis (includes both amortization of the ROU Asset and interest expense as one line)
Frequency	We expect the same 8-10 active leases as prior to the new standard.	Current info suggests we have between 50-100 of these leases across the University



Key Elections/Exemptions allowed by FASB

- Period of adoption – All prior leases will get entered and valued in Workday at 7.1.19
- Capitalization Threshold – For leases, we're electing to follow our asset capitalization policy which only records individual assets of \$5000 or greater.
- Short-Term Lease Exception: Leases that are 12 months or less don't get recorded
EXCEPTION: Renewal or termination options that we are reasonably certain to elect are included in the lease term.
i.e. A 12-month lease that includes a 12-month renewal we are reasonably certain to exercise would then be evaluated with a term of 24 months



WHO: The new standards will affect anyone at the University who has a contract that contains a lease.

Financial Services team includes:

Procurement, Contracts, AP, Finance Systems, Assets, and General Accounting

WHAT: This was a BIG change including new security roles and processes, accounting structure changes, testing

WHY: Ensure all leases are in compliance with the new guidance and that Contract Monitors are aware and prepared for this change.



What we need from you:

Existing Contracts

- All leases in effect as of today (11.21.19)
- Complete Google Collection Form

New Contracts

- Any new contracts that don't currently exist (including RENEWALS)
- Follow Contract Policy with addition of End User Questionnaire



Existing Contracts

- All potential leases in effect as of today (11.21.19)
- Complete Google Collection Form

- All current contracts (even if they've been through contract authority)
- Anything that remotely resembles a lease that you are aware of

DEADLINE: WINTER BREAK

METHOD OF CAPTURE: End User Lease Contract Collection Google Form



New Contracts

- Any new contracts that don't currently exist (including RENEWALS)
- Follow Contract Policy with addition of End User Questionnaire

- Continue to follow the current contract management policy
- Also consider whether your contract contains a lease by following our **End User Lease Questionnaire**
- Include the Questionnaire with your contract tracking form, or alone, if the contract is excluded from the current contract management policy.



Wake Forest University
Lease Questionnaire



Additional guidance:

1 Will a contract be signed? Please check the box that best fits your answer.

- ☐ No. Lease Accounting only applies when a contract has been signed.
☒ Yes. We will call this a contract while we analyze it. Proceed to question 2.

2 Are you receiving an asset as a result of this contract? Examples could include, usage of space, a building, a piece of equipment, a trailer, a vehicle, a software license, computer hardware

- ☐ No. Lease Accounting doesn't apply to you.
☒ Yes. Please proceed to question 3.

3 What is the term of your contract in MONTHS? Enter term in the gold box.

For example, 3 years equals 36 months.

120

4 Is there a renewal option in your contract?

- ☐ No. Please proceed to question 5.
☒ Yes. Please enter the months in the gold box. For example, two 1 year terms would be 24 months.

60

4a If there is a renewal option, are you reasonably certain you will renew the contract?

- ☐ No. Please proceed to question 5.
☒ Yes.

5 The total contract term, in months, including the expected renewal term, if applicable.

If the total term is less than or equal to 12 months, lease accounting doesn't apply. Follow the regular contract policy. If the term is greater than 12 months, proceed to question 6..

180

Lease – A contract, or part of a contract that conveys the right to use an underlying asset for a period of time in exchange for consideration. At the inception of an arrangement, the parties should determine whether the contract contains a lease by assessing both of the following:
 1. Whether there is an identified asset
 2. Whether the contract conveys the right to control the use of the identified asset in exchange for consideration for a period of time

Identified Asset - An asset that could be the subject of a lease. An identified asset may be either explicitly or implicitly identified. An asset would not be an identified asset if the supplier has the right and practical ability to substitute the asset and could economically benefit from exercising that right.

Lease term - The noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:
 1. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
 2. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

Renewal or termination options that are reasonably certain of exercise (or non-exercise) by the lessee are included in the lease term. I.E. A 12 month lease that includes a 12 month renewal we plan to exercise would then be subject to the new standard.

Reasonably certain - In practice, reasonably certain generally connotes a probability of 75 – 80%

Short-Term Lease Exception: A lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.



Things that indicate a potential lease

- Term more than a year indicated
- Words that indicate multi-year – Year 1, Year 2
- Words that indicate leases – agreement, lease, contract, rent
- Lease vendors – Landlords, financing companies, equipment companies, dealerships
- **Recurring payments**

Let's look at some examples!



WAKE FOREST
UNIVERSITY



GM FINANCIAL LEASING

PO Box 100
Williamsville, NY 14221

FOR CUSTOMER SERVICE, PLEASE CALL
1-844-496-6396. SEND MONTHLY PAYMENTS TO:
GM FINANCIAL LEASING P.O. BOX 78143
PHOENIX, AZ 85062



RECEIVED AUG 09 2019

0002887 6638287 0001 374400 102

WAKE FOREST UNIVERSITY
1900 REYNOLDA RD
WINSTON SALEM, NC 27106

Due Date: 08-21-19

Billing Date: 08-01-19

Account Number: 0170247981

Check payable to: GM FINANCIAL LEASING

		DESCRIPTION	AMOUNT	TAX	TOTAL
16 CADILLAC	C76	BASE RENT	800.92	24.03	824.95

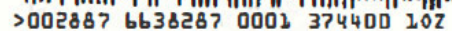
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BASE RENT				



WAKE FOREST
UNIVERSITY

VALD

PERFORMANCE

INVOICE

Wake Forest University
1834 Wake Forest Rd
WINSTON-SALEM NC 27109
UNITED STATES OF AMERICA

Invoice Date
16 Jul 2019

Account Details
Bank: Bank of America
Account: 237038740846
Routing: 053000196
Name: Vald Group

Invoice Number
INV-0180

Reference

Vald Group Inc
1312 S College Street
Unit 1226
CHARLOTTE NC 28203

If you would like to pay by Credit Card please
contact Chris Rowe
(704) 345 5145
chris@valdperformance.com

Description	Quantity	Unit Price	Tax	Amount USD
NordBord Pro Package - Year 3	1.00	3,700.00	6.75%	3,700.00
Subtotal				3,700.00
Total North Carolina State Sales Tax 4.75%				175.75
Total Forsyth County Sales Tax 2%				74.00
Invoice Total USD				3,949.75
Total Net Payments USD				0.00
Amount Due USD				3,949.75



WAKE FOREST
UNIVERSITY

VALD

PERFORMANCE

INVOICE

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10	3,700.00	6.75%	3,700.00
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Total Forsyth County Sales Tax 2%			74.00
Invoice Total USD			3,949.75
Total Net Payments USD			0.00
Amount Due USD			3,949.75



336-841-6200
Fax: 336-841-6204
1-800-672-4220
www.vannYorkauto.com

Vann York Auto Mall

422 Eastchester Drive
Post Office Box 5668
High Point, NC
27262

To Whom It May Concern:

Vann York Honda is f
follows.

formally quoting leases

bers are as

Sales Price - 34652.00

Acquisition Fee - 595.00

Doc Fee - 439.00

Title/License - 89.00

Taxes - Calculated on the monthly payment

Residual - 21702.80

36 Months, 3 per month with first payment due at signing or \$471 sign and

These lease payments are calculated assuming a personal guarantor. If no PG is provided financial statements will be required and payments may be higher.



WAKE FOREST

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TRIMARC
FINANCING SOLUTIONS

935 Riverside Avenue, Suite 19

Paso Robles, CA 93446

Telephone (888) 874-6272

Facsimile (805) 239-9836

LEASE SCHEDULE

LEASE SCHEDULE NO.

4

ANNEXED TO AND MADE A PART OF MASTER LEASE NO.

MLA-1421

DATED 7/28/2010

LESSEE: WAKE FOREST UNIVERSITY

CORPORATE ADDRESS: 1834 WAKE FOREST ROAD, WINSTON-SALEM, NC 27106

CONTACT: TREVOR HUGHES

TITLE: DIRECTOR OF INFORMATION TECHNOLOGY

TELEPHONE NO.: 336/758-4300

EQUIPMENT LOCATION: SAME AS CORPORATE

This Schedule is hereby annexed to the Master Lease referenced above between Lessee and Lessor. All of the terms and conditions of the Master Lease are incorporated herein and made a part hereof as if such terms and conditions were set forth in this Schedule. By their execution and delivery of this Schedule, the parties hereby reaffirm all of the terms and conditions of the Master Lease and that no modification to the Master Lease and/or any independent annexed Lease Schedule shall be effective unless in writing and signed by Lessee and an authorized officer of Lessor.

ITEM	QUANTITY	DESCRIPTION OF EQUIPMENT LEASED
1	42	LENOVO LAPTOPS
	34	MACBOOK AIR UNITS
		EQUIPMENT TO BE FURTHER DETAILED PRIOR TO FUNDING.
		TOTAL EQUIPMENT COST FOR THIS LEASE SCHEDULE NOT TO EXCEED \$109,924.00.
		THE EQUIVALENT ANNUAL RENTAL REFERENCED HEREIN IS TIED TO A 4 YEAR TREASURY SWAP RATE OF 1.74% AND FUNDING, FOR ANY INCREASE IN THE THEN CURRENT TREASURY SWAP
BASE LEASE TERM IN MONTHS		
48		
MOD	BILLED ANNUALLY	EQUIVALENT ANNUAL RENTAL
		\$28,740.00

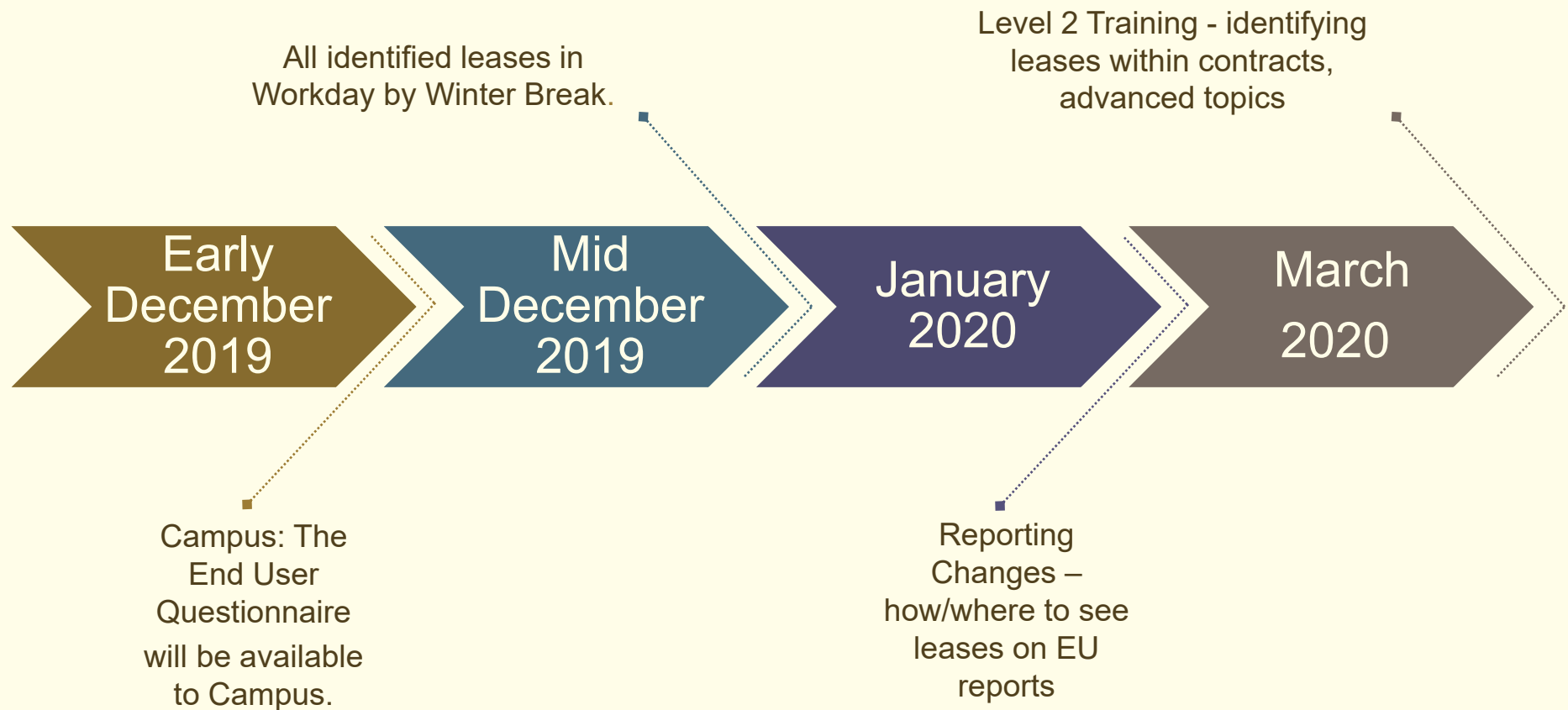


Procurement Changes

DO NOT	INSTEAD
Enter requisitions for new potential leases	Complete the End User Questionnaire and submit to contracts@wfu.edu .



Next Steps





Important Terms

Lease – A contract, or part of a contract that conveys the right to use an underlying asset for a period of time in exchange for consideration. At the inception of an arrangement, the parties should determine whether the contract contains a lease by assessing both of the following:

- Whether there is an identified asset
- Whether the contract conveys the right to control the use of the identified asset in exchange for consideration for a period of time

Finance Lease - For lessees, a lease is a finance lease if the lessee effectively obtains control of the underlying asset, by meeting any of the following five criteria:

1. Transfers ownership of the underlying asset
2. Option to purchase the underlying asset
3. The lease term > 75% of life of asset
4. The sum of the lease payments >90% fair value of asset
5. Asset has no alternative use to lessor at end of term

Operating lease - A lease in which a lessor transfers the use of an asset to a lessee for a period of time but does not effectively transfer control of the underlying asset



Important terms (Continued)

Identified Asset - An asset that could be the subject of a lease. An identified asset may be either explicitly or implicitly identified. An asset would not be an identified asset if the supplier has the right and practical ability to substitute the asset and could economically benefit from exercising that right.

Lease Liability - A lessee's obligation to make lease payments arising from a lease, measured on a discounted basis

Lease Payments - Payments required from a lessee to a lessor relating to the right to use an underlying asset, consisting of the following:

- Fixed payments, including in substance fixed payments, less any lease incentives received or receivable from the lessor
- Variable lease payments that depend on an index or a rate, based on the index or rate on the lease commencement date



Important terms (Continued)

Lease term - The noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

Lessee - An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration

Lessor - An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration

Nonlease Components – Portions of the lease that do not transfer a good or service (i.e. common area maintenance, property taxes, insurance, consumables, supplies, or services such as security and training)

Reasonably certain - In practice, reasonably certain generally connotes a probability of 75 – 80%



Existing References:

Contract Management Policy [\(Link\)](#)

Contract Management Admin Procedures [\(Link\)](#)

Contract Management Process Workflow [\(Link\)](#)

Procurement Policy [\(Link\)](#)

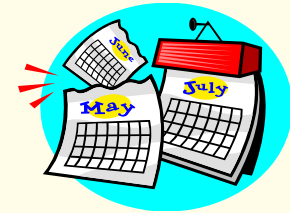


FY20 Mid-Year Close Calendar

Judy Sigmon,
Accounting Analyst



Key Dates for Fiscal 2020 Mid-Year Close First Departmental Close



- | | |
|---------------------------------|---|
| December 20th | * All deposits to cashier by 12PM |
| December 31st | * Final 2019 Bi-Weekly Payroll posted by 5PM
* Final 2019 Exempt payroll posted by 5PM |
| January 7th | * All December gifts in Advancement by 4PM
* Journal entries submitted in Workday by 5PM |
| January 8th | * All December receiving (backdated) completed by 12PM
* All invoices, expense reports (including Pcard transactions) in Workday by 5pm |
| January 10th | * All December gifts posted by Advancement by 12PM
* A/P accruals begin posting
* FIRST Departmental Close – Draft reports available after 5PM |



Key Dates for Fiscal 2020 Mid-Year Close Final Departmental Close

- January 13th** * Payroll reallocations and redistributions in Payroll by 5PM
- January 13th - January 15th** * Accruals, deferrals and adjustments posted by Financial Services
- January 15th** * **FINAL Departmental Close – Reports available after 5PM**





1st Departmental Close 1/10/20

- Deposits made by 12/20/19
- MO12 and BW26 payrolls
- ST01 & BW01 payroll accrued
- December gifts
- Receiving completed in Workday

Final Close 1/15/20

- Deferral of Spring Tuition Revenue billed in December
- Deferral of Tuition Prepayments
- Invoice accruals by Accounts Payable
- Payroll reallocations and redistributions



Mark Your Calendars!

February 19, 2020 at 2:00pm

Benson 401

Please send any agenda topic requests to
Sharon Anderson at anderssc@wfu.edu