

**KEVIN LEMBO**  
STATE COMPTROLLER



**MARTHA CARLSON**  
DEPUTY COMPTROLLER



STATE OF CONNECTICUT  
OFFICE *of the* STATE COMPTROLLER  
165 Capitol Ave.  
Hartford, CT 06106

**INTERDEPARTMENTAL MEMORANDUM**  
**Asset Management and Inventory Directive #4**

**To: Chief Administrative and fiscal Officers, Business Managers, Core-CT Asset Management Module Personnel**

**From: Elizabeth Macha, Director  
Central Accounts Payable  
Office of the State Comptroller  
165 Capital Avenue  
Hartford, CT 06106**

**Re: Implementation of GASB Statement No. 87, Accounting and Financial Reporting for Leases**

**Purpose**

The purpose of this Asset Management Directive #4 is to clarify the information included in [Comptroller's Memorandum 2021-11](#). Additionally, to notify the actions agencies need to take prior to July 1, 2021 due to the implementation of GASB Statement No. 87. Accounting and Financial Reporting for Leases will be effective with the fiscal year ending June 30, 2022.

**Agency Responsibilities**

Agencies and component units must restate the beginning balances of all their leases, which includes rental agreements. All leasing arrangements as defined by GASB 87 will now be treated as the financing of the right to use the leased asset. Agencies and component units must review leases and categorize them as long or short term by adding the time period of payments and any extension or renewal options available. The guidance below will aid with identifying agencies' leases:

**1. Identify all leases.**

Below are some examples of typical leases an agency may have:

- Land
- Building
- Rental Agreements
- Sub Leases
- Contracts with embedded Leases
- Equipment

**2. Exclude Intra/Inter agency leases**

Leases between the primary government and component units (or between 2 component units) should be reported separately from other lease receivables/payables on the statement of net position.

**3. Define the Lease Term**

The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- a. Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
- b. Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
- c. Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.

**4. Calculate the noncancelable period**

A non-cancelable period is when one party has the right to terminate the lease but it is reasonably certain they will not. "Reasonably certain" is a high threshold of probability. The lease term excludes periods in which both the lessee and the lessor have options to terminate regardless of probability. The lease term starts with the noncancelable lease period. **NOTE:** Fiscal funding/cancelation clauses are ignored unless reasonably certain of being exercised.

Once **both** the lessee and lessor have a right to terminate a lease, it becomes cancelable, an example is a month-to-month lease. GASB 87 considers the lease cancelable if the lessee **and** lessor can terminate a lease even when the cancellation penalty costs are so great but it is likely they would not.

**5. Review Leases that contain multiple lease components**

**a. Identify separate lease components**

Lease components with different terms must be accounted as separate leases. If the underlying assets are for different asset categories, the assets must be accounted for separately.

**b. Identify any non-lease components**

Non-lease components must be accounted for separately. An example would be a service contract, toner for a copier, or common area maintenance.

**c. Determine the contract price.**

Use prices for individual components that are included in the contract, as long as they not unreasonable. If a contract doesn't include separate prices for individual components or they seem unreasonable, use judgement to best estimate the allocation for each component.

## Account Codes

Changes have been made to existing account codes and new account codes have been established to record leases:

### **Short-Term Leases**

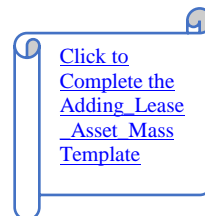
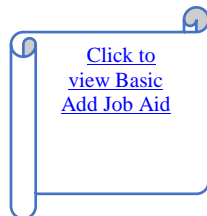
<b>Account</b>	<b>Description</b>
51830	ST-Post Office Box Lease/Rental
52511	ST-Office Equip Lease/Rental
52512	ST Equip Lease/Rental-Other
52513	ST-Main Truck Lease/Rental
53011	ST-Motor Vehicle Lease/Rental
53031	ST-Aircraft Lease/Rental
53051	ST-Watercraft Lease/Rental
53311	ST-Premises Lease/Rent Expense
53735	ST-IT Hardware Lease/Rental

### **Long-Term Leases**

<b>Account</b>	<b>Description</b>
55301	LT-Post Off Box Lease/Rental
55302	LT-Office Equip lease/Rental
55303	LT-Equip Lease/Rental
55304	LT-Maint Truck Lease/Rental
55305	LT-Motor Vehicle Lease/Rental
55306	LT-Aircraft Lease/Rental
55307	LT-Watercraft Lease/Rental
55308	LT-Premises Lease/Rental
55309	LT-IT Hardware Lease/Rental

## Core Agencies

Beginning July 1, 2021 all Core-CT agencies will enter their **new** leases into Core-CT Asset Management Module through Basic Add or **existing** leases through spreadsheet upload. Refer below to the link for the job aid and spreadsheet upload.



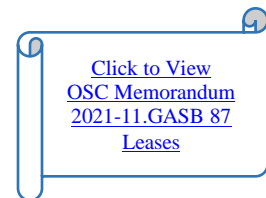
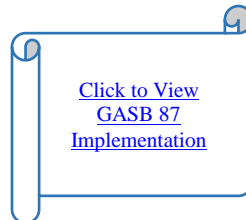
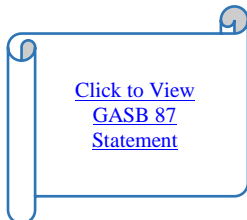
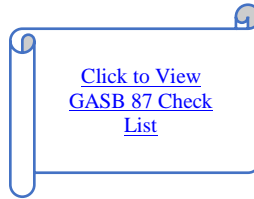
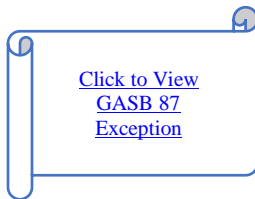
New profiles will be added for Leases. A Daily mail will be forthcoming on rolling the purchase orders for existing leases.

## Non-Core Agencies

Non-Core agencies will report their leases through the GAAP closing packages and fiscal year end.

## Other Useful Links

These documents can also be found on the Core-CT website under the Asset Management section.



## Frequently Asked Questions

- Q.** What is considered a Lease Term under GASB 87?
- A.** The lease term is the period during which a lessee has a **noncancelable** right to use an underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:
1. A lessee exercises the option to extend the lease.
  2. A lessee will not exercise the option to terminate the lease.
- Q.** How are the month to month extensions or holdover periods on a lease handled in GASB 87?
- A.** Month to month extensions or a holdover period until a new lease is signed is not enforceable because both the lessee and lessor could cancel the lease at any time.
- Q.** When determining the cost of the underlying asset are there additional costs to be included other than the lease payments?
- A.** Yes, ancillary costs to place the leased asset into service are added to the cost of the leased asset.
- Q.** What circumstances should a Lessee reassess a lease term?
- A.** The Lessee should reassess a lease term when:
1. There is a change in the (non-cancelable) lease term.
  2. A purchase option being exercised changes, or a residual value guarantee is being paid.

3. The estimated amounts for payments change.
4. The interest rate used for the initial discount changes.

**Conclusion**

GASB 87 is effective for all state agencies and component units beginning July 1, 2021.

Questions regarding Asset Directive #4 should be directed to [OSC.Assets@ct.gov](mailto:OSC.Assets@ct.gov).