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**INTERDEPARTMENTAL MEMORANDUM**  
**Asset Management and Inventory Directive #6**

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

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

**Re: Implementation of GASB Statement No. 99, Accounting and Financial Reporting for Leases and Subscription Based Information Technology Arrangements (SBITA)**

**I. PURPOSE**

The purpose of this Asset Management Directive is to notify agencies of additional guidance stated in GASB 99 which alters the original guidance provided in GASB pronouncements 87 and 96.

**II. GENERAL INFORMATION**

Modifications to guidance shown below is effective July 1, 2022, per GASB 99.

**A. GASB 99 Modifications Applicable to Both GASB 87 and GASB 96**

1. Where applicable to both in this section the term “Agreement” shall be used to mean either a Lease or a SBITA.
2. The right to terminate a contract under standard breach of contract terms, should not be considered an option to terminate for purposes of determining the agreement’s term. This is specifically related to the calculation of “cancellable periods.”
3. Agencies are to reassess short-term agreements. If these agreements were modified to extend the initial maximum possible term under the agreement contract and the reassessed maximum possible term is greater than 12 months, the agreement should no longer be considered a short-term agreement. For an agreement that is reclassified, the lease liability should be measured beginning at the date of the modification.

4. For agreements that are not short-term, a liability should not be remeasured solely for a change in an index, or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in a government's incremental borrowing rate.

**B. Modifications Specific to GASB 87 (Leases)**

1. Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties must agree to extend) are cancellable periods and should be excluded from the maximum possible term. Cancellable periods are excluded when determining the maximum possible term of a lease and whether it meets the criteria for a short-term lease.
2. If a lessee has the option to purchase the underlying asset during the lease term and the contract is not required to be reported as a finance purchase, the lease term should exclude the period, if any, after the date at which the option to transfer ownership of the asset is reasonably certain to be exercised.

**Note:** A "finance purchase" contract is one that both (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, or the termination options are reasonably certain to not be exercised.

3. Provisions that allow for termination of a lease due to (1) purchase of the underlying asset, (2) pre-payment of all sums due, or (3) default on payments, should not be interpreted as a cancellable period or used to shorten the lease term except as a finance purchase in accordance with the note in item 2 above.
4. Variable payments calculated using an index, rate, or those that are fixed in substance, should be included in the measurement of the lease liability. All other variable payments, such as those based on future performance of the lessee or varying usage of the underlying asset, should be expensed and not paid as, or included in calculating, lease liability.
5. When calculating lease liability, agencies should include the price of a purchase option in the calculation if it is reasonably certain of being exercised. Agencies should not calculate both the value of a purchase option AND the value of payments that otherwise would be made if the option to purchase the underlying asset was not exercised. This would result in overstating the value of the expected payments to be made to the lessor.

**C. Modifications Specific to GASB 96 (SBITA)**

1. If an agency has a SBITA that previously was determined to be short-term but is being modified to extend the possible term under the SBITA, then the SBITA total term should be reassessed using the initial inception date. If the

reassessed maximum possible term is greater than 12 months, the SBITA should be reclassified as a long-term SBITA for the remaining periods.

2. For a SBITA that is reclassified from short to long-term, the subscription liability should be assessed beginning at the date of the modification from short to long-term.

### III. **AGENCY RESPONSIBILITIES**

GASB 99 is effective July 1, 2022. Agencies and component units shall review all their leases and SBITAs prior to May 31, 2023. They should restate as necessary the terms and balances of leases and SBITAs affected by GASB 99 guidance as of July 1, 2022. Agencies and component units are to categorize leases and SBITAs by long or short-term by adding the time period of payments and any extensions or renewal options available in accordance with these new guidelines.

### IV. **RESOURCES**

The guidance below will aid with identifying the lease and SBITAs:

- Asset Directive 4:  
<https://www.osc.ct.gov/apd/memoranda/Asset%20Directive%204.pdf>
- Asset Directive 5:  
<https://www.osc.ct.gov/apd/memoranda/AssetDirective5.pdf>

### V. **QUESTIONS**

Questions regarding Asset Directive #6 should be directed to [osc.assets@ct.gov](mailto:osc.assets@ct.gov).

## REFERENCES

Governmental Accounting Standards Board. (June 2017). Governmental Accounting Standards Series [PDF File]. *Statement No. 87 of the Governmental Accounting Standards Board-Leases, No. 366*. Retrieved from <https://gasb.org/Page/Document?pdf=GASBS87.pdf&title=GASB%20STATEMENT%20NO.%2087,%20LEASES>

Governmental Accounting Standards Board. (May 2020). Governmental Accounting Standards Series [PDF File]. *Statement No. 96 of the Governmental Accounting Standards Board-Subscription-Based Information Technology Arrangements*. Retrieved from <https://gasb.org/Page/Document?pdf=GASBS+96.pdf&title=GASB%20STATEMENT%20NO.%2096,%20SUBSCRIPTION-BASED%20INFORMATION%20TECHNOLOGY%20ARRANGEMENTS>

Governmental Accounting Standards Board. (April 2022). Governmental Accounting Standards Series [PDF File]. *Statement No. 99 of the Governmental Accounting Standards Board-Omnibus 2022*. Retrieved from <https://gasb.org/Page/Document?pdf=GASBS%2099.pdf&title=GASB%20STATEMENT%20NO.%2099,%20OMNIBUS%202022>