

Exposure Draft Questions for Respondents (QFR)
and Specific Matters for Comment (SMC)

Due: November 4, 2022

Intragovernmental Leasehold Reimbursable Work Agreements

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Please email your responses to fasab@fasab.gov. If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.

QFR 1 Do you generally agree or disagree with the proposed Technical Bulletin as a whole? Please provide reasons for your views.

SSA Response: We generally disagree with the proposed Technical Bulletin. SSA has a number of concerns:

1. We do not believe reimbursable work authorization (RWA) costs (or Intragovernmental Leasehold Reimbursable Agreements) that fail to meet our capitalization threshold to become Leasehold Improvement (LHI) assets are, in fact, assets to SSA. Essentially, if the RWA costs do not meet our LHI capitalization threshold, we have determined that the costs are immaterial and insignificant. Accordingly, SSA does not see a need to record any asset for immaterial or insignificant RWA costs. Since part of the goal is to amortize the costs over the period useful life of the project/lease term, we believe our LHI capitalization threshold is appropriate, as that is the basis for other assets we amortize. Furthermore, while we are willing to communicate with our lessor, we do not want to be forced to record an asset based on their capitalization threshold as that is not what is best for our financial statements. Requiring entities to record as "assets" immaterial or insignificant costs, in our opinion, runs contrary to other guidance concerning the ability of Federal entities to establish their own capitalization thresholds and make their own materiality determinations. We know we have a very different threshold than our lessor, and thus this Technical Bulletin

(TB) creates requirements that will never eliminate intragovernmental differences in this area.

2. We disagree with any references to prepayments of rent for future years. If cash is involved, which it would have to be if there's a "prepayment," we would have to record budgetary obligations and outlays. From an appropriations law perspective, funds from annual appropriations cannot pay for future years' budgetary obligations (which rental payments are) by using current year funds. We would thereby be "involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law." 31 U.S.C. § 1341(a)(1)(B). This would be a violation of the Anti-Deficiency Act. In addition, when we entered into these type of RWAs for improvements or construction, we are buying a service associated with the improvements being made to the building. We are not paying future rental costs. This work today is not typically done with an advance payment. Since government agencies can pull funds as needed through Treasury's Intragovernmental Payment and Collection (IPAC) System, the need to use advances should be minimal for this type of work. As a Trust Fund agency, requiring this work to be performed as an advance would harm our Trust Fund by liquidating funds before work is performed, resulting in a loss of interest revenue. These RWA projects typically take years before work is finished. To require an advance would harm the Trust Funds without reason.
3. Unless our rental agreements explicitly indicate that we are receiving a rental concession as a result of an RWA, we do not agree that there should be an asset associated with this activity. We believe that when we enter into an RWA to improve a building we are renting that we should record a leasehold improvement asset if our agency will benefit from the improvement. If the lessor will benefit from the improvement, then we believe that it would be acceptable to simply record the RWA transaction as an expense. In our view, we are paying for the service of having the building improved. We are not paying our rent in advance or receiving a concession. From the start of this process, we have had trouble determining what this asset represents to our agency. The only explanation that we could make sense of was to amortize significant costs over the period of use, but not reflect this as a PP&E asset to avoid double counting on the governmentwide financial statements. We can kind of see that for significant amounts, but anything that would not meet our normal capitalization threshold would be expensed by us, as there would not be a need to amortize. Paragraph 25 discusses this topic of amortization, which would be based on the customer-lessee economic benefit. This to us represents the use of the improvement – not rent which we have a separate agreement and payment for.
4. While we could be open to recording this asset for material items (meeting our threshold), we also see a vision where an asset is not needed. As noted above - we are paying for the service of the construction or improvement, which if we do not control, nor will we benefit - this seems to fit the definition of something that should be expensed when service is provided - which would be when the construction or improvement occurs. SSA would be happy not recording this asset. However, if other concerns are met, we can work with this asset for larger dollar activity.

QFR 2 Are there specific aspects of the proposed Technical Bulletin that you disagree with? If so, please explain the reasons for your positions, the paragraph numbers(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.

SSA Response: Please see comments for question 1.

QFR 3 Do any ambiguous areas remain that could lead to challenges with implementing the requirements? If so, please provide examples of the issues, references to applicable guidance, and any potential solutions you propose.

SSA Response: In certain paragraphs that mention “the remaining lease term” (13, 25, and 31), we believe it would clarify matters to mention SFFAS 54, paragraphs 14-21 to make it clear that lease renewal periods should be factored in.

QFR 4 Are there specific aspects of this proposal that you otherwise wish to provide comments on?

SSA Response: Paragraphs 24, 30, and A14: SSA has significant concerns with considering this activity a prepayment of rent. When we enter into an RWA for construction or for building improvement, we are entering into an obligation for a service not future rent. In addition, the prepayment of rent would seem to violate Appropriations Law, the time period. For prepaid rent, we would be using authority in the current year for future needs (rent). Appropriations Law does not allow the use of current funds for severable future needs. The only exception would be if a contract for severable services was entered into for a period not to exceed 12 months. This situation would likely exceed the 12 month time period.

Here is an example from GAO's Red Book on prepaid rent:

Rent on property leased by the National Park Service from the National Park Foundation could be paid in advance, but the lease could not cross fiscal year lines. The proposal was for the lease to run from May 1 through April 30 and for the full annual rent to be paid in advance on May 1. However, appropriations available as of May 1 could not be used for the period from October 1 through April 30 since rent for these months constituted a need of the following fiscal year. B-207215, Mar. 1, 1983.

SMC 1 Paragraph 15 of the proposed Technical Bulletin provides that entities should establish, document, and consistently follow policies for recognizing leasehold improvement assets between reporting entities and reach agreement on such recognition. Please provide feedback on the extent to which you believe this would (or would not) facilitate consistent implementation of the intragovernmental accounting requirements. Also, please provide feedback on the inclusion of paragraph 15 as a proposed requirement in a Technical Bulletin and any potential implementation challenges. Please describe any alternative views or approaches, suggestions for improvement, and the reasons for your views.

SSA Response: SSA disagrees - We do not have the same materiality rate as our lessor. We would not plan to record immaterial RWA assets as they are not relevant or valuable to our financial statements or users thereof. While we can coordinate - agreement will be difficult.

If the RWA is significant, we would capitalize the costs as LHI assets, rendering this TB moot. While we would want to work with our lessor, we will not be recording these assets for low-dollar RWAs, which we have heard our lessor wants.

This will result in continued/new intragovernmental differences.

SMC 2 Paragraphs 28 and 34 provide proposed disclosure requirements. Please provide feedback on the extent to which these proposed disclosure requirements are appropriate. For example, is such information necessary to make the financial statements informative and relevant to users in assessing accountability? Please describe your views, the costs and benefits of including these proposed disclosures, and other reasons for your views. Also, please provide feedback on the inclusion of these paragraphs as proposed requirements in a Technical Bulletin and any potential implementation challenges.

SSA Response: In general, the disclosure requirements appear reasonable. However, SSA will record significant RWA costs (i.e., those meeting our capitalization threshold) as Leasehold Improvement assets in accordance with SFFAS 54. We do not plan to capitalize insignificant RWA costs not meeting that threshold. Therefore, we do not anticipate this TB applying to much, if any, of our RWA activity. However, if things were to change in the future where we had a significant RWA that we did not derive the economic benefits from, and thus would not be a Leasehold Improvement to SSA, we would follow the disclosure requirements in this TB.

The totality of SSA's RWA activity, both capitalized Leasehold Improvements and the insignificant RWA activity, is vastly immaterial quantitatively and qualitatively to our financial statements. Therefore, we do not believe the information is necessary to make the financial statements informative or relevant to users.