
Technical Bulletin 2023-1: Intragovernmental Leasehold Reimbursable Work Agreements

Status

Issued	March 17, 2023
Effective Date	For periods beginning after September 30, 2023.
Affects	Clarifies SFFAS 54 for applying SFFAS 54 and other relevant SFFAS to intragovernmental leasehold reimbursable work agreement transactions.
Affected by	None.

Summary

This Technical Bulletin provides accounting and reporting requirements for intragovernmental leasehold reimbursable work agreements (often referred to in practice as reimbursable work authorizations). These agreements have features that require supplementary guidance for purposes of implementing paragraphs 72-79 and 26-38 of Statement of Federal Financial Accounting Standards (SFFAS) 54, Leases, in a manner consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and other existing Board Statements.

Intragovernmental leasehold reimbursable work agreements are agreements 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. These reimbursable costs are beyond what may be included in the tenant improvement allowances of the lease agreement for the related underlying asset.

This Technical Bulletin requires the following approach for agreements in which the provider-lessor is expected to derive a significant level of residual economic benefits and services from the reimbursable work:

- Customer-lessees are to recognize an intragovernmental reimbursable work asset for the reimbursable acquisition, construction, improvement, and/or alteration costs.
- Provider-lessors are to recognize the resulting leasehold improvement (or property, plant, and equipment [PP&E]) and an intragovernmental unearned reimbursable work revenue liability for reimbursable acquisitions, construction, improvements, and/or alterations provided to the customer-lessee on a reimbursable basis.

Accounting for the substance of these agreements inherently involves professional judgment in determining which reporting entity should report the leasehold improvement asset-particularly in situations when both parties may derive economic benefits and services from the reimbursable work over the useful life of the resulting PP&E. This Technical Bulletin assists reporting entities with recognizing the appropriate types of assets and liabilities embodied under these intragovernmental leasehold reimbursable work agreements in a similar manner.

Materiality

The provisions of this Technical Bulletin need not be applied to information if the effect of applying the provision(s) is immaterial.¹ 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.

¹ 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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Technical Guidance

Scope and Applicability

Scope

1. **Which 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 leasehold reimbursable work agreements** (as defined under par. 14).²
5. These agreements have features that require supplementary accounting guidance for purposes of implementing paragraphs 72-79 and 26-38 of SFFAS 54, *Leases*, in a manner consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.
6. **What is excluded from this Technical Bulletin?**
7. 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.

²Terms defined in the glossary are shown in **boldface** the first time they appear.

Scope and Applicability of Paragraphs 20-31

8. **How should customer-lessees and provider-lessors determine the applicability of paragraphs 20-31 of this Technical Bulletin and recognize leasehold improvement assets accordingly?**
9. Paragraphs 20-31 of this Technical Bulletin do not apply to intragovernmental reimbursable leasehold work agreements for which the associated leasehold improvement asset is recognized by the **customer-lessee**. Paragraphs 10-13 of this Technical Bulletin provide principles for determining which party (the customer-lessee or **provider-lessor**) should recognize the leasehold improvement asset (property, plant, and equipment [PP&E]).
10. Normally, for intragovernmental reimbursable leasehold work agreements, the customer-lessee is expected to be the predominant beneficiary of the acquisition, construction, improvement, and/or alteration to the underlying asset, and paragraphs 20-31 do not apply.
 - a. The customer-lessee should recognize the leasehold improvement—which is a type of PP&E asset under paragraph 18 of SFFAS 6, *Accounting for Property, Plant, and Equipment*—in accordance with SFFAS 6 (and par. 34 of SFFAS 54) for these types of agreements.
 - b. The provider-lessor would not be expected to derive significant residual economic benefits or services from such reimbursable work under these types of agreements. The provider-lessor should expense the costs incurred for the reimbursable work and recognize the amounts received as reimbursement as intragovernmental revenue. The provider-lessor should account for the underlying asset other than the leasehold improvement (recognized by the customer-lessee in these types of agreements) in a manner consistent with paragraph 66 of SFFAS 54 and SFFAS 6.
11. However, for acquisitions, construction, improvements, and/or alterations under an intragovernmental reimbursable leasehold work agreement with an expected useful life beyond the remaining lease term and for which the provider-lessor is expected to derive a significant level of residual economic benefits and services from the reimbursable work, the customer-lessee would not be considered the predominant beneficiary, and paragraphs 20-31 would apply.
 - a. For these types of agreements, the customer-lessee should follow the guidance under paragraphs 20-25 (rather than par. 10-10.a above).

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- b. The provider-lessor should follow the guidance under paragraphs 26-31 (rather than par. 10, 10.b above) for these types of agreements. The provider-lessor should account for the underlying asset, including the leasehold improvement (or PP&E) asset, in a manner consistent with paragraph 66 of SFFAS 54 and SFFAS 6.
- 12. The determination of whether 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, the terms of the reimbursable work agreement, the expected residual economic benefits and services at the end of the lease term, and the extent to which any residual economic benefits and services would likely be derived from the leasehold improvement (or PP&E) asset by the provider-lessor following the end of the lease term—either in future lease agreements or through other means.
 - 13. Assets arising from intragovernmental reimbursable leasehold work agreements should be recognized between customer-lessees and provider-lessors on a rational and consistent basis.

Definitions

- 14. **Intragovernmental leasehold reimbursable work agreement** - An agreement 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 included in the rent or tenant improvement allowances provided for in a lease agreement for the related underlying asset.
- 15. **Customer-lessee** - The reporting entity paying for the acquisition/construction of, or improvements and/or alterations to, the underlying asset provided by the provider-lessor on a reimbursable basis.
- 16. **Provider-lessor** - The reporting entity providing the acquisition/construction of, or improvements and/or alterations to, the underlying asset to the customer-lessee on a reimbursable basis.

Intragovernmental Leasehold Reimbursable Work Agreements Meeting Paragraph 11 Criteria - Recognition, Measurement, and Disclosures

17. **What types of rights and obligations are established under reimbursable leasehold work agreements that might give rise to recognizable assets and liabilities?**
18. These 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 for costs paid for through the reimbursable leasehold work agreement (hereinafter referred to as the intragovernmental leasehold reimbursable work asset).
19. These agreements also establish an obligation 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).

Customer-Lessees

20. **How should customer-lessees account for intragovernmental leasehold reimbursable work agreements?**
21. Customer-lessees should initially recognize an intragovernmental reimbursable work asset for the amount payable for reimbursable work acquisition, construction, improvement, and/or alteration costs (in a manner congruous with par. 27 of SFFAS 54 requirements for recognizing prepaid rent assets).
22. Customer-lessees should amortize the intragovernmental reimbursable work 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/constructed or improvements/alterations thereto associated with the reimbursable work. The amortization of the intragovernmental reimbursable work asset should commence when the customer-lessee has access to economic benefits and services resulting from the reimbursable work and be reported as amortization expense.

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23. Coordination with the provider-lessor on asset amount and subsequent amortization can facilitate the elimination of inter-entity balances and costs in a manner consistent with paragraphs 108-113 of SFFAS 4.³
24. **What should customer-lessees disclose in the notes regarding intragovernmental leasehold reimbursable work agreements and how do such disclosures relate to SFFAS 54 (par. 37) disclosure requirements?**
25. Customer-lessees should disclose 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.

Provider-Lessors

26. **How should provider-lessors account for intragovernmental leasehold reimbursable work agreements?**
27. Provider-lessors should initially recognize an intragovernmental unearned reimbursable work revenue liability for the amount receivable for reimbursable work acquisitions, construction, improvements, and/or alterations (in a manner congruous with par. 28 of SFFAS 54 for prepaid rent liabilities).
28. Provider-lessors should recognize the intragovernmental 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/constructed or improvements/alterations thereto associated with the reimbursable work. Revenue recognition should commence when the provider-lessor provides access to the economic benefits and services resulting from the reimbursable work.
29. Coordination with the customer-lessee on revenue recognition can facilitate the elimination of inter-entity balances and earned revenues in a manner consistent with paragraphs 108-113 of SFFAS 4.⁴

³Par. 108-113 of SFFAS 4 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.

⁴Ibid.

30. What should provider-lessors disclose in the notes regarding intragovernmental leasehold reimbursable work agreements and how do such disclosures relate to SFFAS 54 (par. 38) disclosure requirements?

31. Provider-lessors should disclose 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.

Implementation

32. Intragovernmental leasehold reimbursable work agreements unexpired at the beginning of the reporting period in which the Technical Bulletin is implemented should be recognized and measured using the facts and circumstances that exist at the beginning of the reporting period.
33. Entities should report the effect of implementing this Technical Bulletin on existing intragovernmental leasehold reimbursable 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

34. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023. Early adoption is not permitted.

<p>The provisions of this Statement 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, <i>Objectives of Federal Financial Reporting</i>, chapter 7, titled <i>Materiality</i>, for a detailed discussion of the materiality concepts.</p>
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Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board’s Rules of Procedures, as amended and restated through October 2010, and the procedures described in FASAB Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the proposed technical guidance section—not the material in this appendix—would govern the accounting for specific transactions, events, or conditions.

This Technical Bulletin may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any pronouncement that affects this Technical Bulletin. Within the text of the Technical Bulletins, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements or other pronouncements for the rationale for each amendment.

Project History

- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 54 in April 2018 with an effective date for reporting periods beginning after September 30, 2020. The effective date was later amended by SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, to reporting periods beginning after September 30, 2023.
- A2. FASAB and the Accounting and Auditing Policy Committee (AAPC) commenced projects on their technical agendas to identify implementation challenges and develop guidance related to SFFAS 54.
- A3. The AAPC assembled a task force to identify and analyze numerous SFFAS 54 implementation topics.
- A4. FASAB has received several requests from reporting entities and task force members for further guidance and clarification on accounting for reimbursable work authorizations tied to leases.

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- A5. The Board received an educational update from staff and subject matter experts at significantly affected reporting entities in April 2022. The update included a presentation on the accounting issues, the purposes of reimbursable work authorizations and the underlying legislative authorities permitting them, examples of reimbursable work authorization transactions, and staff's accounting literature review on the topic.
- A6. The Board and staff appreciate that intragovernmental leasehold reimbursable work agreements are complex and may, at times, have material effects on GPFFRs.
- A7. The Board generally agreed that a Technical Bulletin proposal would be an appropriate publication under the Rules of Procedure, as it would provide guidance for implementing paragraphs 72-79 and 26-38 of SFFAS 54 in a manner consistent with SFFAS 4. Staff concluded that this Technical Bulletin reduces burden by more directly explaining the applicability of this guidance to intragovernmental leasehold reimbursable work authorizations.
- A8. This Technical Bulletin reflects that intragovernmental leasehold work agreements and lease agreements represent an agreement combination under paragraphs 78-79 of SFFAS 54 and should be treated accordingly.
- A9. This Technical Bulletin addresses areas not covered directly under SFFAS 54, paragraphs 11-12 and 34-35, in the context of intragovernmental leasehold reimbursable work agreements. Specifically, the guidance addresses recognition of leasehold improvement or lessor improvement assets (PP&E) and considerations when determining which reporting entity should account for that PP&E.
- A10. Paragraphs 11-12 of SFFAS 54 provide definitions related to improvements of leased property. Paragraph 11 of SFFAS 54 provides that leasehold improvements are paid for (financed) by lessees, while paragraph 12 of SFFAS 54 provides that lessor improvements are paid for (financed) by lessors.
- A11. Paragraph 18 of SFFAS 6 provides that PP&E includes leasehold improvements and property owned by the reporting entity and leased to others.
- A12. Normally, the amounts paid by the customer-lessee on leasehold improvements to assets underlying intragovernmental leases are capitalized by the customer-lessee and depreciated over the shorter of the life of the improvements or lease term. Likewise, the amounts received are normally recognized as revenue by the provider-lessor.⁵ In these

⁵ Consistent with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

situations, the cost of leasehold improvements are expensed by the provider-lessor. Generally, for leasehold improvements to assets underlying intragovernmental leases, there are no significant residual economic benefits or services expected to be derived from the improvements after the end of the lease term.

A13. For certain intragovernmental leasehold reimbursable work agreements, however, the provider-lessor is expected to derive a significant level of residual economic benefits and services from the improvements after the end of the lease term. In such cases, the Board and staff concluded that such improvements meeting these two conditions are, in substance, lessor improvements. In making this determination, the Board considered the following:

- a. The provider-lessor and the federal government as a whole receive residual economic benefits and services from the improvements after the end of the lease term.
- b. Such treatment would allocate the cost of the improvements over the useful life of the asset, which extends beyond the lease term.

A14. Assuming improvements meeting the two conditions above are recognized as lessor improvements, another consideration is how the customer-lessee's payment(s) should be recognized by each party. The Board concluded that the payment(s), in substance, are an intragovernmental lessee prepaid rent for the customer-lessee and advance rent for the provider-lessor, consistent with paragraphs 27-28 of SFFAS 54. In making this determination, the Board considered the following points:

- a. Intragovernmental revenue and expenses would be more balanced.
- b. Under this approach, the customer-lessee would recognize the costs of improvements over the periods in which the related benefits are derived.
- c. Under this approach, the provider-lessor would recognize revenue from improvements over the periods in which they are earned.

A15. The Board also agreed that the Technical Bulletin should clearly articulate the scope of the guidance, which is intended solely for accounting and reporting related to reimbursable work agreements for acquisitions, construction, improvements, and/or alterations to underlying assets of *intragovernmental leases*. The guidance does not apply to other circumstances (for example, other types of reimbursable work authorizations that are not intragovernmental leasehold reimbursable work agreements). For similar reasons, the Board and staff decided it best to avoid use of the term "reimbursable work authorizations" in the technical guidance section. Rather, staff elected to use the term "intragovernmental

leasehold reimbursable work agreements.” Use of this term is intended to clarify the scope of the guidance.

- A16. The Board did not wish to change accounting practices for the preponderance of intragovernmental leasehold reimbursable work agreements, which are situations in which the customer-lessee is expected to be the predominant or sole beneficiary of the reimbursable work on the underlying asset and recognize the related leasehold improvement in accordance with SFFAS 6. Paragraphs 20-31 of this Technical Bulletin address the accounting treatment for situations in which the provider-lessor is expected to derive significant residual economic benefits from the reimbursable work, thereby precluding the customer-lessee from being the predominant or sole beneficiary and recognizing the related PP&E. In these situations, the reimbursable work typically involves major changes to the core underlying asset, such as adding a new wing to a leased building or constructing a building. In these situations, it is more appropriate for the provider-lessor to retain accountability for the related PP&E and for both parties to be accountable for the resulting rights and obligations under the agreement, as discussed under paragraphs 17-19.
- A17. Staff is aware that the determinations of whether the customer-lessee will be the predominant beneficiary of the reimbursable work (with the provider-lessor being expected to derive an insignificant amount of, if any, residual economic benefits) is a matter of professional judgment. In some cases, the nature of the intragovernmental reimbursable work and lease agreements, uncertainties, and other factors may result in high levels of subjectivity in professional judgment. Understanding this, the Technical Bulletin provides factors to consider when making such determinations.
- A18. Certain task force members suggested that the guidance allow the provider-lessor (oftentimes the General Services Administration) to control and/or serve as the sole determiner of whether or not the customer-lessee will be the predominant beneficiary, given its experience in providing reimbursable work to many customer-lessees. The Board and its staff cannot provide such guidance, as this would compromise customer-lessee reporting entities’ control over their GPFFRs.

Summary of Outreach and Responses

- A19. The Board released an exposure draft (ED) proposal on September 19, 2022, for public comment, with comments requested by November 4, 2022. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

A20. FASAB received 18 comment letters in response to the ED. Respondents were generally supportive of the proposed Technical Bulletin. In response to the comment letters, the Board identified and agreed upon further changes to improve the structural and technical clarity of the proposal, including

- a. clarifying edits to improve the organization of the document, including revisions to section headers and the addition of sub-headers; and
- b. additional edits to further enhance the structural clarity of the guidance and further explain the scope and applicability provisions.

A21. A few respondents requested that the Board define the terms "more-than-insignificant" and/or "predominant beneficiary." The Board decided to remove the term "more-than-insignificant" based on those requests. The Board also elected to further explain the relevant factors to consider when assessing projected residual economic benefits. The Board concluded that these enhancements would facilitate reasonably consistent and comparable practitioner assessments and agreements between customer-lessees and provider-lessors, while also allowing practitioners to exercise their professional judgments based on relevant factors, including materiality. Staff concluded that practitioners should consider relevant qualitative factors when implementing the Technical Bulletin, such as the likelihood of elimination differences accumulating to material elimination differences at the consolidated level or other significant errors at the component reporting entity level (for either party).

A22. One respondent recommended that the Board consider whether the Financial Accounting Standards Board tentative decision on leasehold improvements associated with leases between entities under common control was a preferable approach. The Board elected to continue with the proposed approach, given its consistency with existing practice.

A23. Some respondents expressed concerns that proposed language regarding establishing, documenting, and adhering to policies for reaching agreement with trading partners- including those pertaining to criteria for assessing recognition of intragovernmental assets and corresponding liabilities- may raise audit-related questions concerning failure to comply with GAAP when customer-lessees and provider-lessors do not agree on the conclusions reached by the other party. The Board generally agreed with these concerns and elected to remove the language. The Board and staff continue to believe that establishing, documenting, and consistently following policies for negotiating with intragovernmental trading partners in a manner consistent with the Technical Bulletin guidance can help mitigate intragovernmental elimination differences. For this reason, the Board elected to retain the general statements under paragraphs 23 and 29. These paragraphs do not represent recognition, measurement, or disclosure criteria, nor are they instructive in nature.

These paragraphs are merely intended to encourage coordination and facilitate consistent application of the related recognition and measurement criteria.

Board Review

A24. The Board has reviewed this Technical Bulletin, and a majority of members do not object to its issuance.

Appendix B: Abbreviations

AAPC	Accounting and Auditing Policy Committee
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards