

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."

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| 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"/> |
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Please provide your name.

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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.

We agree with the Technical Bulletin as a whole and appreciate the Board addressing this complex topic. We agree with the accounting concepts and treatment proposed. We feel strongly that this Technical Bulletin will provide much needed guidance that will improve consistency among reporting entities. However, we do recommend changes to the proposed wording to further improve the guidance and prevent misunderstanding. Those suggestions are provided in the following QFRs and SMCs.

The question-and-answer format lacked an organized flow, and the document must be considered in its entirety to be properly understood. This caused misinterpretation, even for our subject matter experts. We recommend eliminating the Q&A format to simplify the guidance. We would prefer a more structured format, similar to a Standard. We have provided some suggestions below that include reordering certain paragraphs for more clear interpretation and simplifying the language where possible.

As this is a very complex subject, we also recommend creating a flowchart or table as an Appendix to facilitate greater understanding.

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.

We disagree with including paragraph 15 in the Technical Bulletin. Our specific concerns with including this paragraph are detailed in SMC 1.

For the same reasons discussed in SMC 1, we disagree with the inclusion of paragraph 11 and the last sentences in paragraphs 26 and 32 and suggest edits as shown below. We would not object if the Board alternatively includes a discussion of intragovernmental arrangements and the consistency needed in the Basis for Conclusions or the Executive Summary.

Paragraph 26: *The amortization of the intragovernmental leasehold asset should commence when the customer-lessee obtains access to the economic benefits of the underlying asset. The asset amount and subsequent amortization should be determined in a coordinated manner with the provider-lessor to facilitate the elimination of inter-entity balances and costs in accordance with paragraphs 108-109 of SFFAS 4.*

Paragraph 32: *Revenue recognition should commence when the customer-lessee provider-lessor has grants access to the economic benefits of the underlying asset and services resulting from the reimbursable work. Revenue recognition should be determined in a coordinated manner with the customer-lessee to facilitate the elimination of inter-entity balances and earned revenues in accordance with paragraphs 108-109 of SFFAS 4.*

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.

We recommend restructuring the document as follows: Par. 1-7, (delete 8-9), 16, (delete 17-18), 19, (delete 20), 21-22, 10, (delete 11), 14, (delete 15), 12-13, 23-37. We suggest removing the Q&A format and replacing the questions with a topic heading for the associated paragraphs.

We appreciate the focus on reimbursable agreements for building alterations, which has been a longstanding issue for GSA. We would also encourage the Board to consider if any other arrangements should follow this same guidance. We suggest that the Technical Bulletin be expanded to include coverage of similar arrangements (transfers of funding as opposed to reimbursable, etc.) and asset types (such as vehicles or other equipment) where funding for portions of the asset costs may be

separate from an associated lease. Such similar arrangements would likely call for comparable accounting treatment.

We also recommend the following changes to improve the clarity and usability of the Technical Bulletin.

Paragraph 7: *This Technical Bulletin does not apply to ~~reimbursable leasehold work lease 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.~~*

We recommend eliminating paragraphs 8-9 as they are sufficiently covered in paragraph 12.

Paragraph 16: ***Intragovernmental leasehold reimbursable ~~work~~ agreement*** – An agreement, *separate from the underlying intragovernmental lease*, whereby one reporting entity (the provider-lessor) acquires, constructs, 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 reimburse the provider-lessor for direct and indirect costs ~~for the acquisition, construction, improvement, and/or alteration~~. The reimbursement of such acquisitions, construction, improvements, and/or alterations are beyond what ~~may be~~ *is* included in the rent or tenant improvement allowances provided for in a lease agreement for the related underlying asset.

We recommend removing the customer-lessee and provider-lessor definitions (deleting paragraphs 17-18) as the meaning of the terms are already indicated in paragraph 16. We are concerned with creating new definitions in this FASAB guidance that have very narrow application, specific to this Technical Bulletin.

We recommend deleting paragraph 20 because the discussion on pricing policy could create confusion and is not necessary in this guidance.

Paragraph 21: ~~*These Intragovernmental leasehold reimbursable agreements establish 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. The costs paid for incurred by the customer-lessee under such agreements are through the reimbursable leasehold work agreement. (hereinafter referred to as an the-intragovernmental leasehold reimbursable work asset, a form of intangible asset.*~~

Paragraph 22: *These agreements also establish an ~~obligation requirement~~ for the provider-lessor to acquire, construct, 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 intragovernmental unearned reimbursable work revenue).~~

In paragraph 14, we recommend clarifying that in this case the primary beneficiary of the improvement is what drives asset/liability recognition as opposed to who pays for it (as described in SFFAS 54, par. 11-12). We recommend adding a sentence or two at the beginning of paragraph 14 of the Technical Bulletin to state this explicitly. The reference to SFFAS 54 could be done as a footnote if preferred.

Paragraph 14: *Although the customer-lessee financed the improvements, the predominant beneficiary must be considered to determine appropriate asset recognition. These considerations impact the application of SFFAS 54, par. 11-12. The determination of whether ~~or not~~ the customer-lessee or provider-lessor 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.*

We recommend breaking paragraph 12 into sub-paragraphs to more clearly delineate the customer-lessee and provider-lessor responsibilities. We have provided suggestions for how to do this below.

Paragraph 12: *For intragovernmental reimbursable leasehold ~~work~~ agreements in which the customer-lessee is expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset, paragraphs 23-34 do not apply.*

Paragraph 12A: *For these types of agreements, ~~the a~~ 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 in accordance with SFFAS 6 (and par. 34 of SFFAS 54). ~~The provider-lessor would not be expected to derive significant residual economic benefits or services from such 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) continues to be recognized by the provider-lessor, in accordance with paragraph 66 of SFFAS 54.~~*

Paragraph 12B: *Comparatively, for intragovernmental reimbursable leasehold agreements where the provider-lessor would not be expected to derive significant residual economic benefits, the cost of leasehold improvements is expensed by the provider-lessor. Likewise, the amounts received as reimbursement are recognized as revenue by the provider-lessor, consistent with SFFAS 7. The underlying asset (other than the leasehold improvement recognized by the customer-lessee) continues to be recognized by the provider-lessor, in accordance with paragraph 66 of SFFAS 54.*

Paragraph 13: *For acquisitions, construction, improvements, and/or alterations with an expected useful life beyond the remaining lease term and for which the provider-lessor is expected to derive a more-than-insignificant level of residual economic benefits ~~and services~~ from the reimbursable work, the customer-lessee would not be considered the predominant beneficiary. In such cases, ~~the leasehold improvement (or PP&E) asset cost funded by the intragovernmental leasehold reimbursable agreement~~ should be recognized by the provider-lessor in accordance with SFFAS 6, and the customer-lessee and provider-lessor should follow the guidance under paragraphs 23-34 (rather than par. 12).*

In paragraphs 23-36, we recommend removing the word “work” from intragovernmental leasehold reimbursable work agreements, intragovernmental reimbursable work assets, and intragovernmental unearned reimbursable work revenue liability. We also recommend removing “and services” from economic benefits and services.

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

We are concerned that the requirement of paragraph 31 would often produce poor matching of revenues to expenses recognition on the Statement of Net Cost for lessors. Normally we observe lease terms to be significantly less than the useful life of underlying assets and the improvements discussed in this draft Technical Bulletin. We foresee instances where a remaining lease term could be very short (though anticipated to be extended or renewed in the future) and the asset has 10 or more years of useful life remaining. It would theoretically provide better matching if the lessor were to earn the revenues from these reimbursable agreements over the period the costs would be depreciated. As an extreme example, there are instances where a lease is in a holdover status or similar to an “evergreen” lease, that would result in immediate revenue recognition by a lessor, though the asset benefit period and depreciation would be over many years. We also expect that changing the lessor’s period of amortization to match its asset depreciation period would likely create complexities from the perspective of intragovernmental reporting and the elimination of reciprocal balances reported by the lessee and lessor. We request the Board consider these points in making final determinations of the amortization requirements and request additional mention in the Basis for Conclusions section regarding the approach used to reach its decision on this issue.

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.

We recommend eliminating paragraph 15 from this Technical Bulletin as it seems to be out of scope for this document. The establishment of policies and procedures for implementing FASAB guidance should be left to the reporting entities as it has been for previous standards. Guidance on intragovernmental communication does not seem appropriate as a requirement in a Technical Bulletin. Such guidance is already a component of the Treasury Financial Manual and OMB A-136: Financial Reporting Requirements.

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.

While we would be able to provide the information requested for disclosure, we do not think it's warranted for this activity. GSA likely has the largest balances for these intragovernmental agreements, but it is not material for our financial statements. As such, from a cost vs benefit perspective, we do not recommend including these disclosure requirements.