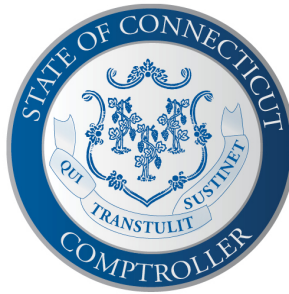


KEVIN LEMBO
STATE COMPTROLLER



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DEPUTY COMPTROLLER



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

MEMORANDUM NO. 2021-11

June 03, 2021

TO THE HEADS OF ALL STATE AGENCIES

Attention: Chief Administrative and Fiscal Officers, and Business Managers

Subject: **GASB 87 Leases**

The purpose of this memo is to inform all state agencies and quasi-public agencies of a change to the method of accounting for leases and to provide guidance for the implementation of the Governmental Accounting Standards Board (GASB) Statement 87. GASB 87 changes the accounting and financial reporting for leases. GASB 87 establishes a single model for lease accounting by defining leases as the financing of the right to use an underlying nonfinancial asset. Beginning July 1, 2021 agencies will be required to record the underlying asset of the lease that meets the capital threshold of \$5,000 for personal property and any leased real property (regardless of cost) as an intangible asset.

The state will no longer record leases, (including rentals), as capital or operating leases. GASB 87 requires leases to be recorded as either long term or short term. To prepare for this change every agency will have to identify and review their current lease agreements and any existing contracts that may have embedded leases. Leases not to be considered are short term leases and inter-agency leases. Short term leases defined by GASB 87 are leases that are twelve months or less. Inter-agency leases are leases between the primary government and component units or between two component units. The presence of lease renewal options, extending past twelve months, regardless of their probability of being exercised means the lease does not meet the definition of a short-term lease. Refer to Attachment A and B to determine which leases will be defined by GASB 87.

The leased asset should be measured as the sum of the initial lease liability plus prepayments made at or before the commencement of the lease term less lease incentives received plus ancillary costs necessary to place the leased asset in service. Examples of ancillary costs include but are not limited to legal fees, administration costs, and negotiation fees. The costs for the leased assets do not include any supplies that are contained in the lease such as toner for a copier or any maintenance costs. Refer to Attachment C to determine the cost of the leases.

Agencies should begin a review of leases by calculating lease balances as of July 1, 2021 for any leases with assets and contracts with embedded leases to determine whether they will continue to meet the definition of a lease under GASB 87. Refer to Attachment D to assist with the review of your leases.


Memorandum 2021-11

June 03, 2021

Please be advised that an asset directive with detailed information will be issued, including important account code changes that will be needed on purchase orders and contracts with embedded leases. New account codes will be established and published prior to July 1, 2021. Account code updates to effected purchase orders should be completed prior to the first lease payments in fiscal year 2022.

The State Property Control Manual and the State Accounting Manual will be updated to reflect the changes made by GASB 87.

Questions should be directed to Elizabeth Daly at elizabeth.l.daly@ct.gov.

DocuSigned by:

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KEVIN LEMBO
STATE COMPTROLLER

KL:ED

<http://osc.ct.gov>

ATTACHMENTS

GASB #87 Lease Exceptions

1. Leases between Agencies

- Interdepartment Leases
- Example: DOL leases a vehicle from DAS (Fleet Operations)

2. Leases of Biological Assets

- Living Animals
- Living Plants
- Timber

3. Software/Cloud Computing

- License to Use Software Services

4. Inventory

- Stores and Supplies

5. Leases that Transfer Ownership

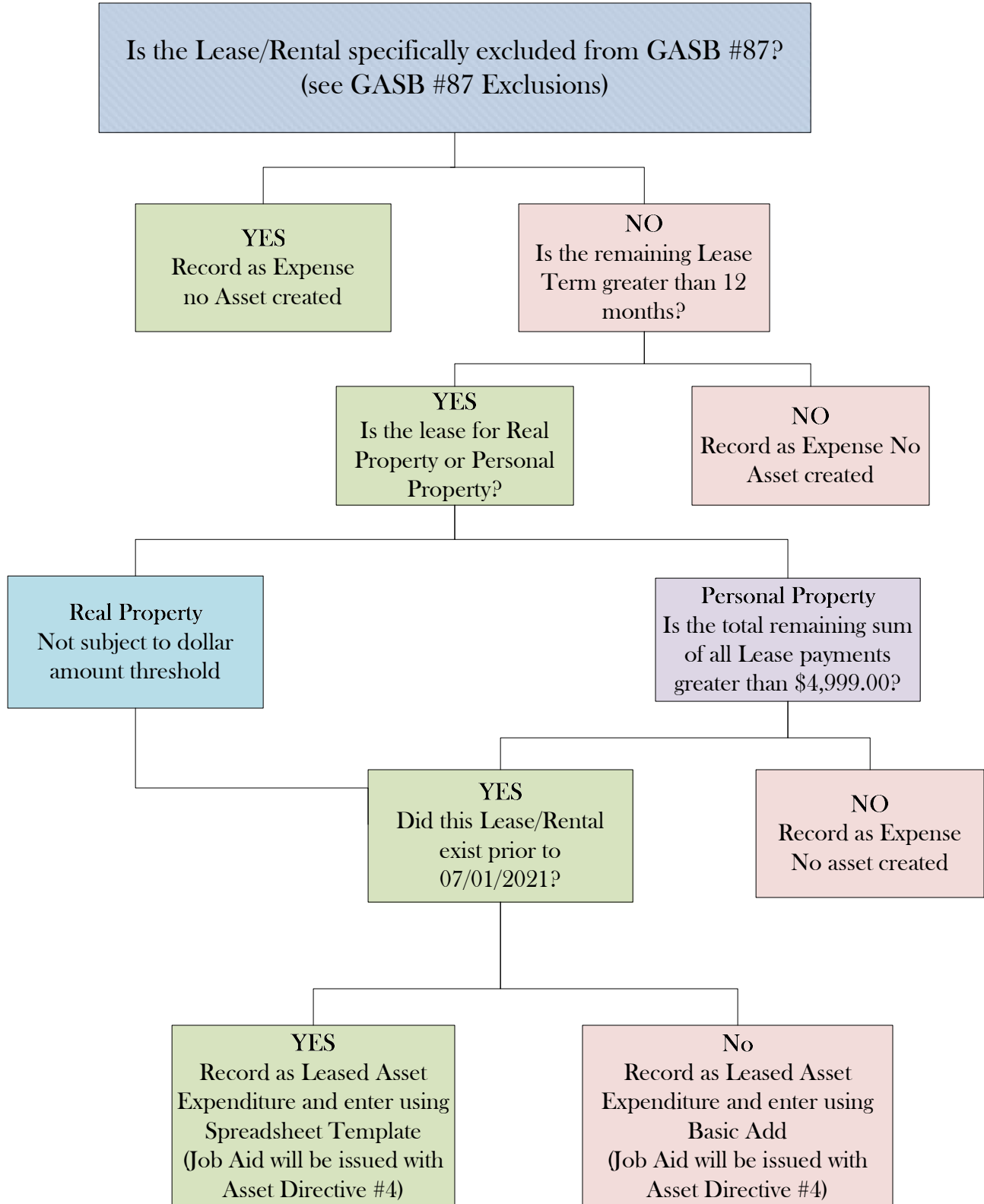
- Financed Purchases that transfers ownership at lease end

6. Rolling Month to Month Leases

- No Existing Option to Extend Lease

LEASE/RENTAL GUIDE

EFFECTIVE 07/01/2021
Use this decision tree to determine if your Lease/Rental should be treated as a right to use Capitalized Asset



Determining Lease/Rental Cost Example (Effective 07/01/2021)

Agency has an existing Lease Agreement for a copier machine

Copier Machine

48 Month Lease/Term = 08/15/18 – 08/14/2022

Monthly Rate = \$374.50

Delivery/Installation Cost = \$150.00

Future Remaining Payments as of July 01, 2021 = 13 Months



This example qualifies as a GASB #87 Lease

1. Remaining Lease Term is greater than 12 months (13 Months)
2. Calculated Cost is greater than \$4999.99 (\$5,031.50)

Checklist for GASB #87 Lease Implementation

Effective 07/01/2021 (FY 2022)

-
- 1. Agency reviews new OSC GASB #87 Memorandum/Directives
 - 2. Agency examines all current Lease/Rental agreements and/or Purchase Orders
 - 3. Agency determines any Lease/Rental exclusions
 - **Agency refers to GASB #87 Exclusions Document for listed exceptions**
 - 4. Agency creates an inventory list of existing Lease/Rental assets to be recognized in the Asset Management Repository (effective 07/01/2021) by populating Excel Template Spreadsheet
 - **Agency refers to Lease/Rental Decision Tree for specific guidance**
 - **Agency refers to Asset Spreadsheet Template Job Aid**
 - 5. Agency physically identifies/tags each Leased/Rental asset
 - **If practical to tag, tags should be easily distinguished from owned assets tags (i.e. number series or color)**
 - 6. Agency reviews/updates all rolled Leased/Rental Purchase Orders to ensure that they have one of the new Lease/Rental Expense Account Codes
 - **Agency refers to Long Term/Short Term Lease Expenditure Accounts Tree**
 - **This step cannot be performed until after 07/01/2021 and must be completed prior to creating any new Lease/Rental vouchers in the new Fiscal Year (FY 2022)**
 - 7. Agency records all new applicable Lease/Rentals with a start date of July 01, 2021 or greater using Core-CT Basic Add and new associated Purchase Orders/Receipts
 - **Agency refers to Basic Add Lease Job Aid**
 - 8. Agency monitors open Purchase Orders for Lease/Rental compliance
 - 9. Agency Retires Assets at end of Lease/Rental term
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