

Memorandum

Leases - RWAs

April 12, 2022

To: Members of the Board

From: Brian D. Casto, Staff Fellow

Thru: Ricky A. Perry, Jr., Senior Analyst
Monica R. Valentine, Executive Director

Subject: **Draft project plan and proposal related to reimbursable leasehold work agreements** (Topic B)

INTRODUCTION

Reimbursable work authorizations (hereinafter referred to as reimbursable leasehold work agreements or RWAs) have been included in the leases post-issuance technical activities project plan as a guidance candidate for several years. The related accounting issues were not suitable for being addressed in the leases omnibus or AAPC sub-projects. As a result, they have been reflected in staff's project plan for the second phase of the post-issuance project. This briefing material includes an educational R&D update presentation, a draft Technical Bulletin under development, and the latest version of the leases post-issuance project plan. Staff developed the proposal based on detailed walkthroughs and extensive interviews with subject matter experts at federal agencies, discussions with the FASAB general counsel, feedback from certain members of the lease implementation task force, and an accounting literature review of existing FASAB guidance and guidance from other standard-setters for similar transactions.

For this discussion, staff is requesting the Board's preliminary, high-level feedback on a proposed plan and approach for issuing authoritative guidance on the treatment of reimbursable leasehold work agreements in the form of a Technical Bulletin.

REQUEST FOR FEEDBACK BY APRIL 20

Prior to the Board's April meeting, please review the attached staff analysis and recommendations (Attachment 1), along with the presentation slides (Attachment 2), working draft proposal (Attachment 3), and an updated proposed project plan (Attachment 4). Please respond to the ensuing questions by no later than April 20.

Please provide responses to Mr. Casto (brian.casto@fiscal.treasury.gov) and Mr. Perry (PerryRA@fasab.gov), with a cc to Ms. Valentine at ValentineM@fasab.gov.

NEXT STEPS

Staff will consider and incorporate Board feedback and comments when preparing materials for the June meeting. At that meeting, staff will provide a comprehensive technical analysis explaining the basis for forthcoming recommendations to the Board in support of the proposal. Board members will provide technical feedback at the June 2022 meeting.

Pending member feedback regarding staff's research approach and methodology, coupled with the Board's general sentiments, a pre-ballot version of this proposal may be discussed in the June 2022 meeting with hopes to release an exposure document in July 2022.

ATTACHMENTS

1. Staff analysis
2. RWA R&D Update presentation slide deck
 - Peter Christake, Deputy Director, Office of Realty Management, SSA (panelist)
 - Christi Dewhirst, Lead Financial Management Analyst, GSA (panelist)
 - Edward Gramp, Director, Financial Reporting Division, GSA (panelist)
 - Melissa Sizemore, Partner, Cotton and Company (panelist)
 - Project staff (moderators/panelists)
3. *[Working Draft] Technical Bulletin 202X-X, Intragovernmental Lease-Related Reimbursable Agreements*
4. Project Plan

REFERENCE MATERIAL

1. [SFFAS 54, Leases](#)
2. [SFFAS 60, Omnibus Amendments 2021](#)
3. [SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements](#)
4. [SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting](#)
5. [Technical Bulletin 2000-1, Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance](#)
6. [Technical Bulletin 2017-1, Intragovernmental Exchange Transactions](#)
7. [Technical Bulletin 2017-2, Assigning Assets to Component Reporting Entities](#)

Staff Analysis

RWAs

April 12, 2022

CONTEXT

During the planning and implementation phase of SFFAS 54, *Leases*, the leases implementation task force received requests from agencies for further guidance and/or clarification on multiple complex accounting scenarios, including RWAs.

Certain entities engage in intragovernmental RWAs, which are intragovernmental agreements that possess unique features that are not contemplated in SFFAS 54, paragraphs 26-38. These paragraphs address the accounting for regular intragovernmental lease payments (expensed based on payment provisions and SFFAS 1 standards on payables for lessees), rent paid in advance (intragovernmental asset for lessees), and payables for rent (intragovernmental liability for lessees).

Intragovernmental RWAs are formal agreements (authorized by statutory authorities) between a provider-lessor and an intragovernmental customer-lessee. The provider-lessor agrees to provide goods and/or services, while the customer-lessee agrees to reimburse the lessor for the direct cost of the goods/services, along with and indirect costs and fees. (*Staff note: The panelist presentation will expand upon this information; see Attachment 2*).

Intragovernmental lease rental amounts are generally based on provider-lessor pricing policies prescribed by legislation and approved by the Office of Management and Budget. Pricing policies may be based on—depending on the types of legislative authorities associated with the transaction—prevailing market rates; return on investment pricing; or the costs (if any) of services not provided by the provider-lessor, plus a fee, and security charges and parking (if not in the lease). As a result, the General Services Administration (GSA) does not generally charge customer-lessees for costs already financed (paid for) through RWAs. This gives rise to an obligation for GSA to acquire, improve, and/or alter properties and to provide access to the resulting economic benefits and services derived from those acquisitions, improvements, and alterations in the future. Currently, GSA recognizes an unearned revenue liability and the related revenue over a period of time, while agencies do not always recognize a corresponding asset and related amortization in a manner that allows for eliminations. At times, decisions regarding the recognition of leasehold improvement assets also lack criteria and result in inconsistent accounting, intragovernmental differences, and dispute resolutions.

In normal reimbursable transactions under the Economy Act and other statutory authorities, assets/expenses of the customer-lessee and liabilities/revenues of the provider-lessor are eliminated in consolidation for the U.S. government-wide financial statements. However, a lack of definitive or uniform accounting guidance for RWAs, as well as no clear approach to

follow from SFFAS 54 (when implemented in FY 2024), has led to significant intra-governmental elimination differences that are likely to continue absent Board action. RWAs contributed to over \$500 million in elimination differences in FY 2021, one of the highest contributors to unresolved differences in intragovernmental balances.

The second unique feature of RWAs requiring distinctive accounting guidance focuses on improvements and alterations. Leasehold improvements are defined within SFFAS 54 as additions, alterations, remodeling, renovations, or other changes to a leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessee, while lessor improvements are those paid for (financed) by the lessor. Within RWAs, these improvements are unique in that a lessee and lessor may agree to additional reimbursable agreements in which the lessor will perform improvements on a cost-reimbursable basis. Through the terms set in an RWA, lessors may also provide special services in agency-controlled and operated space above what is specified in base occupancy agreements during the RWA term.

Some improvements may extend beyond the life of the lease or result in economic benefits and services lasting beyond the lease term (potentially benefiting the provider-lessor to considerable degree), while others are tailored to the customer-lessee's specific needs and provide a benefit only while controlling the leased space. Shell rent improvements encompass those changes to a leased property in which a considerable portion of the useful life and future economic benefits of the improvements extend beyond the life of the lease term, and in which the lessor receives more than an insignificant level of economic benefits. These might include construction, maintenance, and/or administrative overhead costs associated with the underlying asset in a lease. Conversely, custom rent improvements are additions, alterations, remodeling, renovations, or other changes to a leased property in which the lessee is the primary beneficiary, and the cost incurred enhance their right to control the leased space during their occupancy. These improvements are often tailored to the lessee's specific needs only while controlling the leased space.

Different accounting recognition is required based on the extent to which each party is expected to derive the resulting economic benefits and services, as differences can arise when customer-lessees and provider-lessors cannot agree on which entity should record the improvements on their balance sheet.

SUMMARY OF RECOMMENDATIONS AND ANALYSES

To address RWAs, staff developed and executed a rigorous and collaborative research and development plan involving three key stakeholders: GSA, the Department of State (DOS), and the Social Security Administration (SSA), as well as other task force members who have provided feedback as part of a small working group. The below analysis summarizes staff's methodology for purposes of obtaining Board feedback on the methodology.

Staff recommends that the Board provide guidance for consistent accounting treatment of intragovernmental RWAs as they relate to leases, leasehold improvements, and subsequent intragovernmental expense/revenue recognition. With sufficient accounting criteria, intragovernmental RWA transactions and balances would generally offset and eliminate during

the consolidation of the U.S. government-wide financial statements. Staff believes the Board's objectives of consistency and comparability¹ will be better achieved through clarified guidance for each entity's respective financial report, along with reliable and timely information on the full cost of federal activities.² Such guidance would facilitate marked progress in resolving one of the federal government's challenges in accounting for intragovernmental activities (one of the three major impediments identified by GAO in the audit of the CFR).

Staff's analysis recommends that the customer-lessee recognize an asset for their right to derive economic benefits and services from the use of the leasehold improvements for costs already financed (paid for) through the reimbursable leasehold work agreement *for certain types of* RWA transactions. Concurrently, the provider-lessor would recognize the related liability to acquire, improve, and/or alter the underlying asset for the customer-lessee and to provide access to the resulting economic benefits/services over time.

The customer-lessee would amortize their asset in a systematic and rational manner over the shorter of (a) the remainder of the lease term, or (b) the useful life of the underlying asset acquired or improvements/alterations thereto associated with the reimbursable agreement. Similarly, the provider-lessor would recognize reciprocal unearned reimbursable work revenue in a systematic and rational manner over the same period.

Next, staff recommends guidance to delineate accounting treatment of improvements/alterations between shell leasehold improvements (which primarily benefit the provider-lessor and extend beyond the term of the lease) and custom leasehold improvements (which primarily benefit the specific needs of a customer-lessee.)

Lastly, staff believes the issuance of a Technical Bulletin is an appropriate type of pronouncement, rather than an amendment within the body of SFFAS 54, *Leases*, or as part of a separate Statement. The ensuing analysis includes the basis for recommending this approach.

¹ SFFAC 1, *Objectives of Federal Financial Reporting*, Paragraphs 163-164.

² SFFAS 4, *Managerial Cost Accounting Standards and Concepts*,.

ANALYSIS

Staff Research and Development Methodology

Member feedback is requested with respect to staff's research approach and methodology, as summarized in the table below.

Question for the Board #1:

Do members have any preliminary, high-level feedback on the research methodology summarized in the table below? What types of evidence and analyses would members like to see in the June briefing materials to facilitate their technical reviews during the next phase of deliberations? Is the project methodology below appropriately designed to gather such evidence?

Note: Staff's objective is to obtain sufficient, appropriate evidence necessary to provide comfort to the Board that the proposal, when technically reviewed more thoroughly by members in June, is technically sound, consistent with existing Concepts and Statements, reflective of agency views and positions, and viable for releasing for public comment as efficiently as possible.

Members are asked to refrain from providing *detailed* technical comments until the June meeting. The June briefing materials will include a more robust and detailed analysis supporting each piece of the proposal. General and preliminary technical feedback is requested for the April meeting.

Research and Development Methodology

2017-2018	FASAB staff received a request from the Bureau of the Fiscal Service (along with agency position papers and interagency working group meeting minutes for consideration) to address RWA intragovernmental differences and dispute resolutions totaling over \$700 million (at that time).
2019-2020	FASAB staff reviewed documents and, in consultation with the Executive Director, elected to defer the RWA sub-project. The project did not possess requisite attributes for addressing through the TR or Omnibus sub-projects. Those two sub-projects were prioritized, while the RWA sub-project was planned for a later phase (as reflected in Attachment 4).
Sep 2021	Staff performed posting logic walkthroughs with GSA, DOS, and SSA. The objective was to discuss the agencies' accounting policies and current and planned posting models for leasehold improvements tied to different types of RWAs. Staff candidly shared preliminary views with participants in response to reviews of agency position papers and posting models and received feedback on those views. Staff and agencies agreed on a defined problem scope and the viability of reaching a consensus through iterative work.
Sep-Dec 2021	Staff documented walkthroughs, performed a preliminary accounting literature review and developed potential models in response to feedback and areas of potential stakeholder consensus.

Jan 2022	<p>Due to the complex nature of RWAs and the long-standing and contentious nature of the related intragovernmental disputes, staff elected to develop a consensus-building strategy. The strategy included:</p> <ul style="list-style-type: none"> • Developing a hypothetical posting model (describing the RWA lifecycle and related accounting entries throughout) to illustrate a potential solution on paper <i>prior to</i> drafting any hypothetical standards. • Scheduling iterative meetings with GSA, DOS, and SSA (and receiving electronic comments) to obtain technical corrections, improvements, feedback, and concerns on the illustrative posting logic. • Providing candid feedback and concerns <i>to agencies</i> in situations when their feedback may not be consistent with SFFAS 54 or other Board fundamentals, or when such feedback is unlikely to resolve the issues. • Receiving and incorporating candid feedback and concerns <i>from agencies</i> when staff proposals did not sufficiently resolve the accounting issues. • Meeting with only one agency at a time (and not meeting with a larger working group) until sufficient consensus is reached.
Feb-Mar 2022	<p>Met with FASAB General Counsel and received a summary of relevant laws and regulations to inform research and the development.</p> <p>Performed an extensive accounting literature review to identify relevant or analogous Concepts and Standards. Based on that literature review, staff decided to:</p> <ul style="list-style-type: none"> • To the extent relevant and analogous, base the proposals on the standards established in SFFAS 54. • Consider certain limited aspects of TB 2017-2, such as language providing for recognition on a “rational and consistent basis” and establishing and adhering to policies. • Complement and cross-reference SFFAS 4 within the developed guidance. <p>Drafted proposal (Attachment 3).</p> <p>Circulated proposal to GSA, DOS, SSA, Ms. Valentine, and Ms. Batchelor (who worked on SFFAS 55 and TB 2017-2) for feedback.</p>
Apr 2022	<p>Circulate proposal to a larger working group for feedback (in process).</p> <p>Receive working group feedback (in process).</p> <p>Receive preliminary, high-level feedback from the Board on the research methodology, literature review, and approach.</p>
May-Jun 2022	<p>Receive technical feedback from the Board.</p> <p>Distribute a pre-ballot version, if possible.</p> <p>Pre-balloting / balloting.</p>
Jul 2022	<p>Release an exposure draft for public comment.</p>

Recommended Approach for RWA Guidance

The leases implementation task force received requests from agencies for further guidance and/or clarification on multiple complex accounting scenarios, including RWAs. The absence of guidance for these transactions is not conducive to consistent application of the GAAP hierarchy, resulting in additional implementation and audit costs and unresolvable elimination differences..

The below analysis reflects results of the research performed thus far (as summarized above), along with resulting recommendations. It also reflects staff's research and analysis of relevant Concepts and Statements, along with feedback from stakeholders.

Substance and Form

Staff examined statutory authorities supporting RWAs. Staff confirmed with FASAB general counsel that GSA has statutory authority from the Federal Buildings Fund legislation 40 USC § 592(b)(2) to perform reimbursable work, including authority to provide special services not included in rent on a reimbursable basis. In addition, GSA has authority from 40 USC § 581(g) to "obtain payments, through advances or otherwise, for services, space, quarters, maintenance, repair, or other facilities furnished, on a reimbursable basis, to a federal agency." (*Staff note: These authorities will be discussed in detail during the panel presentation; see Attachment 2*)

Staff's Accounting Literature Review

Staff considered the following standards and concepts in developing the proposal to clarify accounting treatment of RWAs.

SFFAS 54, Leases, Guidance

a. SFFAS 54 specifically addresses several pieces associated with RWAs:

- Lease contracts and agreements with multiple components (par. 72-77), along with contract or agreement combinations (par. 78-79), both address how to allocate prices and terms to respective lease components, but remain silent on existing questions from RWAs. Staff believes that these paragraphs should be applicable to RWAs and that a Technical Bulletin can clarify the nature and extent of their applicability.
- Lease incentives and lease concessions (par. 70-71) reduce the amount that a lessee is required to pay, such as rent discounts made by the lessor to entice the lessee to sign a lease and reduced rents. However, RWAs are unique in that they are not an enticement to sign, a rent credit, or a sales commission credit. Rather, they are a reduced rent in recognition of funding/financing previously provided for construction or acquisition costs.
- Intragovernmental leases guidance (par. 26-38) does not consider RWAs.

Other FASAB Literature

- b. Staff believes that existing guidance supports the treatment of RWAs as exchange transactions; this is also consistent with existing practice. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*, confirms that RWAs are exchange transactions, since both the customer-lessee and provider-lessor sacrifice and receive value in the transaction.
- c. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*, provides criteria for reporting entities to assign assets to their components. Staff views the guidance as not applicable in the context of RWA transactions in general, but found certain limited aspects of the language used to be useful in this context. Specifically, the guidance provides for use of a “rational and consistent basis” and for establishing, documenting, and following policies when implementing the requirements of the Technical Bulletin (see par. 8).
- d. SFFAS 7, *Accounting for Revenues and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, affirm staff’s belief that RWA activities fall within the scope of over-arching accounting principles (i.e. costs and revenues should be matched and accrued over time, and that the full cost of goods/services for intragovernmental business-type activities be recognized in a coordinated manner (see Attachment 3 proposals and footnotes 2-3 therein).
- e. Staff also reviewed SFFAS 1, *Accounting for Selected Assets and Liabilities*, and found certain principles and fundamentals therein to have potential relevance for purposes of developing analogous guidance.

FASB Guidance

- f. FASB’s ASC Topic 606, *Revenue from Contracts with Customers*, explains significant financing components and describes instances in which an entity receives consideration in the form of an upfront fee before a related performance obligation is completed. In these cases, the provider would recognize a liability for deferred revenue until services are rendered/obligations are satisfied.

“To identify performance obligations in such contracts, an entity should assess whether the fee relates to the transfer of a promised good or service. In many cases, even though a nonrefundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfill the contract, that activity does not result in the transfer of a promised good or service to the customer... Instead, the upfront fee is an advance payment for future goods or services and, therefore, would be recognized as revenue when those future goods or services are provided.” (ASC 606-10-55-51)

- g. In addition, ASC Topic 606 explains that consideration payable to a customer should be made as a reduction in the transaction price and recognized over time:

“Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer... Consideration payable to a customer also includes credit or other items that can be applied against amounts owed to the entity. (ASC 606-10-32-25) If consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs: a. The entity recognizes revenue for the transfer of the related goods or services to the customer. b. The entity pays or promises to pay the consideration. (606-10-32-27)

Staff-Recommended Pronouncement Type

Staff’s recommendation for a Technical Bulletin is consistent with the purposes and uses under the *Rules of Procedure* (p. 26) and *Technical Bulletin 2000-1, Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance* (par. 4).

Staff’s recommendation is based on the following factors:

- a. Technical Bulletin 2000-1 provides that “guidance to address areas not directly covered by existing Statements or Interpretations” may be provided in Technical Bulletins (par. 4). Affected agencies have informed staff that they would appreciate timely guidance and an efficient due process to the extent possible.
- b. TBs are geared towards complex accounting issues that require solutions to existing problems, and are limited in scope and developed within tighter timeframes than that which is provided for Statements and Interpretations under the Rules of Procedure. “To provide timely guidance within the context of the standard FASAB procedures, Technical Bulletin procedures provide for both due process (more limited in scope and within a tighter minimum time frame than provided for statements and Interpretations) and review by FASAB members.” (TB 2000-1, par. 3)³

Issuance of a Technical Bulletin would facilitate a timelier resolution than issuance of a new Statement.

- c. The proposed guidance will not conflict with fundamental principles of SFFAS 54, or create novel accounting practices. Staff believes the guidance is consistent with the fundamentals and principles in SFFAS 54.

Recommendation

Staff recommends providing guidance on RWAs through issuance of a Technical Bulletin. Pending member feedback, staff will further research and revise the proposal. A pre-ballot version to expose this proposal may be discussed in the June 2022 meeting, with hopes to release an exposure document for public comment in July 2022.

³ If any guidelines in par. 3-5 of TB 2000-1 are not met, the Board generally should use a Statement or Interpretation rather than a TB (see par. 5). Staff found that the attributes of RWAs and the related accounting issues are all consistent with the guidelines for Technical Bulletins.

Question for the Board #2:

Do members have any feedback on staff's literature review or other authoritative guidance (including guidance from other standard-setting bodies) that staff should take into consideration in the June briefing materials?

Question for the Board #3:

Do members have any feedback on staff's basis for the pronouncement type recommendation of a Technical Bulletin for RWAs?

Reimbursable Work Authorizations

R&D Update

Speakers

- Brian Casto

Fellow, on detail from Treasury's Bureau of the Fiscal Service

- Peter Christake

Deputy Director, Office of Realty Management, SSA

- Christi Dewhirst

Senior Financial Management Analyst, GSA

- Edward Gramp

Director, Financial Policy Division, GSA

- Ricky "Alan" Perry

Senior Analyst, FASAB



Disclaimer

- Views expressed are those of the speakers.
- Official positions of the Board are reflected in its official pronouncements only after extensive due process and deliberations.
- Referenced sources are highly summarized and based on staff analysis and research. These are intended for training purposes only and should not be relied upon for purposes of obtaining a complete understanding of RWAs.

Objectives

- Learn about reimbursable work authorizations (RWAs) related to leases, their various purposes and uses, how they are structured in various situations, and concerns related to implementation of SFFAS 54
- Learn about the benefits of RWAs and situations in which customers enter into RWAs with GSA
- Learn about accounting issues associated with RWAs and ongoing intragovernmental elimination differences due to insufficient guidance

RWAs – Defined

- **Reimbursable work authorization (RWA)** – a written agreement between GSA's Public Buildings Service (PBS) and a customer agency, whereby PBS agrees to provide goods and services and the customer agency agrees to reimburse PBS' costs of these goods and services, indirect costs, and fees.
- RWAs enable the agency to be billed for the cost of altering, renovating, repairing, or providing services in space predominately managed by GSA (owned and leased) over and above the basic operations financed through Rent (Occupancy Agreements).

RWAs – Defined

- RWAs must include:
 - A bona fide need;
 - a fully defined scope of work associated with the funds;
 - a cost estimate that supports the total authorized amount of the RWA;
 - certification of customer agency's funds availability;
 - plus financial and other supporting data (e.g., billing information) relative to the reimbursable service.
- The customer agency must also specify the type of funding available (i.e., annual or multi-year appropriations) as well as the expiration date of this obligational authority.

RWAs – Purposes and Uses

- Several authorities permit PBS to perform reimbursable work on behalf of requesting customers:
 - **Federal buildings fund** (40 U.S.C. § 592 (b)(2))
 - Special services not included in Rent on a reimbursable basis.
 - This reimbursable authority is distinct from the authority for Rent.
 - Property is under GSA jurisdiction, custody and control
 - **The Economy Act** (31 U.S.C. § 1535)
 - Reimbursable projects on property that is not within jurisdiction, custody, and control of GSA.

RWAs – Examples

- General “above-standard” services (e.g., painting, overtime utilities)
- Space alterations and adjustments
- Tenant-funded shell (owned buildings only)
- Building construction or acquisition costs
- Improvements not included in the tenant improvement allowance

RWAs – Examples

- Panelists will discuss a few examples

RWAs – Operational Life Cycle

1. Receipt of RWA work request and req. development
2. Cost estimation
3. Receipt, review, and acceptance of the RWA
 - Bona fide needs rule
 - Form GSA 2957
4. Execution
5. Completion and financial closeout

RWAs – Accounting Issues

- Recognition of the leasehold improvement (PP&E) asset
 - Does the customer-lessee recognize, or does the provider-lessor?
 - Does it depend on the scope of RWA? Shell vs. custom improvements? Predominant beneficiary of the resulting economic benefits and services?
 - If assigned to GSA (the provider-lessor), does the customer-lessee also have an asset to amortize?
 - Concerns about consistent accounting treatment for alterations funded through the Rent vs funded by RWA
- Inter-entity costing considerations (SFFAS 4)

RWAs – Accounting Issues

- Intragovernmental leases guidance does not contemplate RWAs (SFFAS 54 par. 26-38)
- Other general considerations under the Board's Conceptual Framework
- Intragovernmental elimination differences are significant, exceeding \$500M, due to differences in agency accounting interpretations. The Bureau of the Fiscal Service wants to resolve these differences.
- Individual RWAs (particularly acquisitions, constructions, major renovations) can be material in the individual for certain reporting entities.
- Trends, prevalence of RWAs

Questions for the panel?



INTRAGOVERNMENTAL LEASE- RELATED REIMBURSABLE AGREEMENTS

Technical Bulletin 202X-X

Draft

Written comments are requested by [60-day comment period]

Month day, 202X

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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Month XX, 202X

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Technical Bulletin, *Intragovernmental Lease-Related Reimbursable Agreements*, are requested. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by **Month XX, 202X**.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document in the Federal Register and in FASAB's newsletter.

Sincerely,

Pending

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Technical Bulletin would provide accounting and reporting requirements for intragovernmental lease-related reimbursable agreements (often referred to in practice as reimbursable work authorizations). These intragovernmental agreements possess unique features that are not contemplated in SFFAS 54, *Leases*, paragraphs 26-38.

MATERIALITY

The provisions of this proposed Interpretation would not need to be applied to information if the effect of applying the provision(s) is immaterial.ⁱ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

ⁱ Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366.

All responses are requested by [insert date].

- Q1.** Do you generally support the proposed Technical Bulletin as a whole? Please provide reasons for your views.
- Q2.** Are there specific aspects of the proposed Technical Bulletin that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposal that are related to your positions, and any alternatives you propose and the basis for such alternatives.
- Q3.** Are you aware of any implementation issues that are not addressed in the proposed Technical Bulletin? Do any ambiguous areas remain that could lead to challenges with implementing the requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.
- Q4.** Are there specific aspects of this proposal that you otherwise wish to provide comments on?

PROPOSED STANDARDS

SCOPE

1. **What reporting entities are affected by this Technical Bulletin?**
2. This Technical Bulletin applies to federal entities that present general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
3. **What accounting practices are addressed in this Technical Bulletin?**
4. This Technical Bulletin provides guidance for accounting for and reporting of intragovernmental **reimbursable leasehold work agreements** (as defined under par. 9).
5. These agreements have unique features that require supplementary accounting guidance for purposes of implementing paragraphs 72-79 and 26-38 of SFFAS 54, *Leases*, and doing so in a manner consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.
6. **What is excluded from this Technical Bulletin?**
7. Paragraphs 16-27 of this Technical Bulletin do not apply to intragovernmental reimbursable leasehold work agreements for which the associated leasehold improvement is recognized by the customer-lessee agency. Paragraphs 28-33 of this Technical Bulletin provide principles for customers and providers to use when recognizing leasehold improvement (PP&E) assets between a customer-lessee or provider-lessor on a rational and consistent basis and determining the applicability of paragraphs 16-27.
8. This Technical Bulletin does not apply to reimbursable leasehold work agreements with non-federal entities. Such contracts and agreements should be reviewed by reporting entity lessees (and lessors) in accordance with paragraphs 78-79 of SFFAS 54 and considered when measuring the lease asset (unearned lease revenue) in accordance with paragraphs 49 (and par. 64) and 72-77 of SFFAS 54.

DEFINITIONS

9. **Reimbursable leasehold work agreement** – An agreement whereby one reporting entity (the provider-lessor) acquires, improves, and/or alters an underlying asset that is or will be leased to another reporting entity (the customer-lessee) and the customer-lessee agrees to pay the provider-lessor for (finance) direct and indirect costs for the acquisition, improvement, and/or alteration. The reimbursement of such acquisitions, improvements, and/or alterations go beyond what may be included in the rent or tenant improvement allowances provided for in a lease contract or agreement for the related underlying asset.
10. **Customer-lessee** – this term refers to the reporting entity financing (paying for) the acquisition of, or improvements and/or alterations to, the underlying asset provided by the provider-lessor on a reimbursable basis.

11. **Provider-lessor** – this term refers to the reporting entity providing the acquisition of, or improvements and/or alterations to, the underlying asset to the customer-lessee on a reimbursable basis.

REIMBURSABLE LEASEHOLD WORK AGREEMENTS

12. **What types of rights and obligations are established under reimbursable leasehold work authorizations that might give rise to recognizable assets and liabilities?**
13. Intragovernmental lease rental amounts are generally based on provider-lessor pricing policies prescribed by legislation and approved by the Office of Management and Budget (OMB). Pricing policies may be based—depending on the types of legislative authorities associated with the transaction—on prevailing market rates; return on investment pricing; or the costs (if any) of services not provided by the provider-lessor, plus a fee, and security charges and parking (if not in the lease). Reimbursable leasehold work agreements give rise to a reduction in the lease rental amounts that would otherwise be incurred by the provider-lessor and subsequently charged to the customer-lessee.
14. This establishes a right for the customer-lessee to derive economic benefits and services from the goods and services provided and the subsequent use of the underlying asset and improvements thereto for costs already financed (paid for) through the reimbursable leasehold work agreement (hereinafter referred to as the intragovernmental reimbursable work asset).
15. This also establishes an obligation for the provider-lessor to acquire, improve, and/or alter the underlying asset for the customer-lessee and to provide access to the resulting economic benefits and services over the shorter of the remainder of the lease term, or useful life of the underlying asset or improvements/alterations thereto (hereinafter referred to as unearned reimbursable work revenue liability).
16. **How should customer-lessees account for reimbursable leasehold work agreements?**
17. Reimbursable leasehold work agreement customer-lessees should initially recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, improvement, and/or alteration costs.
18. An intragovernmental reimbursable work asset should be amortized in a systematic and rational manner over the shorter of (a) the remainder of the lease term, or (b) the useful life of the underlying asset acquired or improvements/alterations thereto associated with the reimbursable work. The amortization of the intragovernmental reimbursable work asset should be reported as amortization expense.
19. The asset amount and subsequent amortization should be determined in a coordinated manner with the provider to facilitate the elimination of inter-entity balances and costs in accordance with paragraphs 108-109 of SFFAS 4.²

² SFFAS 4 par. 108-109 provide for sharing cost information, recognizing inter-entity expenses and assets (and corresponding revenues and liabilities) when appropriate for purposes of recognizing the full cost of goods and services provided for inter-entity business-type activities, and the elimination of inter-entity balances and transactions.

20. **What should customer-lessees disclose in the notes regarding intragovernmental reimbursable work assets and how do such disclosures relate to SFFAS 54 (par. 37) disclosure requirements?**
21. Customer-lessees should disclose the following regarding intragovernmental reimbursable work assets:
- a. A general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under paragraph 37.a of SFFAS 54.
 - b. The carrying amount of the asset and the amount of amortization expense for the reporting period.
22. **How should provider-lessors account for reimbursable leasehold work agreements?**
23. Reimbursable leasehold work agreement provider-lessors should initially recognize an intragovernmental unearned reimbursable work revenue liability for the amount receivable for reimbursable work acquisitions, improvements, and/or alterations.
24. Providers should recognize the intragovernmental unearned reimbursable work revenue in a systematic and rational manner over the shorter of (a) the remainder of the lease term, or (b) the useful life of the underlying asset acquired or improvements/alterations thereto associated with the reimbursable work.
25. The liability amount and subsequent revenue recognition should be determined in a coordinated manner with the customer to facilitate the elimination of inter-entity balances and costs in accordance with paragraphs 108-109 of SFFAS 4.³
26. **What should provider-lessors disclose in the notes regarding intragovernmental reimbursable work assets and how do such disclosures relate to SFFAS 54 (par. 38) disclosure requirements?**
27. Providers should disclose the following regarding intragovernmental unearned reimbursable work revenue liabilities:
- a. A general description of significant reimbursable work agreement activities. Such disclosures may be separate from or incorporated within the general description disclosures provided for under paragraph 38.a of SFFAS 54.
 - b. The carrying amount of the liability and the amount of intragovernmental reimbursable work revenue recognized in the reporting period.
28. **How should customer-lessees and provider-lessors determine the applicability of paragraphs 16-27 of this Technical Bulletin and recognize leasehold improvement assets accordingly?**

³ Ibid.

29. Leasehold improvement assets arising from reimbursable leasehold work agreements should be recognized between customer-lessees and provider-lessors on a rational and consistent basis.
30. For intragovernmental reimbursable leasehold work agreements in which the customer-lessee is expected to be the predominant beneficiary of the improvement or alteration made to the underlying asset, paragraphs 16-27 do not apply. For these types of agreements, the related leasehold improvement—which is a type of PP&E asset under paragraph 18 of SFFAS 6, *Accounting for Property, Plant, and Equipment*—should be recognized by the customer-lessee. The provider-lessor would not be expected to derive significant residual economic benefits or services from this type of reimbursable work. In such instances the customer-lessee should recognize the leasehold improvement in accordance with SFFAS 6 (and par. 34 of SFFAS 54), while the underlying asset (other than the leasehold improvement recognized by the customer-lessee) remains on the books of the provider-lessor, in accordance with paragraph 66 of SFFAS 54.
31. For improvements or alterations with an expected useful life beyond the remaining lease term or for which the provider-lessor is expected to derive a more than insignificant level of residual economic benefits and services, the customer-lessee would not be considered the predominant beneficiary. In such cases, the leasehold improvement (or PP&E) asset should be recognized by the provider-lessor and the customer-lessee and lessor-provider should follow the guidance under paragraphs 16-27 above (rather than par. 30).
32. The determination of whether or not the customer-lessee is expected to be the predominant beneficiary must be made in a manner that is consistent with the lease contract or agreement, its lease term (par. 14-21 of SFFAS 54), the nature of the reimbursable work, and the expected residual economic benefits and services at the end of the lease term.
33. There should be a policies established, documented, and followed consistently by customer-lessees and provider-lessors for recognizing leasehold improvement assets between reporting entities and reaching agreement on such recognition in a manner consistent with this guidance.

IMPLEMENTATION

34. This Technical Bulletin requires that intragovernmental reimbursable work agreements meeting the above-specified scope and recognition criteria above, and unexpired at the beginning of the reporting period in which the Technical Bulletin is implemented, be recognized and measured using the facts and circumstances that exist at the beginning of the reporting period.
35. Entities should report the effect of implementing this Technical Bulletin on existing intragovernmental reimbursable leasehold work agreements prospectively in accordance with paragraph 13 of SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*. Accordingly, any changes in assets or liabilities should be treated prospectively. The change should be accounted for in the period of implementation and applicable future periods. No adjustments should be made to previously reported expenses or revenue.

EFFECTIVE DATE

36. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023. Early adoption is permitted for intragovernmental reimbursable leasehold work agreements, on a transaction-by-transaction basis, if both the customer-lessee and provider-lessor reporting entities agree to early adopt the requirements for the related transaction.

The provisions of this Technical Bulletin need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

DRAFT

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this proposed Statement—not the material in this appendix—would govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

Pending

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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Leases Project Plan

	<u>Deferral</u> SFFAS 58	<u>Implementation Guidance</u> TR 20 Updates To TR 20	<u>Omnibus</u> SFFAS 60 SFFAS TBD (see Att. 2)	<u>RWAs / Leasehold</u> <u>Improvements</u> TB TBD	Training / Outreach
FY 2020	Draft Exposure Period Finalize Issuance SFFAS 58 ISSUED	Draft	Research Draft		Provide
FY 2021		Exposure Period Finalize / Approve Research	Exposure Period Finalize / Approve Research	Research Draft	Provide
FY 2022 Q1		Issuance TR 20 ISSUED Research	Issuance SFFAS 60 ISSUED Research Draft	Research Draft	Draft FY 22 content
FY 2022 Q2			Draft	Draft	Provide
FY 2022 Q3			Draft Exposure Period	Draft	Provide
FY 2022 Q4			Finalize / Approve	Exposure Period Finalize	Provide
FY 2023 Q1		Research	Issuance	Finalize / Approve	Draft FY 23 content
FY 2023 Q2		Research		Issuance	Provide
FY 2023 Q3		Research			Provide
FY 2023 Q4					Provide
FY 2024 Q1	SFFAS 54 effective				

Last updated April 2022. Timelines for issuance may need to be extended an additional quarter, pending Board deliberations and other due process uncertainties.