

CACUBO Webinar Series on:
*Practical Guidance for Universities Adopting
GASB 87 - Lease Accounting*

October 27, 2021

We will begin shortly. Thanks for joining!



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- This is the 15th monthly webinar CACUBO has hosted since the pandemic began on various topics ranging from HEERF (four on this topic) to reopening strategies to DEI to COVID testing.
- Today, we will hear from panelists who will provide us education on GASB 87 - Lease Accounting and how one institution, Michigan State University, has gone about adopting this new accounting pronouncement.
- This webinar is eligible for CPE. If you are interested in receiving CPE credit for this webinar, please e-mail me (Marty Mickey) at mmickey@nl.edu. During the webinar, there will be three check in prompts for you to click on. In order to receive CPE, you must click on these prompts.
- We will send out a survey afterwards to solicit thoughts and topics for future webinars.
- If you would be willing to present in a future webinar, please e-mail me at mmickey@nl.edu.



Presenters

Host: Marty Mickey, National Louis University

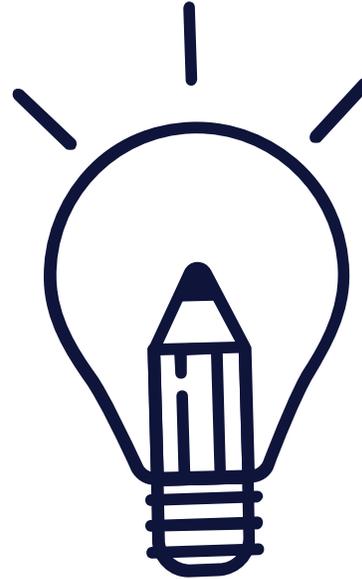
Shea Bryant - Manager of Financial Analysis and Reporting at Michigan State University. Shea joined the university in January 2018 after 7+ years at Plante Moran where he focused on higher education institutions. Shea's department is in charge of preparing the year-end financial statements and implementing new GASB standards as they are issued.

Katie Thornton - Partner from Plante Moran serving Michigan State University. Katie is also the Industry Technical Leader for Higher Education for the firm, with over 20 years experience in public accounting. Katie spends 100% of her time serving institutions of higher education and not-for-profit organizations.

Brian Greko - Principal from Plante Moran serving Michigan State University. Brian has more than 14 years of experience working primarily with clients in the public and private higher education industry. Brian assists clients with accounting, financial reporting, and other business-related matters, and is a member of the higher education professional standards team.

Agenda

- GASB 87 basics
- Evaluating contracts
- Applying GASB 87
- Michigan State University
- Technical Q&A



GASB 87 basics

- ▶ Single model for lease accounting
- ▶ Principle that ALL leases are financings of the right to use an underlying asset
- ▶ Requires recognition of certain lease assets and liabilities
 - Lessee – recognizes lease liability and right-to-use asset
 - Lessor – recognizes lease receivable and deferred inflow of resources
- ▶ Full accrual and modified accrual impact
- ▶ Effective for fiscal years beginning after June 15, 2021

GASB 87 basics

Definition of a lease

A contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

GASB 87 basics

Control is defined as the right to the following as specified in the contract (must meet both) the:

- Right to obtain the present service capacity from use of the underlying asset.
- Right to determine the nature and manner of the underlying asset.

A contract that conveys **control** of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

Polling question 1

How far along are you with the implementation of GASB 87?

- A. Not far yet – I've yet to read the standard.
- B. I've read the standard and have at least started to think about it.
- C. I've taken some action, but it's only a start.
- D. I've already gotten an entire inventory of the agreements and started to analyze them.

Evaluating Contracts



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Evaluating contracts

Is the GASB 87 definition of a lease met?

- ▶ Conveys control
- ▶ For a period of time
- ▶ Exchange or exchange-like transaction



Evaluating contracts

Short-term leases are excluded.

- ▶ At commencement, a lease has a maximum possible term of 12 months (or less), including options to extend.
 - Probability of extensions being exercised is not relevant.
- ▶ For leases cancelable by either lessee or lessor, the maximum possible term is the noncancelable period.
 - Month-to-month or year-to-year leases

Evaluating contracts

Other exceptions for lessees and lessors

- ▶ Leases that transfer ownership without termination options
- ▶ Leases of intangible assets (software licensing)
- ▶ Leases of biological assets (timber, plants, animals)
- ▶ Contracts that meet the definition of a service concession arrangement in accordance with GASB 60
- ▶ Supply contracts (power purchase agreements)
- ▶ Contracts for services (unless a multipart contract that also includes a lease component)

Evaluating contracts

Other exceptions for lessors only

- ▶ Contracts in which the underlying asset is an investment
- ▶ Regulated leases (airport-airline leases)



Applying GASB 87



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Applying GASB 87

Lease term

- ▶ Noncancelable period PLUS the following:
 - Periods covered by a lessee OR lessor option to extend the lease, if reasonably certain of being exercised
 - Periods covered by a lessee OR lessor option to terminate the lease if reasonably certain of NOT being exercised
- ▶ Not the same criteria as determining short-term leases
- ▶ What is reasonably certain?

Applying GASB 87

Initial measurement: Lessee

- ▶ At inception of the lease, the lease liability is equal to the present value of the payments expected to be made over the lease term including:
 - Fixed payments
 - Variable payments based on an index or rate (such as CPI) using the index or rate at lease commencement
 - Variable payments that are fixed in substance
 - Residual value guarantees, termination penalties, or purchase price options, if reasonably certain of being paid
 - Lease incentives receivable from the lessor
 - Any other relevant payments reasonably certain to be made

Applying GASB 87

Initial measurement: Lessee

- ▶ At inception, the lease asset is equal to the sum of:
 - The initial lease liability.
 - Any payments made to the lessor before lease commencement LESS any incentives received prior to commencement.
 - Initial direct costs that are ancillary charges necessary to place the asset into services.

Applying GASB 87

Initial measurement: Lessee example

► Scenario

- Lease term – 36 months
- Discount rate – 2.50%
- Monthly payment – \$10,000
- Present value of expected payments – \$346,484

► Journal entry at lease inception (full accrual)

DR. Lease asset	\$346,484	
CR. Lease liability		\$346,484

► Modified accrual

DR. Expense	\$346,484	
CR. Other financing sources		\$346,484

Applying GASB 87

Subsequent reporting: Lessee example

	Annual Payments		
	Principal	Interest	Total
Year 1	112,623	7,377	120,000
Year 2	115,471	4,529	120,000
Year 3	118,391	1,609	120,000
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	346,484	13,516	360,000

Annual Amortization	
Year 1	115,495
Year 2	115,495
Year 3	115,494
	<hr/>
	346,484

Lease payment Year 1:

Cr. Cash	\$120,000
Dr. Liability	\$112,623
Dr. Interest Exp	7,377

Asset Amortization Year 1:

Cr. A/D	\$115,495
Dr. Depreciation	\$115,495

Applying GASB 87

Initial measurement: Lessor

- ▶ At inception of the lease, the lease receivable is equal to the present value of the payments expected to be received over the lease term including:
 - Fixed payments
 - Variable payments based on an index or rate (such as CPI) using the index or rate at lease commencement
 - Variable payments that are fixed in substance
 - Residual value guarantees that are fixed in substance
 - Lease incentives payable to the lessee

Applying GASB 87

Initial measurement: Lessor

- ▶ At inception, the deferred inflows of resources are equal to the sum of:
 - The initial lease receivable
 - Any payments made by the lessee (such as final month's rent) before lease commencement LESS any incentives paid prior to commencement

Applying GASB 87

Initial measurement: Lessor example

► Scenario

- Lease term – 48 months
- Discount rate – 4.00%
- Monthly payment - \$5,000
- Present value of expected payments - \$221,444

► Journal entry at lease inception (modified and full accrual)

DR. Lease receivable	\$221,444
CR. Deferred inflows	\$221,444

Applying GASB 87

Subsequent reporting: Lessor example

	Annual Payments		
	Principal	Interest	Total
Year 1	52,090	7,910	60,000
Year 2	54,213	5,787	60,000
Year 3	56,421	3,579	60,000
Year 4	58,720	1,280	60,000
	<u>221,444</u>	<u>18,556</u>	<u>240,000</u>

Lease Revenue	
Year 1	55,361
Year 2	55,361
Year 3	55,361
Year 4	55,361
	<u>221,444</u>

Lease payment Year 1:

Dr. Cash	\$60,000	
Cr. Lease receivable		\$52,090
Cr. Interest Income		7,910

Deferred Inflows Amortization Year 1:

Cr. Lease revenue		\$55,361
Dr. Deferred inflow	\$55,361	

Polling question 2

How does your organization plan to perform lease calculations?

- A. Our own calculations/tools
- B. A free tool
- C. A purchased tool
- D. Lease software

Applying GASB 87

Disclosure requirements: Lessee

- ▶ General description of its leasing arrangements, including:
 - Basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined
 - The existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability
- ▶ Sublease transactions
- ▶ Sale-leaseback transactions
- ▶ Assets pledged as collateral, unless that collateral is the underlying asset
- ▶ Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization, disclosed separately from other capital assets

Applying GASB 87

Disclosure requirements: Lessee

- ▶ Outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability
- ▶ Outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability
- ▶ Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter
- ▶ Commitments under leases before the commencement of the lease term
- ▶ Components of any loss associated with an impairment

Applying GASB 87

Disclosure requirements: Lessor

- ▶ General description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable
- ▶ Sublease transactions
- ▶ Sale-leaseback transactions
- ▶ Inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if not on the face of the statements
- ▶ Existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

Applying GASB 87

Disclosure requirements: Lessor

- ▶ Leases of assets that are investments
- ▶ Schedule of future payments that are included in the measurement of the lease receivable, showing principal and interest separately, for each of the five subsequent fiscal years and in five-year increments thereafter
 - Only required if lessor's principal ongoing operations consist of leasing assets to other entities
- ▶ Regulated leases

Michigan State University

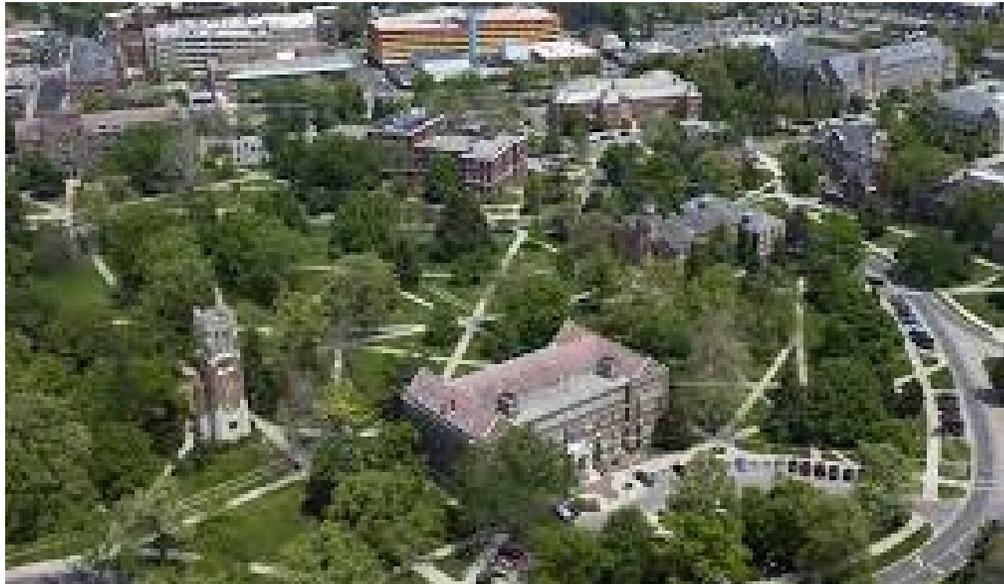


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GASB 87 - Leases

At Michigan State University

GASB 87 Implementation at Michigan State University – A Deep Dive



GASB 87 - Leases

At Michigan State University

Current State:

- Leases accounted for under GASB 62 with only one lease meeting the requirements of a capital lease.
- Each quarter we receive a report from Land Management and University Services (i.e. Purchasing) of known leases.
- Financial Analysis and Reporting saves any leases with gross commitments greater than \$100,000.
- Leases over \$100,000 are reviewed for the four criteria of a capital lease.
- Leases are tracked in an Excel workbook.
- All equipment leases are *supposed* to run through Purchasing.
- All real estate leases are *supposed* to run through Land Management.
- Revenues and expenses recognized on a cash basis in the **funds** where the activity occurs.

GASB 87 - Leases

At Michigan State University

Establishing
Infrastructure

Software
Implementation

Internal
Reporting

External
Reporting

GASB 87 - Leases

At Michigan State University

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Implementation

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Reporting

External
Reporting

GASB 87 - Leases

At Michigan State University

Establishing Infrastructure:

- Software vs. Excel/In-House
- Task Force
- Materiality
- Discount Rates

GASB 87 - Leases

At Michigan State University

Software vs. Excel/In-House:

- Using queries and outreach around campus in March 2020 we identified a population of approximately 150 leases.
- Concluded to acquire a software to A) provide a central location for our leases and B) assist with the calculations on such a large population.
- Reached out to a number of software companies and learned that in general they were prepared for FASB but not necessarily GASB.
- At the same time we were searching for a new asset management software. Potential that this software would also have a lease module.

GASB 87 - Leases

At Michigan State University

Software vs. Excel/In-House:

- The University ultimately selected Planon as the new asset management software. Learned they had experience with FASB and IASB standards.
- Went out to their US headquarters and worked with some consultants to establish the differences between FASB/IASB and GASB.
- GASB module is complete and is what we will use for our GASB 87 software. Pros and cons so far.
- Other software options: AMTdirect, Lease Query, Lease Accelerator, Oracle/Peoplesoft module, BKD LeaseVision

GASB 87 - Leases

At Michigan State University

Task Force:

- Important to bring in a broad team to capture the full impact of the new standard. Our team consists of 25 members.
- Land Management: Real estate leases and CLERY reporting.
- Purchasing: Equipment leases and internal lease program.
- Infrastructure Planning and Facilities: Capital asset management.
- IT Services: Software implementation and connection to other systems.
- Planon project team: Liaison with Planon and overall project.
- Controllers Office: Accounting concerns.

GASB 87 - Leases

At Michigan State University

Materiality:

- Question of whether to establish a threshold vs. account for all leases.
- MSU moveable equipment - \$5k, MSU nonmoveable equipment - \$500k.
- Discussions with other universities are showing decisions in favor of both.
- Preference of our Purchasing and Land Management groups to enter all leases into the Lease Management module.
- MSU will pass on setting a threshold as it will likely not save much time with our reliance on a software for the calculations/disclosures.

GASB 87 - Leases

At Michigan State University

Discount Rates:

- Step 1: Is an interest rate stated in the agreement? If so, we will use that.
- Step 2: Is the fair value of the equipment provided in the agreement or known? If so, we can use that to impute the interest rate.
- Step 3: Use the University's incremental borrowing rate.
 - The University has a master lease program in place.
 - Reached out to one of the banks in the program who offered to provide us with 2/3/5/7/10 year secured asset financing rates which we will use to establish our incremental borrowing rates.
 - Will update these rates quarterly for use when entering leases.

GASB 87 - Leases

At Michigan State University

Establishing Infrastructure:

- Software vs. Excel/In-House
- Task Force
- Materiality
- Discount Rates

GASB 87 - Leases

At Michigan State University

Establishing
Infrastructure

Software
Implementation

Internal
Reporting

External
Reporting

GASB 87 - Leases

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Software Implementation:

- Planon is divided into a lease management module and a lease accounting module.
- The lease management module houses the lease details, payment schedule, etc. needed to administer the lease agreement.
- When flagged, leases in the lease management module flow into the lease accounting module to have the GASB 87 rules applied to them.
- Lease accounting module provides the GASB 87 calculations, accumulates the disclosures, etc.

GASB 87 - Leases

At Michigan State University

Software Implementation:

- The task force has been meeting weekly for the last few months to hash out requirements of both modules.
- The broad team has been essential for identifying areas of concern that are unique to each area:
 - Location data for CLERY reporting
 - Square footage information for specific reporting
 - Space usage data for specific reporting
 - Approval routing, access management, unique identifiers, fields from the accounting strings, etc.

GASB 87 - Leases

At Michigan State University

Software Implementation:

- Fields identified to date:

Lease PO #	Lease Name	Agreement type	Account #	Org code
Lease counterparty	Square feet	Flag for academic space	Asset purpose	Address
County	# Acres	Lease Term	Lease provisions	Transfer ownership
Fixed payments	Variable payments	Residual value guarantees	Options	Incentives
Interest rate	Asset #	Sublease flag	Related party flag	Student activity flag
Country				

GASB 87 - Leases

At Michigan State University

Software Implementation:

- Cash transactions still recorded in KFS.
- Working on data feeds and KFS attributes to pick out payments/receipts related to specific leases.
- Cleaning up our object codes to further isolate lease activity.
- Tracking payees in KFS, similar to vendors, for the first time.
- Planon has a cash flows table for each lease that can be updated with actual receipts/payments and cross referenced against the amortization tables.

GASB 87 - Leases

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Software Implementation:

- Ran through a series of 20 test cases to confirm the initial setup of the modules.
- Detailed User Acceptance Testing to in June 2021.
 - Each unit provided every scenario they could think of for testing.
- Lease entry began in August 2021.
- Overall, will have taken around 16 months from the time the task force was established.

Polling question 3

How many agreements do you think your organization has that will meet the definition of a lease?

- A. Fewer than 10
- B. 10–50
- C. 50–100
- D. Over 100

GASB 87 - Leases

At Michigan State University

Establishing
Infrastructure

Software
Implementation

Internal
Reporting

External
Reporting

GASB 87 - Leases

At Michigan State University

Internal Reporting:

- The University utilizes Kuali Financial System as our accounting system
- Accounts in KFS are essentially cost centers around campus
- Object codes drive the line-item reporting
- Operate on a cash basis throughout the year with departments focused on the inflows and outflows they can control
- Accruals are made at year-end and either placed in central accounts or reversed at the start of the new year

GASB 87 - Leases

At Michigan State University

Internal Reporting:

- Where do we want to report GASB 87 accruals?
 - Departments want to see what they owe (lessee) or are still to receive (lessor) on lease agreements
 - Concluded that placing accruals on individual accounts would confuse units and be inconsistent with our normal practices
 - Units will continue to focus on the cash impacts to their accounts
 - The accruals will be available in Planon as needed. All users will have read-only rights.
 - GASB 87 year-end accruals/activity will be booked to the Plant Fund. We will then offset the revenues/expenses recorded in the other funds during the year.

GASB 87 - Leases

At Michigan State University

Internal Reporting:

- University Services administers an internal lease program where they purchase equipment and then lease it to departments
- These leases will be tracked in Planon
- Developed a matrix of leases that starts with external vs. internal leases, then breaks them down further by unit in charge of the leases (Land Management, University Services, etc.)
- Concluded not to accrue these to individual accounts but rather follow the same approach as our external leases

GASB 87 - Leases

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Infrastructure

Software
Implementation

Internal
Reporting

External
Reporting

GASB 87 - Leases

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External Reporting:

- Entries will be made to central accounts once per year
- Will need to adjust out expenses/revenues recognized by the departments during the year that are operating on a cash basis
- Detail behind the entries will be housed in Planon
- Amortization tables and related disclosure accumulation will also be housed inside Planon

GASB 87 - Leases

At Michigan State University

Assumptions for the Following Examples:

- NPV of Lessor Arrangements = \$68,190,188 / NPV of Lessee Arrangements = \$72,678,676
- Assume a 10-year asset life and lease term for each lease in the population
- Assume a 4% discount rate on all leases
- Schedules presented as though all leases were placed on the books in 2020 and then one year of amortization/payments occurred.
- Includes highlighted line items indicating where those payments are currently reported by MSU.

GASB 87 - Leases

At Michigan State University

External Reporting:

MICHIGAN STATE UNIVERSITY			
STATEMENTS OF NET POSITION			
June 30,			
ASSETS	2020 (as reported)	GASB 87 Adj	2020 (w/ GASB 87)
(in thousands)			
Current assets:			
Cash and cash equivalents	\$ 201,143		\$ 201,143
Restricted cash and cash equivalents	-		-
Investments	307,425		307,425
Accounts and interest receivable, net	260,897	6,819	267,716
Student loans and pledges receivable, net	32,292		32,292
Inventories and other assets	22,141		22,141
Total current assets	823,898		830,717
Noncurrent assets:			
Restricted cash and cash equivalents	4,669		4,669
Restricted investments	9,220		9,220
Accounts and interest receivable, net	-	54,552	54,552
Endowment investments	2,799,889		2,799,889
Other investments	280,293		280,293
Student loans and pledges receivable, net	76,389		76,389
Investments in joint ventures and other assets	29,258		29,258
Derivative instruments - swap asset	372		372
Capital assets, net	2,937,901	65,411	3,003,312
Total noncurrent assets	6,137,991		6,257,954
Total assets	6,961,889		7,088,671
DEFERRED OUTFLOWS OF RESOURCES	547,578		547,578

GASB 87 - Leases

At Michigan State University

External Reporting:

MICHIGAN STATE UNIVERSITY			
STATEMENTS OF NET POSITION			
June 30,			
	2020 (as reported)	GASB 87 Adj	2020 (w/ GASB 87)
(in thousands)			
LIABILITIES			
Current liabilities:			
Accounts and interest payable	165,062		165,062
Accrued personnel costs	64,435		64,435
Accrued self-insurance liabilities	22,907		22,907
Payroll taxes and other payroll deductions	22,573		22,573
Deposits held for others	22,123		22,123
Unearned revenues	102,640		102,640
Current portion of net other postemployment benefit obligations	51,326		51,326
Current portion of long-term debt and other obligations	293,435	7,268	300,703
Total current liabilities	744,501		751,769
Noncurrent liabilities:			
Accrued personnel costs	36,894		36,894
Accrued self-insurance liabilities	10,260		10,260
Payroll taxes and other payroll deductions	15,485		15,485
Unearned revenues	8,667		8,667
Derivative instruments - swap liability	78,763		78,763
Net other postemployment benefit obligations	2,090,014		2,090,014
Long-term debt and other obligations	1,672,946	58,143	1,731,089
Total noncurrent liabilities	3,913,029		3,971,172
Total liabilities	4,657,530		4,722,941
DEFERRED INFLOWS OF RESOURCES	387,548	61,371	448,919

GASB 87 - Leases

At Michigan State University

External Reporting:

MICHIGAN STATE UNIVERSITY				
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION				
Year ended June 30,				
	2020 (as reported)	GASB 87 Adj	2020 (w/ GASB 87)	
(in thousands)				
OPERATING REVENUES				
Student tuition and fees	\$ 1,050,466		\$ 1,050,466	
Less: scholarship allowances	155,214		155,214	
Net student tuition and fees	895,252		895,252	
State of Michigan grants and contracts	18,159		18,159	
Federal grants and contracts	373,846		373,846	
Local and private sponsored programs	82,643		82,643	
Interest and fees on student loans	1,272		1,272	
Departmental activities (net of scholarship allowances of \$8,160 in 2020 and \$7,738 in 2019)	306,473	(3,524)	302,949	Where receipts used to be recorded
Auxiliary activities (net of room and board allowances of \$27,442 in 2020 and \$26,302 in 2019)	358,354	(6,023)	352,331	Where receipts used to be recorded
TOTAL OPERATING REVENUES	2,035,999		2,026,452	
OPERATING EXPENSES				
Instruction and departmental research	775,782	(1,203)	774,579	Where payments used to be recorded
Research	399,507	(2,052)	397,455	Where payments used to be recorded
Public service	380,269	(4,325)	375,944	Where payments used to be recorded
Academic support	136,793		136,793	
Student services	58,866		58,866	
Scholarships and fellowships	98,604		98,604	
Institutional support	194,441		194,441	
Operation and maintenance of plant	135,909	(1,562)	134,347	Where payments used to be recorded
Auxiliary enterprises	365,935	(1,033)	364,902	Where payments used to be recorded
Depreciation	186,306	(7,268)	179,038	Amortization of lease asset
Other operating expenses, net	4,442		4,442	
TOTAL OPERATING EXPENSES	2,736,854		2,719,411	

GASB 87 - Leases

At Michigan State University

External Reporting:

MICHIGAN STATE UNIVERSITY				
STATEMENTS OF CASH FLOWS				
Year ended June 30,				
	2020 (as reported)	GASB 87 Adj	2020 (w/ GASB 87)	
(in thousands)				
Cash flows from operating activities				
Tuition and fees	\$ 898,814		\$ 898,814	
Research grants and contracts	460,848		460,848	
Auxiliary activities	350,043	6,023	356,066	Where currently reported
Departmental activities	289,084	3,524	292,608	Where currently reported
Interest and fees on student loans	1,272		1,272	
Loans issued to students	(4,583)		(4,583)	
Collection of loans from students	7,689		7,689	
Scholarships and fellowships	(105,367)		(105,367)	
Payments to suppliers	(661,566)	(10,175)	(671,741)	Where currently reported
Payments to employees	(1,653,069)		(1,653,069)	
Other payments	(78,276)		(78,276)	
Net cash used by operating activities	(495,111)		(495,739)	
Cash flows from noncapital financing activities				
State appropriations	353,297		353,297	
Federal Pell grant revenue	44,596		44,596	
Federal Coronavirus Aid, Relief, and Economic Security Act receipts	16,135		16,135	
Gifts	48,543		48,543	
Endowment gifts	47,386		47,386	
Proceeds from issuance of noncapital debt	-		-	
Principal paid on noncapital debt	(23,055)		(23,055)	
Interest paid on noncapital debt	(16,124)		(16,124)	
William D. Ford Direct Lending receipts	334,070		334,070	
William D. Ford Direct Lending disbursements	(334,070)		(334,070)	
Other receipts	17,762		17,762	
Net cash provided by noncapital financing activities	488,540		488,540	

GASB 87 - Leases

At Michigan State University

External Reporting:

- Implementation guide 2016-1: Question 2.27.5.2

MICHIGAN STATE UNIVERSITY				
STATEMENTS OF CASH FLOWS				
Year ended June 30,				
	2020 (as reported)	GASB 87 Adj	2020 (w/ GASB 87)	
(in thousands)				
Cash flows from capital and related financing activities				
Capital gifts and grants	43,579		43,579	
Proceeds from issuance of capital debt and other long-term obligatic	177,392	6,819	184,211	Lessor receipts
Purchase of capital assets	(284,808)		(284,808)	
Proceeds from sale of capital assets	1,534		1,534	
Principal paid on capital debt	(211,829)	(7,268)	(219,097)	Lessee payments
Interest paid on capital debt	(66,195)	(2,907)	(69,102)	interest expense
Other receipts	4,142	2,728	6,870	interest income
Net cash (used) provided by capital and related financin	(336,185)		(336,813)	
Cash flows from investing activities				
Investment income, net	168,713		168,713	
Proceeds from sales and maturities of investments	7,355,784		7,355,784	
Purchase of investments	(7,159,568)		(7,159,568)	
Net cash provided (used) by investing activities	364,929		364,929	
Net increase in cash	22,173		20,917	
Cash and cash equivalents, beginning of year	183,639		183,639	
Cash and cash equivalents, end of year	\$ 205,812		\$ 204,556	

GASB 87 - Leases

At Michigan State University

External Reporting:

- The extent of our lease disclosures under GASB 62:

Student loan deposits	36,355	-	7,791	28,564	4,653
Lease obligations and other	1,231	625	404	1,452	397
Total long term debt and other obligations	\$ 2,033,512	\$ 177,392	\$ 244,523	\$ 1,966,381	\$ 293,435

Lease obligations and other is comprised of lease obligations of \$552 (\$177 current) and obligations for installment purchases of \$900 (\$220 current).

GASB 87 - Leases

At Michigan State University

External Reporting:

- Implementation guide 2019-3: Question 4.76.
- Measure using the remaining lease term and discount rate as of the beginning of the earliest period restated.
- No restatement of the beginning net position should be required.
- The University will be implementing as of July 1, 2019, to capture fiscal years 2020, 2021, and 2022 presented in the MD&A.

GASB 87 - Leases

At Michigan State University

Change in accounting policy – Effective for the fiscal year ended June 30, 2022, the University adopted GASB Statement No. 87, *Leases*, (“GASB 87”). This statement supersedes GASB Statement No. 62 and establishes new requirements for calculating and reporting the University’s lease activities. The adoption of GASB 87 has been reflected as of July 1, 2019, resulting in an increase in lease receivables of \$61,371, an increase in intangible right-to-use assets of \$65,411, an increase in leases payable of \$65,411, and an increase in deferred inflows of resources of \$61,371 at July 1, 2019. These balances were calculated using the facts and circumstances that existed at July 1, 2019 as prescribed by GASB Statement No. 87. There was no impact to beginning net position at July 1, 2019.

Beginning net position as of July 1, 2021 and 2020, respectively, were restated for the effects of the University’s adoption of GASB 87 as follows:

	June 30, 2020 as Originally Reported	GASB 87 Impact	July 1, 2020 as Restated	GASB 87 Impact	July 1, 2021 as Restated
Current assets	\$ 823,898	\$ 6,819	\$ 830,717	\$ 7,000	\$ 837,717
Noncurrent assets	6,137,991	119,963	6,257,954	120,000	6,377,954
Total assets	6,961,889	126,782	7,088,671	127,000	7,215,671
Deferred outflows of resources	547,578	-	547,578	-	547,578
Current liabilities	744,501	7,268	751,769	6,000	757,769
Noncurrent liabilities	3,913,029	58,143	3,971,172	56,000	4,027,172
Total liabilities	4,657,530	65,411	4,722,941	62,000	4,784,941
Deferred inflows of resources	387,548	61,371	448,919	62,000	510,919
Net Position	\$ 2,464,389	\$ -	\$ 2,464,389	\$ 3,000	\$ 2,467,389

GASB 87 - Leases

At Michigan State University

External Reporting:

- Disclosures under GASB 87:
- Add the lease liability to our “Long term debt and other obligations table”
- Lessee arrangements:

The University leases land, office space, office equipment, and medical equipment from external parties. In accordance with GASB 87, the University records right-to-use assets and lease liabilities based on the present value of expected payments over the term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, and are otherwise discounted using the University's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. For leases featuring payments tied to an index or market rate, the valuation is based on the initial index or market rate. The University does not have any leases subject to a residual value guarantee. The right-to-use assets are amortized over the shorter of the lease term or the underlying asset useful life. Right-to-use assets totaled \$75,543 and \$72,679 at June 30, 2021 and 2020, respectively. Accumulated amortization totaled \$14,822 and \$7,268 at June 30, 2021 and 2020, respectively.

GASB 87 - Leases

At Michigan State University

External Reporting:

- Lessee arrangements continued:

The amount of lease assets by major classes of underlying assets at June 30, 2021 and 2020, respectively, are as follows:

Asset Class	Right-to-Use Asset	
	June 30, 2021	June 30, 2020
Land	194	194
Buildings	75,295	72,439
Equipment and other	54	46
	<u>75,543</u>	<u>72,679</u>

As of June 30, 2021, the scheduled fiscal year maturities of lease liabilities and related interest expense are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2022	6,792	2,386
2023	7,069	2,110
2024	7,357	1,822
2025	7,656	1,522
2026	7,968	1,210
2027-2031	23,879	1,628
	<u>\$ 60,721</u>	<u>\$ 10,678</u>

During the years ended June 30, 2021 and 2020, the University paid \$5,543 and \$5,235, respectively, in variable lease payments not previously included in the measurement of the related lease liabilities.

GASB 87 - Leases

At Michigan State University

External Reporting:

- Lessor arrangements:

The University leases space on buildings to cellular companies and office space to external parties. In accordance with GASB 87, the University records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate charged on the lease. Variable payments are excluded from the valuations unless they are fixed in substance. During the years ended June 30, 2021 and 2020, the University recognized revenues related to these lease agreements totaling \$9,937 and \$9,547, respectively. Of these amounts recognized during the years ended June 30, 2021 and 2020, the University recognized \$3,647 and \$3,328, respectively, of revenue related to variable receipts that were not previously included in the measurement of the lease receivable.

GASB 87 - Leases

At Michigan State University

External Reporting:

- Retroactive reporting considerations:
 - The University will use our population as of June 30, 2021 as the initial July 1, 2019 population for purposes of the calculation.
 - The University will utilize the incremental borrowing rates in effect at July 1, 2021 as the initial July 1, 2019 incremental borrowing rate.
 - Will utilize Planon to apply a calculation date of July 1, 2019 to leases that were in effect prior to that date.
 - These assumptions are acceptable *as long as* we can prove that these assumptions do not materially misstate amounts in FY 2020 and 2021.

GASB 87 - Leases

At Michigan State University

External Reporting:

- We are also keeping GASB 96, *Subscription-Based Information Technology Arrangements*, in mind.
- GASB 96 essentially applies GASB 87 to subscription-based arrangements.
- Planon is developing a module to cover GASB 96.

Polling question 4

What do you anticipate will be the most difficult to obtain for lease disclosures:

- A. Segregating the major classes of underlying assets
- B. Calculating the future payment/receipts between principal and interest
- C. Identifying any sublease or sale-leaseback transactions
- D. All of the above

Action Plan



CACUBO

Action plan

Next steps

- ▶ Continue to familiarize yourself with available resources.
- ▶ Identify the population of potential leases (not just those agreements already referred to as leases).
- ▶ Gather the agreements, amendments, and extensions.
- ▶ Excerpt key terms and provisions.
- ▶ Determine the applicability of GASB 87 to each agreement.
- ▶ If GASB 87 applies, calculate initial measurement of the amounts to be placed on the statement of net position.
- ▶ Implement controls to identify future leases and modifications.
- ▶ Develop a system for accounting for leases.

Action plan

Where to look for potential leases

- ▶ Current capital & operating leases
- ▶ Contract database
- ▶ Clerk or legal department
- ▶ Department heads
- ▶ Capital asset lists
- ▶ Budget or trial balance
- ▶ Cash receipt & disbursement lists





Questions



Thank you!

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Appendix



CACUBO

Technical Q&A



CACUBO

Technical Q&A

Question 1

What do I need to know specific to Year One implementation?

Technical Q&A

Implementation of GASB 87

- ▶ Leases should be measured based on facts and circumstances at beginning of implementation period, not the lease commencement.
- ▶ If comparative statements are presented, leases should be measured based on facts and circumstances at the earliest period being restated.
- ▶ Capital leases may have to be remeasured when GASB 87 is implemented.
- ▶ Implementation should be applied retroactively by restating beginning equity for all periods presented.

Technical Q&A

Implementation of GASB 87

- ▶ Existing Operating Lease Implementation Example (IG 4.76)
 - At earliest period to be presented, there will be 8 years left on an existing lease. Lease payments are \$100,000/year. No stated/implicit discount rate in agreement. Used Institution's incremental discount rate of 5%.
 - Lease liability measured using the remaining lease term and discount rate as of the beginning of the earliest period restated.
 - Lease liability = \$646,000
 - Lease asset = lease liability = \$646,000

Technical Q&A

Implementation of GASB 87

- ▶ Existing Capital Lease Implementation Example (IG 4.77)
 - At earliest period presented, capital lease with an interest rate of 5% had a capital asset balance of \$20,900 and lease liability of \$21,500
 - There was a change in the lease term, which changes the lease liability to \$22,500.
 - To record the implementation:
 - ▶ Increase liability to \$22,500 (\$1,000 increase - credit)
 - ▶ Increase capital asset to \$22,500 (1,600 increase - debit)
 - ▶ Difference to restatement of beginning net position (\$600 - credit)

Technical Q&A

Question 2

We heard you can use a materiality threshold, is that true?

Technical Q&A

Materiality (IG 4.23)

- ▶ Lease liabilities that are significant, either individually or in the aggregate, should be recognized.
- ▶ Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, governments often establish capitalization thresholds.
- ▶ When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease liability, in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of Implementation Guide 2015-1, as amended.

Technical Q&A

Question 3

What discount rate should be used?

Technical Q&A

Discount rates

- ▶ First, look to the lease agreement for an interest rate that is stated or implied.
- ▶ If not in agreement:
 - Lessees should use incremental borrowing rate.
 - Lessors should:
 - ▶ Compare face value of underlying asset to future payments.
 - ▶ Exercise professional judgment to estimate discount rate using observable information such as lessee's incremental borrowing rate or published market rates for similar instruments.
 - ▶ If not practical to estimate using methods above, use lessor's incremental borrowing rate.

Technical Q&A

Question 4

How should lease activity be reported on the statement of cash flows?

Technical Q&A

Statement of Cash Flows - Lessee

- ▶ If a lease results in a lessee recognizing a lease asset, the cash flows (including the interest portion) should be included in the capital and related financing activities category as an outflow in the lessee's statement of cash flows.
- ▶ Cash flows resulting from a short-term lease, on the other hand, usually should be classified with operating activities. The lessee's cash payments always should be presented as an operating activities outflow.

Technical Q&A

Statement of Cash Flows - Lessor

- ▶ A lessor should normally classify the inflows in the lessor's statement of cash flows consistent with how the underlying asset is classified on the statement of net position, that is, as an investing or capital and related financing activity.
- ▶ Cash flows resulting from a short-term lease, on the other hand, usually should be classified with operating activities. The lessor's cash receipts normally should be presented as an operating activities inflow.
- ▶ GASB 87 revision to Q .707-16

Technical Q&A

Question 5

Where should lease revenue (lessors) be reflected on the statement of revenue, expenses, and changes in net position?

Technical Q&A

Statement of Revenues, Expenses, and Changes in Net Position - Lessor

- ▶ Leases are considered “exchange” transactions
- ▶ GASB 34 (par 102) - consider how transaction is categorized in the statement of cash flows. Transactions for which cash flows are reported as capital and related financing activities would not be reported as operating income.
- ▶ Operating revenues are for principal ongoing operations
- ▶ Lease revenue = nonoperating

Technical Q&A

Question 6

Institution leases land from the City for \$1/year –
how should this be recorded?

Technical Q&A

Nominal leases

- ▶ Leases are considered “exchange” transactions unless the contract transfers the right to use an asset for only a nominal amount, such as \$1 per year, to be exchanged for the right to use the underlying asset
- ▶ Institution should not apply GASB 87 to this transaction
 - The Board acknowledges that the existing guidance for nonexchange transactions in Statement 33 does not specifically address the right to use nonfinancial assets in nonexchange transactions, such as the free use of office space.
 - Meant to be part of the current Revenue and Expense project

Technical Q&A

Question 7

What if the contract is more complicated than a simple one-asset lease?

Technical Q&A

Contracts with multiple components

- ▶ If contract contains a lease component and a nonlease component, the two components should be accounted for separately.
- ▶ If lease involves multiple underlying assets with different lease terms, each should be separately accounted for.
- ▶ Lessees should separately account for underlying assets if they fall into different major asset classes for disclosure purposes.

Technical Q&A

Question 8

How do I measure future payments that are going to change based on an index for inflation?

Technical Q&A

Variable payments example (IG 4.26)

- ▶ Five-year lease
- ▶ Payments for the first year are \$5,000 per month, then change each year based on Consumer Price Index (CPI)
- ▶ Answer: Lease liability will be the present value of \$5,000 monthly payments for 60 months.
- ▶ Any variation from \$5,000 paid in future periods will be recognized as outflows or reductions of outflows of those periods.

Technical Q&A

Question 9

Subsequent year - What if there is a change to the lease agreement before the end of the lease term?

Technical Q&A

Lease modifications & terminations

- ▶ Modifications can add or remove underlying assets, change the price, or change the term.
- ▶ Lease amendments require lessees to remeasure lease liability. Lease asset changes by the same amount:
 - Lessors remeasure lease receivable and adjust deferred inflows.
- ▶ Modifications should be treated as separate leases if both are true:
 - The modification provides additional lease assets to lessee.
 - The increase in lease payments is reasonable based on additional underlying assets.
- ▶ Modifications should be considered lease terminations if the lease term is shortened or underlying assets reduced.
 - Lessees reduce liability/asset; lessors reduce receivable/deferred inflows.

Technical Q&A

Remeasurement of the lease liability

- ▶ Remeasure the lease liability if any of the following occur and are expected to significantly impact the liability:
 - Change in lease term
 - Change in conclusion on the likelihood of a residual value guarantee being paid or purchase option being exercised from reasonably certain to not reasonably certain or vice versa
 - Change in estimated amounts for payments
 - Change in interest rate charged by lessor if used as the initial discount rate
 - A contingency upon which variable payments will be made is resolved such that those payments now meet the criteria for inclusion in the lease liability

Technical Q&A

Remeasurement of the lease liability

- ▶ If a lease liability must be remeasured, the liability should also be updated for changes in index or rate used to estimate variable payments, if change is significant to the liability
- ▶ Discount rate should also be updated if the change in lease liability would be significant and one or both of the following occur:
 - Change in lease term
 - Change in conclusion regarding likelihood of exercising purchase option
- ▶ Changes in likelihood of exercising options to extend or terminate do NOT trigger remeasurement of the lease liability, nor does a change in index or rate

Technical Q&A

Remeasurement of the lease receivable

- ▶ Remeasure the lease receivable if any of the following occur and are expected to significant impact the liability:
 - Change in lease term
 - Change in interest rate charged to lessee
 - A contingency impacting variable payments is resolved making them fixed in substance
- ▶ If a lease receivable must be remeasured, the receivable should also be updated for changes in index or rate used to estimate variable payments, if change is significant to the receivable.
- ▶ Discount rate should also be updated if the change in lease receivable would be significant and one or both of the following occur:
 - Change in lease term
 - Change in interest rate charged to lessee

Technical Q&A

Implementation Guide 2020-1

- ▶ Added 11 additional Lease FAQ

Available on GASB's website