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
The initiating business unit or department, acting through a Contract Monitor, engages the Procurement Services Department and follows applicable procurement policies and procedures. Unless the contract meets an exemption noted in Exhibit B of the Procedure, the Contract Monitor submits the contract to the Contracts Administrator by e-mailing a Word version to contracts@wfu.edu with a completed contract intake form, as found in Exhibit C to the Procedure.

The Contracts Administrator reviews the contract and determines if additional review of the contract is needed. If no further review is needed, the process will skip to step 5. If additional review is needed, step 4 follows.

If the Contracts Administrator determines that additional department(s) need to review the contract, it will be circulated to the appropriate department(s). For example, Risk Management, Legal, and/or IS may need to be involved, depending on the nature and value of the contract.

The Contracts Administrator works with the Contract Monitor and Legal (if needed) to negotiate the terms and conditions of the contract with the third party and finalize the contract for signature.

The Contracts Administrator will assist the Contract Monitor as needed to have the contract signed by the third party and by an individual identified in Exhibit A of the Procedure as having contract authority to bind Wake Forest to the agreement.

The Contracts Administrator saves an electronic version of the fully executed contract in the contract repository. The Contract Monitor ensures that goods and/or services are delivered according to contract terms, outgoing payments are supported and validated before being made, and contract dates or milestones are addressed in a timely manner.
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**

<table>
<thead>
<tr>
<th></th>
<th>Capital Leases</th>
<th>Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td>Asset and Liability recorded</td>
<td>No presentation</td>
</tr>
<tr>
<td><strong>Income Statement</strong></td>
<td>Amortization of the Asset monthly (included in Fixed Assets) and recognition of interest expense</td>
<td>Lease payment expense as incurred (i.e. Monthly)</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>WFU recognized 8-10 a year – mainly for IS Equipment</td>
<td>WFU did not capture these leases centrally</td>
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# PRIOR ACCOUNTING (Lessee)
## Two Types of Leases – Capital and Operating

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Lease Accounting Update

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

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

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
Lease Accounting Update

Existing Contracts

- 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

- 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.
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.

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.

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.

Additional guidance:

**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 non-cancelable 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!
GM FINANCIAL LEASING

RECEIVED AUG 09 2019

Due Date: 08-21-19
Billing Date: 08-01-19
Account Number: 0170247981
Check payable to: GM FINANCIAL LEASING

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
<th>TAX</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE RENT</td>
<td>800.92</td>
<td>24.03</td>
<td>824.95</td>
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MANAGING YOUR GM FINANCIAL
JUST GOT EASIER. YOU NOW HAVE 24/7 ACCOUNT AND PAYMENT ACCESS.
VISIT GMFINANCIAL.COM AND REGISTER FOR MYACCOUNT.
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# 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**

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<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Tax</th>
<th>Amount USD</th>
</tr>
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<tbody>
<tr>
<td>NordBord Pro Package - Year 3</td>
<td>1.00</td>
<td>3,700.00</td>
<td>6.75%</td>
<td>3,700.00</td>
</tr>
</tbody>
</table>

**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

---

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

**Wake Forest University**  
1834 Wake Forest Rd  
Winston-Salem NC 27109  
UNITED STATES OF AMERICA

---

**Description**  
NordBord Pro Package - Year 3

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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
To Whom It May Concern:

Vann York Honda is formally quoting leases as follows.

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.
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.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>QUANTITY</th>
<th>DESCRIPTION OF EQUIPMENT LEASED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>42</td>
<td>LENOVO LAPTOPS</td>
</tr>
<tr>
<td></td>
<td>34</td>
<td>MACBOOK AIR UNITS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EQUIPMENT TO BE FURTHER DETAILED PRIOR TO FUNDING.</td>
</tr>
</tbody>
</table>

TOTAL EQUIPMENT COST FOR THIS LEASE SCHEDULE NOT TO EXCEED $109,924.00.

THE EQUIVALENT ANNUAL RENTAL REFERENCED HEREDEN IS TIED TO A 4 YEAR TREASURY SWAP RATE OF 1.74% AND IS BILLED ANNUALLY. FOR ANY INCREASE IN THE THEN CURRENT TREASURY SWAP RATES, THE EQUIVALENT ANNUAL RENTAL WILL INCREASE.

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>BILLED ANNUALLY</th>
<th>EQUIVALENT ANNUAL RENTAL</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>$28,740.00</td>
</tr>
</tbody>
</table>

BASE LEASE TERM IN MONTHS

48
## Lease Accounting Update

### Procurement Changes

<table>
<thead>
<tr>
<th>DO NOT</th>
<th>INSTEAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter requisitions for new</td>
<td>Complete the End User Questionnaire and submit to</td>
</tr>
<tr>
<td>potential leases</td>
<td><a href="mailto:contracts@wfu.edu">contracts@wfu.edu</a>.</td>
</tr>
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</table>

Complete the End User Questionnaire and submit to contracts@wfu.edu.
Lease Accounting Update

Next Steps

Early December 2019

All identified leases in Workday by Winter Break.

Campus: The End User Questionnaire will be available to Campus.

Mid December 2019

January 2020

March 2020

Level 2 Training - identifying leases within contracts, advanced topics

Reporting Changes – how/where to see leases on EU reports
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
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**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**

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

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 andersssc@wfu.edu