

Survey of SFFAS 54 Implementation Issues

Survey question:		What implementation topics/issue areas for SFFAS 54 not covered by analogous guidance in GASB Implementation Guide 2019-3 would be helpful to your organization(s)?		
Hyperlinks to Related Materials		Click here for SFFAS 54 Click here for GASB Implementation Guide 2019-3 Click here for GASB Statement No. 87		
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SFFAS 54 paragraphs	GASB Statement No. 87 paragraphs	SFFAS 54 / GASB Statement No. 87 topic area	GASB Implementation Guide 2019-3 questions addressing the topic (check your issues against these	Federal implementation issues not covered by GASB Implementation Guide 2019-3 (add a description) Complete this column!

need Lease implementation Guidance or exclusion confirmation. [Good question. Will draft a question for task force and AAPC consideration and coordinate with SFFAS 49 project manager when drafting.](#) [Update: Board plans to address in P3 phase 2. Not enough "level A" GAAP exists for writing implementation guidance at this time.](#)

Paragraph 5.b. indicates that lease for assets under construction are not within the scope of SFFAS 54. However paragraph 49.b. discusses payments made prior to lease commencement, which could seemingly include payments made during the construction period. Paragraph 34 also mentions leasehold improvements that are placed in service at the start of the lease term, which in practice could require payments to be made during the construction period, as the improvements are being made. Clarity is needed to identify whether these examples, or what other activities are not within the scope of SFFAS 54 for assets under construction. [Good question. Will draft a question and answer \(or two\) for task force and AAPC consideration in consultation with GSA staff \(who often experience this issue\)](#) [Update: Addressed in Guidance Question # 12 \(Apr 20 version\)](#)

Is the leasing of fiber optic cables or other IT/communication networks considered a lease under SFFAS 54? Would the answer be the same if the entity is only leasing bandwidth on other's communication lines? Would the leasing of cloud storage be considered a lease or a services agreement? [Question candidate](#) [Update: Who submitted this question? I may need to work with you to draft something.](#)

1-5	3-11	Scope and applicability	4.1 through 4.11	<p>4. Paragraph 2 provides guidance regarding identification of the underlying asset as follows: To qualify as a lease, the underlying asset typically should be identified by being explicitly specified in a contract or agreement. However, an asset also can be identified by being implicitly specified at the time that the asset is made available for use by the lessee. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease. This wording is similar to wording in ASC 842. During review of ASC 842 implementation guides offered from national CPA firms, we found several examples of manufacturing arrangements for which implicit leases were identified because the "lessee" is the only customer for a particular facility or piece of equipment. See the following example: <i>Contract manufacturing: A large retailer contracts with an entity to manufacture shoes for the retailer. The contract is so large that the manufacturer has a specific facility that only manufactures shoes for the retailer. The contract manufacturer arrangement contains an embedded lease for the physical manufacturing space and equipment to produce the shoes.</i> <i>Source: https://www2.deloitte.com/us/en/pages/audit/articles/embedded-lease-accounting-identification-asc-842.html</i></p> <p>In the defense community, there may be contracts for weapons systems or components for which the only customer or customers are within DoD. If SFFAS 54 is interpreted in a manner similar to ASC 842, we are concerned that manufacturing contracts for products unique to the defense community may be identified as containing embedded leases. Level A guidance is preferred to ensure audit firms do not question departure from outcomes seen under ASC 842 and GASB 87. Due to similarities in the definitions, outcomes would be expected to match. Update: Question added recently. We will review soon.</p> <p>Do we want to discuss the recording of Energy Service Performance Contracts? A discussion of ESPCs is needed. Update: Question added recently. We will review soon.</p>
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6-13	3-11	Definitions	4.1 through 4.11	<p>FASAB definition of lease is "exchange for consideration" which is different from exchange or exchange like transactions. Agree. Non-reimbursed or under-reimbursed lease arrangements guidance should be addressed. Update: Does paragraph 4 sufficiently address this? What about in-kind services as consideration? Do task force members ever encounter that?</p> <p>Definitions for paragraphs 11 and 12 for leasehold and lessor improvements lack clarity in various instances that cause complications with implementing requirements related to related to certain lease incentives discussed in paragraphs 32, 34 and 71. Will draft a question and answer (or two) for task force and AAPC consideration in consultation with GSA staff (who often experience this issue) Update: Who submitted this question? I may need to work with you to draft something.</p> <p>"Control" (applicability)</p> <p>The implementation guidance will need to define probable. Will draft a question for task force and AAPC consideration. Update: Addressed in Guidance Question # 18 (Apr 20 version) What constitutes significant evidence for exercising options? Update: Addressed in Guidance Question # 19 (Apr 20 version)</p>
14-21	12-15	Lease term	4.12 through 4.16	<p>SFFAS 54 15a/b use the term probable, while 15c uses the term significant evidence. Are these two terms meant to be the same? Or different? What is the difference between regular evidence versus "significant" evidence? Will draft a question for task force and AAPC consideration Update: Addressed in Guidance Questions # 18 & 19 (Apr 20 version)</p> <p>Intragovernmental lease terms; period beyond the cancellable period. Update: Who submitted this comment? I believe this is sufficiently addressed in paragraphs 15 and 17. May need to work with you to draft another question if needed.</p> <p>Real estate examples; support of assumptions. Information (lack thereof) from counterparty. e.g., reporting entity lessor, non-fed lessee(?) Update: Addressed in Guidance Question # 19 (Apr 20 version)</p>

Survey of SFFAS 54 Implementation Issues

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				<p>Paragraphs 14-21 include the determination of lease term including option years depending upon likelihood of being exercised. This contradicts the GASB. If the SFFAS 54 definition is in principal different, then additional clarification is probably needed on the timing of reassessing lease terms (paragraph 21) and at what point a short term lease should be reclassified. In addition, what are the requirements for documenting decisions relating to the probability to exercise options should be maintained? Agree. FASAB does not set policy for documenting decisions, but the guidance can clarify differences in the short-term leases definition and highlight the requirements of paragraph 20 for assessing relevant factors. Auditors should look to agency accounting policies and the green book if insufficient documentation of decisions is an issue. Update: Addressed in Guidance Question # 23 (Apr 20 version)</p> <p>Am I interpreting SFFAS 54 correctly that we do not have to use straight-line averaging for short-term leases and intragov leases if there is no lease incentive or concession? In other words, variable (non constant) payments do not trigger the requirement for straight-line averaging? I think I see where you are going with this. Paragraphs 23-24 and 32-33 are pretty explicit about the need to straight-line incentives and discounts over the lease term, whereas paragraphs 23-24 and 27-28 are less prescriptive about accounting for "lease payments" in general. I think we have a question candidate here, but need to verify that I am understanding correctly. Update: Addressed in Guidance Question # 24 (Apr 20 version)</p> <p>Intragovernmental lease terms; period beyond the cancellable period.* Update: Not sure what the question is here. Please let me know if something is needed.</p> <p>CD Comment: Consider adding something like paragraph 31 to the Short-Term section in the omnibus. This may provide additional clarity. Par 31. If the lease provides for rental increases, a lessee should recognize the expense in the period of the increase.</p> <p>Paragraph 25 references SFFAS 6, Paragraph 26 as guidance regarding treatment of Lease-to-own contracts as purchased assets. However SFFAS 6 provides no guidance related to asset and liability measurement in cases where an asset market value is unknown. Past leasing standards provided such guidance (i.e. taking the present value of the payments stream at a stated or imputed/implicit interest rate). Since SFFAS 6 is silent in this regard, what measurement approach is expected (is use of FASB 842 acceptable)? Will draft a question for task force and AAPC consideration. Update: Still researching on this</p> <p>1) According to SFFAS 54, Paragraph 25, agencies that are lessees are to treat contracts or agreements that transfer the ownership of the underlying asset to the lessee, and do "not contain options to terminate", or contain cancellation clauses that are not probable of being exercised, as purchases. If there are multiple payments made over several years, how does FASAB prescribe accounting for the liability? Would the liability be a lease liability (reported with the other lease liabilities), or some other type of liability? Update: Question added recently. Will review.</p>
22-24	16-18	Short-term leases	4.17 through 4.20	
25	19	Contracts or agreements that transfer ownership	4.21 through 4.22	

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P. 38.a - What specifically qualifies as a "significant lease" and what does "with federally-owned assets and privately-owned assets" mean? Is this alluding to sub-leasing? With regard to subleases - do intragov subleases require the disclosures in p. 87-88? Moreover, how should intragov arrangements be handled when one agency funds (pays for) the lease that is signed by another agency (i.e., shared services), which may not be explicitly stated in a written lease contract document? For example, the Department of State enters into a lease for a residence in a foreign country with a private party, under current standards these are primarily "operating leases" and the agency that occupies the residence is responsible for reporting the FMLP in their financial statements. Most often this type of arrangement occurs through ICASS (a shared services arrangement) - however, there may also be situations outside of ICASS where the Department signs a lease on behalf of another agency (that is, funding is ultimately provided by another agency). How should these leases be treated? While this point may not impact the Governmentwide financial statements, the Department of State's financial statements would be greatly impacted if they are required now to carry the asset and liability of their entire lease portfolio without showing the rent due from other agencies. **Good observations. I'll develop implementation questions for task force and AAPC consideration. CD Comment - Should be in Disclosure Section below**

26-36

N/A

Intra-governmental leases

1. Par 31 - GSA defines Step Rent as known increases or decreases to the shell rent. However, in paragraph 31, only rent increases are addressed. 2. Par 29-31 - Please confirm GSA's interpretation that lessors would NOT straightline step rent increases/decreases. 3 Par 31-33 -Please confirm GSA's interpretation that non level rents are handled differently depending on the type.. 4. Par 32 - GSA as Lessor/Intragov: Please provide clarification and examples for Paragraph 32. **Question candidate. #4 is an illustration candidate. Update: Addressed in Guidance Questions # 27 & 28 (Apr 20 version)**

Am I interpreting SFFAS 54 correctly that we do not have to use straight-line averaging for short-term leases and intragov leases if there is no lease incentive or concession? In other words, variable (non constant) payments do not trigger the requirement for straight-line averaging? **I think I see where you are going with this. Paragraphs 23-24 and 32-33 are pretty explicit about the need to straight-line incentives and discounts over the lease term, whereas paragraphs 23-24 and 27-28 are less prescriptive about accounting for "lease payments" in general. I think we have a question candidate here, but need to verify that I am understanding correctly. Update: Addressed in Guidance Question # 24, 27 & 28 (Apr 20 version)**

CD Comment: We will look at further clarifying Step Rent Decreases in an Interpretation

For the lease term for example years 1-5, \$45K, Years 6-10 \$40K, years 10-15, \$50K. How should this be straight-lined? **Question raised at April TF Meeting. We will address this.**

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What constitutes the general description and general lease terms to be included in the disclosures for intragovernmental leases? The added disclosure requirements appear to require agencies to track intragovernmental leases at a much greater detail than is required to execute them per 26 - 36. [Will draft a question and answer for task force and AAPC consideration.](#)

Technical Bulletin 2017-2: Assigning Assets to Component Reporting Entities allows for reporting entities to assign assets to component reporting entities on a rational and consistent basis. As a result, component reporting entities may present financial statements that exclude the assets and related costs for assets they control and obtain economic benefit from. Within DOD for example, a component may report buildings and related costs in their financial statements that are under the long-term use and control of another DOD component, potentially without formal written agreement or charge between the entities. Does FASAB consider these agreements intragovernmental leases implicitly by qualifying with the objectives of SFFAS 54, paragraphs 3a and 3b? If yes, should the parties disclose these as lease agreements? If yes, should revenues/expenses be imputed? [Will research/collaborate with staff expert on 2017-2 and consider this as a question candidate.](#)

37-38 N/A Disclosures for intra-governmental leases

P. 38.a - What specifically qualifies as a "significant lease" and what does "with federally-owned assets and privately-owned assets" mean? Is this alluding to sub-leasing? With regard to subleases - do intragov subleases require the disclosures in p. 87-88? Moreover, how should intragov arrangements be handled when one agency funds (pays for) the lease that is signed by another agency (i.e., shared services), which may not be explicitly stated in a written lease contract document? For example, the Department of State enters into a lease for a residence in a foreign country with a private party, under current standards these are primarily "operating leases" and the agency that occupies the residence is responsible for reporting the FMLP in their financial statements. Most often this type of arrangement occurs through ICASS (a shared services arrangement) - however, there may also be situations outside of ICASS where the Department signs a lease on behalf of another agency (that is, funding is ultimately provided by another agency). How should these leases be treated? While this point may not impact the Governmentwide financial statements, the Department of State's financial statements would be greatly impacted if they are required now to carry the asset and liability of their entire lease portfolio without showing the rent due from other agencies. [Good observations. I'll develop implementation questions for task force and AAPC consideration. CD Comment - Should be in Disclosure Section](#)

2. Paragraph 38a requires "a breakdown of the number of leases with federally-owned assets and privately-owned assets." Please consider changing "privately-owned assets" to "non-federally-owned assets" to ensure state or local government-owned assets are appropriately reported.

39 20 Lessee recognition and measurement - general

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40-48	21-29	Lessee recognition and measurement - lease liability	4.23 through 4.31	<p>Does 44.a include the exercise of an option that was not previously deemed to be probable? An implementation guide question on this matter might serve as a helpful reminder to preparers and auditors to be mindful of the requirements at para. 21.a, 46.a, and 61.a</p> <p>Will there be clarification regarding the various executory costs, such as the ones mentioned in the implementation guidance (utilities and janitorial services)? Yes. We'll include a question.</p> <p>If capitalizations thresholds apply (as the Implementation Guidance 4.23 seems to indicate) can agencies establish separate thresholds for leased items or must thresholds apply to all classes or categories of similar assets? Question candidate.</p> <p>Guidance is needed on how to determine the appropriate interest rate to use in calculating the present value of lease payments. Would be helpful to see an illustration of how to calculate the present value as well. Question / illustration candidate</p> <p>Prepayments before lease term commencement date? Question candidate.</p> <p>Use of lease term in estimation methodology?</p> <p>Related to GASB 2019-3, 4.36 on leased asset impairment, should the SFFAS 54 implementation guidance mention impairment that has immaterial impact? Good question. Will develop a question for task force and AAPC consideration.</p>
49-53	30-34	Lessee recognition and measurement - lease asset	4.32 through 4.36	<p>Use of lease term in estimation methodology?</p> <p>RTU tenant improvements to lease assets</p>

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GASB 2019-3 paragraph 4.40 makes the assumption that the underlying asset is a capitalized asset. Please address the situation when the underlying asset is a non-capitalized heritage asset or stewardship land. [Will develop a question for task force and AAPC consideration.](#)

What constitutes the general description and general lease terms to be included in the disclosures for intragovernmental leases? [Will develop a question and answer for task force and AAPC consideration.](#)

54	37-39	Lessee disclosures	4.37 through 4.42	<p>Explain what is included in "annual lease expense" from ¶54e. Is this the principal payments made on the lease liability for the reporting period being disclosed, or does it include both principal and interest? Is annual lease expense net of any straight-line rent adjustment for lease incentives or concessions? Question/ illustration candidate</p> <p>Are agencies required to disclose anything about cancelable leases? Since lease term is defined as the non-cancelable period (plus options, etc.), that seems to exclude cancelable leases from disclosure. We should definitely clarify the accounting and disclosure requirements for cancelable leases in our implementation guidance. That depends. Disclosure requirements are found at paragraphs 54 (lessees), 67-68 (lessors -- this includes a required disclosure of termination revenues if applicable). Key risks and material transactions, which might--for some entities--involve cancelable leases and lease terminations from time to time, would also be candidates for disclosure in MD&A. Let's discuss if this needs clarification or not; I'm not sure yet.</p>
N/A	41	Leases of assets that are investments	4.45	N/A
N/A	42-43	Certain regulated entities	4.46	N/A
55	40	Lessor recognition and measurement - general	4.43 through 4.44	
56-63	44-52	Lessor recognition and measurement - lease receivable	4.47 through 4.49	Should GASB 87 paragraph 52 (update of the discount rate and the use of the revised discount rate) be considered in the implementation of SFFAS 54? Will develop an analogous question for implementing SFFAS 54.
64-65	53-54	Lessor recognition and measurement - deferred	4.50 through 4.51	
66	55	Lessor recognition and measurement - underlying asset	4.52 through 4.53	<p>Related to GASB 2019-3, 4.36 on leased asset impairment, should the SFFAS 54 implementation guidance mention impairment that has immaterial impact? Good question. Will develop a question for task force and AAPC consideration.</p> <p>Examples of returning asset in the original or enhanced condition</p>
N/A	56	financial statements prepared using the current financial resources measurement form		N/A

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67-68	57-60	Lessor disclosures	4.54 through 4.55	<p>Are agencies required to disclose anything about cancelable leases? Since lease term is defined as the non-cancelable period (plus options, etc.), that seems to exclude cancelable leases from disclosure. We should definitely clarify the accounting and disclosure requirements for cancelable leases in our implementation guidance. That depends. Disclosure requirements are found at paragraphs 54 (lessees), 67-68 (lessors -- this includes a required disclosure of termination revenues if applicable). Key risks and material transactions, which might--for some entities--involve cancelable leases and lease terminations from time to time, would also be candidates for disclosure in MD&A. Let's discuss if this needs clarification or not; I'm not sure yet.</p>
69	N/A	Financial Report of the U.S. Government disclosures		<p>Par 71- Please provide clarification and examples for the leasehold improvement section in Paragraph 71. Question/ illustration candidate</p>
70-71	61-62	Lease incentives and lease concessions	4.56 through 4.57	<p>Paragraph 71 includes the following sentence: "Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee should be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions." Must the lessee have some say or control over what improvements are made in order for the improvements to be considered "on behalf of the lessee"? Lessors will frequently perform improvements to their buildings such as furniture or carpet refreshes, or security upgrades, to entice a new lessee without directly charging the lessee, but it is understood that the lessor intends to recover the cost of those unbilled improvements within the rent payments charged to the lessee. XXX currently treats tenant improvement allowances that are written into the lease agreement as lease incentives, and currently excludes from lease incentives any tenant improvements not specifically identified in the lease agreement. Good question. I'll include this as a question candidate.</p> <p>a. Does the section headed "Lease Incentives and Lease Concessions" (paragraphs 70-71) apply only to leases other than short-term or intragovernmental leases? These topics are addressed differently in paragraphs 23, 24, 33, and 34 for other types of leases. Clarifying the section may avoid confusion. Possibly clarify in Omnibus</p> <p>If there is no readily available value for lease components included in the lease of a property, how should that underlying be reported? Question candidate</p>
72-77	63-68	Contracts or agreements with multiple components	4.58 through 4.62	<p>Par 74-76 -Some of GSA's leases may involve multiple structures; lab, office, and garage. It is not always documented in the lease price per sf in a particular structure, but rather more common to see total price for the entire lease. Not practical to unbundle. Question candidate</p> <p>Could you add "flat-fee print services contracts" to the list of implementation guidance needed? Here's GSA's description: https://www.gsa.gov/buying-selling/purchasing-programs/gsa-schedules/gsa-schedule-offerings/list-of-legacy-schedules/schedule-36imaging-document-solution/print-management-solutions These contracts involve having the vendor's equipment (such as printers and copy machines) placed on-site at the customer's location, but the contracts are structured as flat-fee service contracts. Implementation guidance would be very helpful. Question candidate.</p>
78-79	69-70	Contract or agreement combinations	4.63 through 4.64	
80-81, 84	71-72, 77	Lease terminations and modifications - general	4.65 through 4.66	<p>b. Paragraphs 81 – 83 on lease terminations appear to apply only to leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Consider clarifying this.</p>

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82	78	Lease terminations - lessee	4.69			
83	79	Lease terminations - lessor	4.70			
85	73-74	Lease modifications - lessee	4.67			
86	75-76	Lease modifications - lessor	4.68			
87-88	80-81	Subleases		c. Paragraphs 87-88 require subleases to be accounted for as separate transactions and disclosed separately. Do these requirements apply to short-term and intragovernmental leases?		
89-92	82-86	Sale-leaseback transactions	4.71 through 4.72	d. Do the disclosures for sale-leaseback (par. 88) and lease-leaseback (par. 92) apply to short-term and intragovernmental leases?		
93	87	Lease-leaseback transactions	4.73 through 4.74	8. Paragraph 93 provides disclosure requirements for lease-leaseback arrangements. Specifically, paragraph 93 provides "A lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the amounts of the lease and the leaseback separately." Although accounted for as a net transaction, disclosure is more detailed; this imposes greater cost to develop disclosures. Further the disclosure requirement may need to be clarified. We request consideration of the following: a. Consider permitting a net disclosure for lease-leaseback amounts given that the federal government's detailed future cash in-flow and out-flow are not analyzed as closely as other types of entities. (Requires Level A) b. If the disclosure is retained, consider clarifying its meaning. Does the provision simply mean that the lessor amounts and the lessee amounts should be included in other related amounts (that is, gross amounts for related disclosures such as lease assets and lease receivables)? Alternatively, does this require both gross amounts and a separate line in the lessor and lessee disclosures to identify lease-leaseback related amounts?		
94-95	N/A	Recissions of certain SFFAS 5 and SFFAS 6 paragraphs		N/A		
26-38	88-89	Intra-Entity Leases	4.75	Are entities that are non-Governmental, but required to be disclosed per SFFAS 47 or SFFAS 49 considered related parties? Should specific disclosures be made for those entities? If disclosures are required, what guidance should be followed, the intragov or outside party? What if there are special arrangements given the nature of the related party relationship? (GASB Stmt No. 87 P.90 has good example of "understood" terms that extend a lease beyond short term even though the lease is not written as such.) Good observations. I will develop some sample implementation questions that the task force and AAPC can consider at subsequent meetings.		
Silent	90-91	Leases between related parties	4.76 through 4.77	Consider rewording the question above, the majority of "entities that are non-Governmental, but required to be disclosed per SFFAS 47" are not related parties, but rather, they meet the criteria in SFFAS 47 to be "disclosure entities." There are a lot of disclosure entities, which are also listed in the TFM cited above. 2) Assets under capital lease currently that have less than 2 years remaining as of the implementation year of SFFAS 54: Should these assets be "uncapitalized" from the balance sheet? If so, should the difference between the asset, the accumulated amortization, and the remaining lease liability be recognized as a change in accounting principle?		
96-98	92-94	Effective date and transition guidance	5 and 6			

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Column E cell / topic reference	Additional detail / description (use this table to add expand on your short descriptions of implementation issues identified in column E; use only if necessary)			
	Scope & Applicability: GASB 87, Para 8 excludes Service Concession Arrangements (SCAs) while SFFAS 54 is silent (other than in Para A31 - Perhaps addressed during SFFAS 49 - P3 implementation). Perhaps need Lease implementation Guidance or exclusion confirmation. Question candidate.			
	Per SFFAS 44 footnote 1: "This Statement should not be directed to those G-PP&E assets (e.g., lower operating level assets, administrative support equipment, etc.) that have an immaterial impact on cost of service(s). Entities that determine they have an amount of G-PP&E such that no impairment could have a material effect would not have to be concerned with the implementation of the Statement. Each entity should undertake some advanced consideration to tailor and justify its implementation in light of materiality considerations specific to the entity." The SFFAS 54 implementation guidance needs to include language on when or when not to apply SFFAS 44 to leased assets. Question candidate.			
	Given GASB does not address the concept of Stewardship Land or Heritage Assets, only GPP&E, some additional language may need to be inserted for federal examples; esp. related to the capitalization of assets upon purchase as Heritage Assets and Stewardship Land is expensed. Question candidate.			