MEMORANDUM TO FEDERAL CHIEF FINANCIAL OFFICERS

FROM: James Taylor, AAPC Inter-Entity Cost Task Force Chair

DATE: November 25, 2002

SUBJECT: Survey on Inter-Entity Real Property Costs

The Accounting and Auditing Policy Committee (AAPC) was established by the Federal Accounting Standards Advisory Board (FASAB) to assist the Federal Government in improving financial reporting. The AAPC assigned a task force to identify specific inter-entity costs, study their nature, and determine whether the costs meet the recognition criteria specified in Statement of Federal Financial Accounting Standard (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards. The goal of this effort is to allow the task force to recommend guidance to the AAPC that will lead to consistency among agencies in recognizing inter-entity costs. Any inter-entity costs recognition resulting from the task force's efforts would be in addition to inter-entity costs already recognized. OMB Technical Guidance issued for the Implementation of Managerial Cost Accounting Standards (April 6, 1998) lists several major categories of costs that are incurred and recognized by one reporting entity but are paid by other entities. These include the costs of: (a) employees pension benefits, (b) health, life insurance, and other benefits for retired employees, (c) other post-employment benefits, and (d) losses in litigation proceedings.

There are a variety of other inter-entity transactions among agencies and numerous kinds of inter-entity costs. Many of the inter-entity costs might be under-reimbursed, or not reimbursed at all. The task force has specifically identified the use of real property as a type of inter-entity cost that may have a potentially significant impact on agencies' financial statements. Examples of the non-reimbursed or under reimbursed use of real property include the use of office space abroad and the use of land for storage of materials. The enclosed questionnaire is intended to assess inter-entity real property costs that are being incurred to determine whether the inter-entity real property costs meet the recognition criteria discussed in SFFAS No. 4.

Please coordinate your responses to the questionnaire, as necessary, with other offices within your agency in order to provide the most accurate and complete information about your inter-entity real property costs.

Please provide your response by January 10, 2003. Responses should be addressed to:

Monica R. Valentine
Project Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Room 6E45
Mail Stop 6K17V
Washington, D.C. 20548

You may also fax your response to (202) 512-7366 or e-mail to valentinem@fasab.gov. If you have questions about this survey, please call Ms. Valentine at (202) 512-7362.

Thank you for your assistance in this effort.

cc: Deputy Chief Financial Officers

INTER-ENTITY REAL PROPERTY COSTS QUESTIONNAIRE

"Inter-entity costs" refers to the costs of goods and services provided by a federal entity (the providing entity) to other federal entities (the receiving entities). "Goods and services" include the performance of an activity, function, and support service; and the provision of materials, supplies, and other resources (such as the use of real property – that is, the use of land, land rights, buildings, and other structures and facilities). The following questions are directed to inter-entity real property costs that are not fully reimbursed by the receiving entity or are not reimbursed at all. Please do not include inter-entity real property costs that are fully reimbursed by the receiving entity. Only include the cost of the use of the real property itself (e.g., the value of the use of the land or office space). Do not, for example, include inter-entity janitorial, maintenance, or management service costs.

I. Provider Questions:

Does your entity provide the use of real property to other federal entities without reimbursement or with less than full reimbursement? If it does, please provide a description of the real property use your entity provides and for each real property use please supply the following information:

(1) Which federal agency (or agencies) receives the use of real property?

(2) Is your entity able to measure the full cost of the use of the real property in accordance with the full cost standard in SFFAS No. 4? If yes, please provide the full costs of those uses. If not, please explain why not?

(3) Is a part of the costs reimbursed by the receiving entities? If so, what percentage of the full cost is reimbursed? (Please note, the questionnaire excludes inter-entity costs that are fully reimbursed.)

(4) What is the estimated amount that is not reimbursed?

(5) Does your entity receive any non-monetary compensation (such as a reciprocal service) from any of the receiving entities for the use of the real property that is not reimbursed? If so, please explain the type of compensation.

(6) If more than one entity receives the use of the real property, would your entity be able to assign the non-reimbursed real property costs among the

receiving entities? If so, what would be the assignment (or allocation) basis? If your entity would not be able to assign the costs, please explain why not.

(7) Does your entity anticipate continuing to provide the use of the real property in future years?

(8) Do you believe these real property costs meet the inter-entity cost recognition criteria? (See paragraphs 111 through 113, SFFAS No. 4) Please provide reasons for your reply.

II. Receiver Questions:

Does your entity receive the use of real property from other federal entities without reimbursement or with less than full reimbursement? If it does, please provide a description of the real property that your entity uses and for each real property use please supply the following information:

(1) Which federal agency (or agencies) provides the use of the real property?

(2) Does your entity (a) reimburse a part of the real property costs, or (b) receive the use of the real property without any reimbursement? (Please note the questionnaire excludes inter-entity costs that are fully reimbursed.)

(3) What is the reimbursed amount for each real property cost and can you estimate the amount of the cost that is not reimbursed? If so, what is the amount? If not, would this information be available from the providing entity?

(4) Does your entity give the providing entity any non-monetary compensation (such as a reciprocal service) for the non-reimbursed real property costs? If so, please explain the type of compensation.

(5) Are the estimated real property costs significant to your entity? (Or, are the real property costs large enough that management should be aware of cost when making decisions? See SFFAS No. 4, par. 112.)

(6) Is the use of the real property an integral or necessary part of your entity's output? (See SFFAS No. 4, par. 112.)

(7) Do you believe these real property costs meet the inter-entity cost recognition criteria? (See paragraphs 111 through 113, SFFAS No. 4) Please provide reasons for your reply.

III. General Question:

Please detail any other factors specific to inter-entity real property costs that should be considered.