

WELCOME

LEASES (TOPIC 842) – PREPARING FOR THE (LONG) DELAYED IMPLEMENTATION

MAULDIN & JENKINS

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A Brief History of ASU 2016-02

- Issued on February 25, 2016
- Amended and delayed in January 2018 (ASU 2018-01)
- Amended and delayed in July 2018 (ASU 2018-10)
- Amended and delayed in August 2018 (ASU 2018-11)
- Amended and delayed one more time in 2018, two times in 2019, and one time in 2020 (ASU 2018-20, 2019-01, 2019-10, and 2020-05)

June 2022 ????

**ASU 2016-02 Leases (Topic 842) is
*finally** going into effect.**

Public NFPs*

- CY 2019 (FY 2019-20); *ASU 2020-05 provided an (optional) one-year deferral, to CY 2020 (FY 2020-2021) for financial statements not yet issued*

All Other NFPs

- Was CY 2021 (FY 2021-22), reflecting FASB's decision in ASU 2019-10 to defer by one year; *ASU 2020-05 provided an additional one-year deferral, to CY 2022 (FY 2022-2023)*

**So this could apply to your
upcoming audit!**

*** NFPs that have issued public debt adopted this ASU for the fiscal year 2020-21;
Early adoption was also permitted in prior years**

TABLE OF CONTENTS

- 1. Definitions and Components (a Breakdown)**
- 2. Recording the Entries (with Examples!)**
- 3. Financial Statement Presentation (with Examples!)**
- 4. Questions / Comments**

I. Definitions and Components

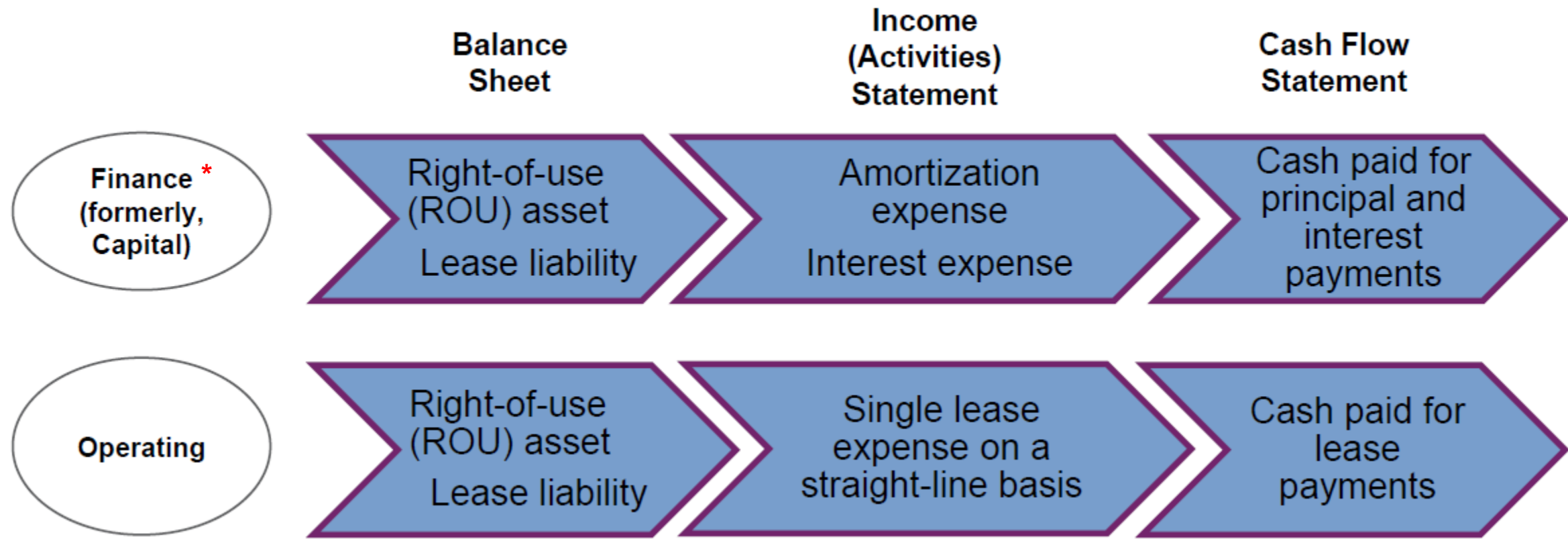
AT A 30,000 FOOT LEVEL



- Most operating leases will now be on the balance sheet
 - You will carry an Asset (Right of Use Asset) and a Liability (Lease Liability) for every operating lease.

I. Definitions and Components

AT A 30,000 FOOT LEVEL



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* Not heavily discussed in this presentation

I. Definitions and Components

AT A 30,000 FOOT LEVEL

Lease Determination



Finance lease if any of the following are met (otherwise it's an operating lease):

Lease transfers ownership of the underlying asset to the lessee by the end of the lease term	Lease grants the lessee an option to purchase the asset that the lessee is reasonably certain to exercise	Lease term is for a major part of the remaining economic life of the underlying asset	PV of the lease payments and any lease residual value guarantee not reflected in the lease payments, equal or exceed substantially all of the asset's FV	Underlying asset is of such specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term
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I. Definitions and Components

THE COMPONENTS

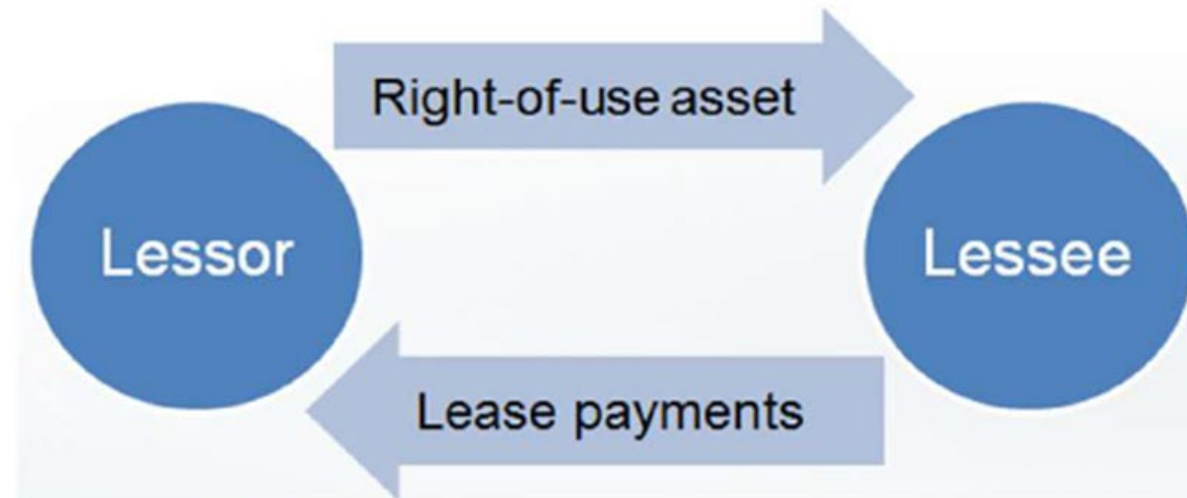


- Commencement Date
- Lease Liability
- Right of Use Asset (RoU)

I. Definitions and Components

RIGHT OF USE MODEL

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



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So when does a Lessee's "Right of Use" truly begin???

I. Definitions and Components

COMMENCEMENT DATE

Starts when lessee has the right to use the underlying asset (transfer of control)

Timing of lease payments does not affect the commencement date

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It does not matter when the lease agreement is signed AND it does not matter when payments begin !!!

I. Definitions and Components

COMMENCEMENT DATE – POP QUIZ

Starts when lessee has the right to use the underlying asset (transfer of control)

Timing of lease payments does not affect the commencement date

- Lessee signs a 5 year lease on 12/31/2021
- Agreement includes 9 months of rent abatement (no pmts due until 10/1/2022)
- Lessor grants access to the location on 5/1/2022
- Lessee begins construction of leasehold improvements on 5/1/2022
- The business opens to the public on 7/1/2022

What is my lease commencement date?

5/1/2022

That is when the lessee has access and the right to use the space

I. Definitions and Components

LEASE LIABILITY



- Present value of all *remaining* payments over the lease term using a discount rate at the commencement date.
- This balance should include any renewal options and take in to account any termination options that are *reasonably certain* to be executed

Lease liability



Present value of remaining payments, using a discount rate calculated on the basis of information available at the commencement date

I. Definitions and Components

DISCOUNT RATE – WHAT THE BOOK SAYS

- What rate should we use?
 - If there is a rate implicitly stated in the lease, we should use that
 - Otherwise, your incremental borrowing rate should be used (if you have a line of credit or other debt)

But there is an easier way.....

I. Definitions and Components

DISCOUNT RATE – PRACTICAL EXPEDIENTS

- A few Practical Expedients to make your life easier;
 - Other than Public Business Entity Considerations, an organization (including all NFPs) may use a risk free rate for measurement of lease liabilities
 - ASU 2021-09 allows for the election of a risk free rate to be by class of underlying asset (rather than on an entity wide basis)
 - Both the AICPA and FASB have used the 10 Year Treasury Bill rate as their risk free rate in examples

I. Definitions and Components

RIGHT OF USE ASSET

- To calculate your Right of Use Asset (RoU);
 - Take your Lease Liability that you have calculated
 - + Initial direct costs incurred by the lessee
 - + Any lease pmts made to the lessor at or before the commencement date
 - - Any lease incentives received
 - = RoU

Lease liability

+ Unamortized initial direct costs

± Prepaid/Accrued lease payments

- Remaining balance of lease incentives received

ROU Asset

I. Definitions and Components

RIGHT OF USE ASSET – DIRECT COSTS

RoU Asset – Initial Direct Costs - Examples

▪ Included

- Certain substantive incentive-based commissions (including payments to employees acting as selling agents)
- Lease documentation preparation costs incurred after the execution of the lease
- Legal fees that are contingent on successful execution of the lease
- Certain payments to existing tenants to move out
- Consideration paid for a guarantee of a residual asset by an unrelated third party

▪ Excluded

- Employee salaries (including commissions that are in-substance salaries)
- Internal engineering costs
- Negotiating lease term and conditions (including the preparation of drafts)
- Legal fees for services rendered before the execution of the lease
- Advertising
- Other origination efforts
- Depreciation
- Costs related to an idle asset

- Generally speaking;
 - Direct costs associated with the lease from an external source...**INCLUDE**
 - Direct costs associated with the lease from an internal source...**EXCLUDE**

II. Recording the Entries

A FEW OTHER PRACTICAL EXPEDIENTS / NOTES

- Donated use of assets with a lease component are not within scope of Topic 842. Those assets would fall under contributions rules covered in ASU 2018-08 (and its amendments)
- Short term leases (a term less than 12 months) without renewal options that are reasonably certain to exercise, are *optional* to include in your financial statements (as an asset and liability)
- De minimis leases and leases that are under fair value do not need to be included in your financial statements (as an asset and liability)

II. Recording the Entries

Example # 1 - Basic

- 3 year term (36 months)
- Commencement date = 1/1/2022
- Discount rate = 3%
- Payments begin 1/1/2022; \$5,000 a month

Present Value Calculation			Lease Liability				ROU Asset				
Year	Cash Payment	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1	60,000.00	59,184.00	172,362.00	(60,000.00)	4,259.00	116,621.00	172,362.00	(60,000.00)	4,259.00	(55,741.00)	116,621.00
2	60,000.00	57,437.00	116,621.00	(60,000.00)	2,563.00	59,184.00	116,621.00	(60,000.00)	2,563.00	(57,437.00)	59,184.00
3	60,000.00	55,741.00	59,184.00	(60,000.00)	816.00	-	59,184.00	(60,000.00)	816.00	(59,184.00)	-
	180,000.00	172,362.00		(180,000.00)	7,638.00			(180,000.00)	7,638.00	(172,362.00)	

Remaining Lease Costs for Lease Expense	
Total lease payments*	180,000
Remaining Lease Costs*	180,000
<i>divided by lease term (36 months)</i>	5,000
<i>annual lease expense (multiplied by 12)</i>	60,000

II. Recording the EntriesExample # 1 – Basic (Monthly Breakdown)

Present Value Calculation				Lease Liability				ROU Asset				
Date*	Cash Payment*	Month	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance*	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1/1/2022	5,000	-	5,000	172,362	(5,000)	418	167,781	172,362	(5,000)	418	(4,582)	167,781
2/1/2022	5,000	1	4,988	167,781	(5,000)	407	163,188	167,781	(5,000)	407	(4,593)	163,188
3/1/2022	5,000	2	4,975	163,188	(5,000)	395	158,583	163,188	(5,000)	395	(4,605)	158,583
4/1/2022	5,000	3	4,963	158,583	(5,000)	384	153,967	158,583	(5,000)	384	(4,616)	153,967
5/1/2022	5,000	4	4,950	153,967	(5,000)	372	149,339	153,967	(5,000)	372	(4,628)	149,339
6/1/2022	5,000	5	4,938	149,339	(5,000)	361	144,700	149,339	(5,000)	361	(4,639)	144,700
7/1/2022	5,000	6	4,926	144,700	(5,000)	349	140,049	144,700	(5,000)	349	(4,651)	140,049
8/1/2022	5,000	7	4,913	140,049	(5,000)	338	135,387	140,049	(5,000)	338	(4,662)	135,387
9/1/2022	5,000	8	4,901	135,387	(5,000)	326	130,713	135,387	(5,000)	326	(4,674)	130,713
10/1/2022	5,000	9	4,889	130,713	(5,000)	314	126,027	130,713	(5,000)	314	(4,686)	126,027
11/1/2022	5,000	10	4,877	126,027	(5,000)	303	121,330	126,027	(5,000)	303	(4,697)	121,330
12/1/2022	5,000	11	4,865	121,330	(5,000)	291	116,621	121,330	(5,000)	291	(4,709)	116,621
YEAR 1	60,000		59,184		(60,000)	4,259			(60,000)	4,259	(55,741)	
1/1/2023	5,000	12	4,852	116,621	(5,000)	279	111,900	116,621	(5,000)	279	(4,721)	111,900
2/1/2023	5,000	13	4,840	111,900	(5,000)	267	107,167	111,900	(5,000)	267	(4,733)	107,167
3/1/2023	5,000	14	4,828	107,167	(5,000)	255	102,422	107,167	(5,000)	255	(4,745)	102,422
4/1/2023	5,000	15	4,816	102,422	(5,000)	244	97,666	102,422	(5,000)	244	(4,756)	97,666
5/1/2023	5,000	16	4,804	97,666	(5,000)	232	92,898	97,666	(5,000)	232	(4,768)	92,898
6/1/2023	5,000	17	4,792	92,898	(5,000)	220	88,117	92,898	(5,000)	220	(4,780)	88,117
7/1/2023	5,000	18	4,780	88,117	(5,000)	208	83,325	88,117	(5,000)	208	(4,792)	83,325
8/1/2023	5,000	19	4,768	83,325	(5,000)	196	78,521	83,325	(5,000)	196	(4,804)	78,521
9/1/2023	5,000	20	4,756	78,521	(5,000)	184	73,705	78,521	(5,000)	184	(4,816)	73,705
10/1/2023	5,000	21	4,745	73,705	(5,000)	172	68,877	73,705	(5,000)	172	(4,828)	68,877
11/1/2023	5,000	22	4,733	68,877	(5,000)	160	64,036	68,877	(5,000)	160	(4,840)	64,036
12/1/2023	5,000	23	4,721	64,036	(5,000)	148	59,184	64,036	(5,000)	148	(4,852)	59,184
YEAR 2	60,000		57,437		(60,000)	2,563			(60,000)	2,563	(57,437)	
1/1/2024	5,000	24	4,709	59,184	(5,000)	135	54,319	59,184	(5,000)	135	(4,865)	54,319
2/1/2024	5,000	25	4,697	54,319	(5,000)	123	49,443	54,319	(5,000)	123	(4,877)	49,443
3/1/2024	5,000	26	4,686	49,443	(5,000)	111	44,554	49,443	(5,000)	111	(4,889)	44,554
4/1/2024	5,000	27	4,674	44,554	(5,000)	99	39,653	44,554	(5,000)	99	(4,901)	39,653
5/1/2024	5,000	28	4,662	39,653	(5,000)	87	34,739	39,653	(5,000)	87	(4,913)	34,739
6/1/2024	5,000	29	4,651	34,739	(5,000)	74	29,814	34,739	(5,000)	74	(4,926)	29,814
7/1/2024	5,000	30	4,639	29,814	(5,000)	62	24,876	29,814	(5,000)	62	(4,938)	24,876
8/1/2024	5,000	31	4,628	24,876	(5,000)	50	19,925	24,876	(5,000)	50	(4,950)	19,925
9/1/2024	5,000	32	4,616	19,925	(5,000)	37	14,963	19,925	(5,000)	37	(4,963)	14,963
10/1/2024	5,000	33	4,605	14,963	(5,000)	25	9,988	14,963	(5,000)	25	(4,975)	9,988
11/1/2024	5,000	34	4,593	9,988	(5,000)	12	5,000	9,988	(5,000)	12	(4,988)	5,000
12/1/2024	5,000	35	4,582	5,000	(5,000)	0	0	5,000	(5,000)	0	(5,000)	0
YEAR 3	60,000		55,741		(60,000)	816			(60,000)	816	(59,184)	
Total	180,000		172,362		(180,000)	7,638			(180,000)	7,638		

II. Recording the Entries

Example # 1 – Basic (Journal Entries)

Journal Entry: Initial Measurement

Lease commencement date 1/1/2022

DR	Operating Lease ROU Asset	172,362	
CR	Operating Lease Liability/Obligation		172,362

For purposes of current and noncurrent classification, lease liabilities and ROU assets are subject to the same considerations as other similar liabilities and assets.

Journal Entry: Subsequent Measurement

Payment date 6/1/2022

For monthly entries, enter the payment date. For payments made in advance, the cash payment entry is as of the payment date, while the lease expense entry is as of the end of the month of payment (e.g. for payment date of 3/1/20X1, the payment entry is recorded as of 3/1/20X1, and the lease expense entry is recorded as of 3/31/20X1).

DR	Operating Lease Liability/Obligation	5,000	
CR	Cash/AP – Lease Payment		5,000

DR	Lease Expense	5,000	
CR	Operating Lease Liability/Obligation		361
CR	Operating Lease ROU Asset		4,639

II. Recording the Entries

Example # 2 – Rent Escalation

- 3 year term (36 months)
- Commencement date = 1/1/2022
- Discount rate = 3%
- Payments begin 1/1/2022; \$5,000 a month
- 5% increase in payments every year
- \$15,000 of allowable direct costs

Present Value Calculation			Lease Liability				ROU Asset				
Year	Cash Payment	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1	60,000.00	59,184.00	180,948.00	(60,000.00)	4,520.00	125,468.00	195,948.00	(68,050.00)	4,520.00	(63,530.00)	132,418.00
2	63,000.00	60,309.00	125,468.00	(63,000.00)	2,782.00	65,250.00	132,418.00	(68,050.00)	2,782.00	(65,268.00)	67,150.00
3	66,150.00	61,455.00	65,250.00	(66,150.00)	900.00	-	67,150.00	(68,050.00)	900.00	(67,150.00)	-
	189,150.00	180,948.00		(189,150.00)	8,202.00			(204,150.00)	8,202.00	(195,948.00)	

Remaining Lease Costs for Lease Expense	
Total lease payments*	189,150
Initial direct costs*	15,000
Remaining Lease Costs*	204,150
<i>divided by lease term (36 months)</i>	5,671
<i>annual lease expense (multiplied by 12)</i>	68,050

II. Recording the Entries

Example # 2 – Rent Escalation (Monthly Breakdown)

Present Value Calculation				Lease Liability				ROU Asset				
Date*	Cash Payment*	Month	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance*	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1/1/2022	5,000	-	5,000	180,947	(5,000)	440	176,387	195,947	(5,671)	440	(5,231)	190,717
2/1/2022	5,000	1	4,988	176,387	(5,000)	428	171,816	190,717	(5,671)	428	(5,242)	185,474
3/1/2022	5,000	2	4,975	171,816	(5,000)	417	167,233	185,474	(5,671)	417	(5,254)	180,220
4/1/2022	5,000	3	4,963	167,233	(5,000)	406	162,638	180,220	(5,671)	406	(5,265)	174,955
5/1/2022	5,000	4	4,950	162,638	(5,000)	394	158,033	174,955	(5,671)	394	(5,277)	169,678
6/1/2022	5,000	5	4,938	158,033	(5,000)	383	153,415	169,678	(5,671)	383	(5,288)	164,390
7/1/2022	5,000	6	4,926	153,415	(5,000)	371	148,786	164,390	(5,671)	371	(5,300)	159,090
8/1/2022	5,000	7	4,913	148,786	(5,000)	359	144,146	159,090	(5,671)	359	(5,311)	153,779
9/1/2022	5,000	8	4,901	144,146	(5,000)	348	139,494	153,779	(5,671)	348	(5,323)	148,456
10/1/2022	5,000	9	4,889	139,494	(5,000)	336	134,830	148,456	(5,671)	336	(5,335)	143,121
11/1/2022	5,000	10	4,877	134,830	(5,000)	325	130,154	143,121	(5,671)	325	(5,346)	137,775
12/1/2022	5,000	11	4,865	130,154	(5,000)	313	125,467	137,775	(5,671)	313	(5,358)	132,417
YEAR 1	60,000		59,184		(60,000)	4,520			(68,050)	4,520	(63,530)	
1/1/2023	5,250	12	5,095	125,467	(5,250)	301	120,518	132,417	(5,671)	301	(5,370)	127,047
2/1/2023	5,250	13	5,082	120,518	(5,250)	288	115,556	127,047	(5,671)	288	(5,383)	121,664
3/1/2023	5,250	14	5,070	115,556	(5,250)	276	110,582	121,664	(5,671)	276	(5,395)	116,269
4/1/2023	5,250	15	5,057	110,582	(5,250)	263	105,595	116,269	(5,671)	263	(5,408)	110,862
5/1/2023	5,250	16	5,044	105,595	(5,250)	251	100,596	110,862	(5,671)	251	(5,420)	105,442
6/1/2023	5,250	17	5,032	100,596	(5,250)	238	95,584	105,442	(5,671)	238	(5,432)	100,009
7/1/2023	5,250	18	5,019	95,584	(5,250)	226	90,560	100,009	(5,671)	226	(5,445)	94,564
8/1/2023	5,250	19	5,007	90,560	(5,250)	213	85,523	94,564	(5,671)	213	(5,458)	89,107
9/1/2023	5,250	20	4,994	85,523	(5,250)	201	80,474	89,107	(5,671)	201	(5,470)	83,637
10/1/2023	5,250	21	4,982	80,474	(5,250)	188	75,412	83,637	(5,671)	188	(5,483)	78,154
11/1/2023	5,250	22	4,969	75,412	(5,250)	175	70,337	78,154	(5,671)	175	(5,495)	72,658
12/1/2023	5,250	23	4,957	70,337	(5,250)	163	65,250	72,658	(5,671)	163	(5,508)	67,150
YEAR 2	63,000		60,309		(63,000)	2,783			(68,050)	2,783	(65,267)	
1/1/2024	5,513	24	5,192	65,250	(5,513)	149	59,887	67,150	(5,671)	149	(5,521)	61,629
2/1/2024	5,513	25	5,179	59,887	(5,513)	136	54,510	61,629	(5,671)	136	(5,535)	56,094
3/1/2024	5,513	26	5,166	54,510	(5,513)	122	49,120	56,094	(5,671)	122	(5,548)	50,545
4/1/2024	5,513	27	5,153	49,120	(5,513)	109	43,717	50,545	(5,671)	109	(5,562)	44,984
5/1/2024	5,513	28	5,140	43,717	(5,513)	96	38,300	44,984	(5,671)	96	(5,575)	39,408
6/1/2024	5,513	29	5,127	38,300	(5,513)	82	32,869	39,408	(5,671)	82	(5,589)	33,819
7/1/2024	5,513	30	5,115	32,869	(5,513)	68	27,425	33,819	(5,671)	68	(5,602)	28,217
8/1/2024	5,513	31	5,102	27,425	(5,513)	55	21,968	28,217	(5,671)	55	(5,616)	22,601
9/1/2024	5,513	32	5,089	21,968	(5,513)	41	16,496	22,601	(5,671)	41	(5,630)	16,971
10/1/2024	5,513	33	5,076	16,496	(5,513)	27	11,011	16,971	(5,671)	27	(5,643)	11,328
11/1/2024	5,513	34	5,064	11,011	(5,513)	14	5,513	11,328	(5,671)	14	(5,657)	5,671
12/1/2024	5,513	35	5,051	5,513	(5,513)	0	0	5,671	(5,671)	0	(5,671)	0
YEAR 3	66,150		61,455		(66,150)	900			(68,050)	900	(67,150)	
Total	189,150		180,947		(189,150)	8,203			(204,150)	8,203		

II. Recording the Entries

Example # 2 – Rent Escalation (Journal Entries)

Journal Entry: Initial Measurement

Lease commencement date 1/1/2022

DR	Operating Lease ROU Asset	195,947	
CR	Cash/AP – Initial Direct Costs		15,000
CR	Operating Lease Liability/Obligation		180,947

For purposes of current and noncurrent classification, lease liabilities and ROU assets are subject to the same considerations as other similar liabilities and assets.

Journal Entry: Subsequent Measurement

Payment date 6/1/2023

For monthly entries, enter the payment date. For payments made in advance, the cash payment entry is as of the payment date, while the lease expense entry is as of the end of the month of payment (e.g. for payment date of 3/1/20X1, the payment entry is recorded as of 3/1/20X1, and the lease expense entry is recorded as of 3/31/20X1).

DR	Operating Lease Liability/Obligation	5,250	
CR	Cash/AP – Lease Payment		5,250

DR	Lease Expense	5,671	
CR	Operating Lease Liability/Obligation		238
CR	Operating Lease ROU Asset		5,432

II. Recording the Entries

Example # 3 – Rent Abatement

- 3 year term (36 months)
- Commencement date = 1/1/2022
- Discount rate = 3%
- 5% increase in payments every year
- \$15,000 of allowable direct costs
- **Payments begin 7/1/2022**; \$5,000 a month

Present Value Calculation			Lease Liability				ROU Asset				
Year	Cash Payment	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1	30,000.00	29,370.00	151,134.00	(30,000.00)	4,333.00	125,467.00	166,134.00	(58,050.00)	4,333.00	(53,717.00)	112,417.00
2	63,000.00	60,309.00	125,467.00	(63,000.00)	2,783.00	65,250.00	112,417.00	(58,050.00)	2,783.00	(55,267.00)	57,150.00
3	66,150.00	61,455.00	65,250.00	(66,150.00)	900.00	-	57,150.00	(58,050.00)	900.00	(57,150.00)	-
	159,150.00	151,134.00		(159,150.00)	8,016.00			(174,150.00)	8,016.00	(166,134.00)	

Remaining Lease Costs for Lease Expense	
Total lease payments*	159,150
Initial direct costs*	15,000
Remaining Lease Costs*	174,150
<i>divided by lease term (36 months)</i>	4,838
<i>annual lease expense (multiplied by 12)</i>	58,050

II. Recording the Entries

Example # 3 – Rent Abatement (Monthly Breakdown)

Present Value Calculation				Lease Liability			ROU Asset					
Date*	Cash Payment*	Month	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance*	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1/1/2022	-	-	-	151,134	-	378	151,512	166,134	(4,838)	378	(4,460)	161,674
2/1/2022	-	1	-	151,512	-	379	151,891	161,674	(4,838)	379	(4,459)	157,216
3/1/2022	-	2	-	151,891	-	380	152,270	157,216	(4,838)	380	(4,458)	152,758
4/1/2022	-	3	-	152,270	-	381	152,651	152,758	(4,838)	381	(4,457)	148,301
5/1/2022	-	4	-	152,651	-	382	153,033	148,301	(4,838)	382	(4,456)	143,845
6/1/2022	-	5	-	153,033	-	383	153,415	143,845	(4,838)	383	(4,455)	139,390
7/1/2022	5,000	6	4,926	153,415	(5,000)	371	148,786	139,390	(4,838)	371	(4,466)	134,924
8/1/2022	5,000	7	4,913	148,786	(5,000)	359	144,146	134,924	(4,838)	359	(4,478)	130,446
9/1/2022	5,000	8	4,901	144,146	(5,000)	348	139,494	130,446	(4,838)	348	(4,490)	125,956
10/1/2022	5,000	9	4,889	139,494	(5,000)	336	134,830	125,956	(4,838)	336	(4,501)	121,455
11/1/2022	5,000	10	4,877	134,830	(5,000)	325	130,154	121,455	(4,838)	325	(4,513)	116,942
12/1/2022	5,000	11	4,865	130,154	(5,000)	313	125,467	116,942	(4,838)	313	(4,525)	112,417
YEAR 1	30,000		29,370		(30,000)	4,333			(58,050)	4,333	(53,717)	
1/1/2023	5,250	12	5,095	125,467	(5,250)	301	120,518	112,417	(4,838)	301	(4,537)	107,880
2/1/2023	5,250	13	5,082	120,518	(5,250)	288	115,556	107,880	(4,838)	288	(4,549)	103,331
3/1/2023	5,250	14	5,070	115,556	(5,250)	276	110,582	103,331	(4,838)	276	(4,562)	98,769
4/1/2023	5,250	15	5,057	110,582	(5,250)	263	105,595	98,769	(4,838)	263	(4,574)	94,195
5/1/2023	5,250	16	5,044	105,595	(5,250)	251	100,596	94,195	(4,838)	251	(4,587)	89,608
6/1/2023	5,250	17	5,032	100,596	(5,250)	238	95,584	89,608	(4,838)	238	(4,599)	85,009
7/1/2023	5,250	18	5,019	95,584	(5,250)	226	90,560	85,009	(4,838)	226	(4,612)	80,398
8/1/2023	5,250	19	5,007	90,560	(5,250)	213	85,523	80,398	(4,838)	213	(4,624)	75,773
9/1/2023	5,250	20	4,994	85,523	(5,250)	201	80,474	75,773	(4,838)	201	(4,637)	71,137
10/1/2023	5,250	21	4,982	80,474	(5,250)	188	75,412	71,137	(4,838)	188	(4,649)	66,487
11/1/2023	5,250	22	4,969	75,412	(5,250)	175	70,337	66,487	(4,838)	175	(4,662)	61,825
12/1/2023	5,250	23	4,957	70,337	(5,250)	163	65,250	61,825	(4,838)	163	(4,675)	57,150
YEAR 2	63,000		60,309		(63,000)	2,783			(58,050)	2,783	(55,267)	
1/1/2024	5,513	24	5,192	65,250	(5,513)	149	59,887	57,150	(4,838)	149	(4,688)	52,462
2/1/2024	5,513	25	5,179	59,887	(5,513)	136	54,510	52,462	(4,838)	136	(4,702)	47,760
3/1/2024	5,513	26	5,166	54,510	(5,513)	122	49,120	47,760	(4,838)	122	(4,715)	43,045
4/1/2024	5,513	27	5,153	49,120	(5,513)	109	43,717	43,045	(4,838)	109	(4,728)	38,317
5/1/2024	5,513	28	5,140	43,717	(5,513)	96	38,300	38,317	(4,838)	96	(4,742)	33,575
6/1/2024	5,513	29	5,127	38,300	(5,513)	82	32,869	33,575	(4,838)	82	(4,756)	28,819
7/1/2024	5,513	30	5,115	32,869	(5,513)	68	27,425	28,819	(4,838)	68	(4,769)	24,050
8/1/2024	5,513	31	5,102	27,425	(5,513)	55	21,968	24,050	(4,838)	55	(4,783)	19,268
9/1/2024	5,513	32	5,089	21,968	(5,513)	41	16,496	19,268	(4,838)	41	(4,796)	14,471
10/1/2024	5,513	33	5,076	16,496	(5,513)	27	11,011	14,471	(4,838)	27	(4,810)	9,661
11/1/2024	5,513	34	5,064	11,011	(5,513)	14	5,513	9,661	(4,838)	14	(4,824)	4,838
12/1/2024	5,513	35	5,051	5,513	(5,513)	0	0	4,838	(4,838)	0	(4,838)	0
YEAR 3	66,150		61,455		(66,150)	900			(58,050)	900	(57,150)	
Total	159,150		151,134		(159,150)	8,016			(174,150)	8,016		

II. Recording the Entries

Example # 3 – Rent Abatement (Journal Entries)

Journal Entry: Initial Measurement

Lease commencement date 1/1/2022

DR	Operating Lease ROU Asset	166,134	
CR	Cash/AP – Initial Direct Costs		15,000
CR	Operating Lease Liability/Obligation		151,134

For purposes of current and noncurrent classification, lease liabilities and ROU assets are subject to the same considerations as other similar liabilities and assets.

Journal Entry: Subsequent Measurement

Payment date 6/1/2022

For monthly entries, enter the payment date. For payments made in advance, the cash payment entry is as of the payment date, while the lease expense entry is as of the end of the month of payment (e.g. for payment date of 3/1/20X1, the payment entry is recorded as of 3/1/20X1, and the lease expense entry is recorded as of 3/31/20X1).

DR	Operating Lease Liability/Obligation	-	
CR	Cash/AP – Lease Payment		-

DR	Lease Expense	4,838	
CR	Operating Lease Liability/Obligation		383
CR	Operating Lease ROU Asset		4,455

Journal Entry: Subsequent Measurement

Payment date 6/1/2023

For monthly entries, enter the payment date. For payments made in advance, the cash payment entry is as of the payment date, while the lease expense entry is as of the end of the month of payment (e.g. for payment date of 3/1/20X1, the payment entry is recorded as of 3/1/20X1, and the lease expense entry is recorded as of 3/31/20X1).

DR	Operating Lease Liability/Obligation	5,250	
CR	Cash/AP – Lease Payment		5,250

DR	Lease Expense	4,838	
CR	Operating Lease Liability/Obligation		238
CR	Operating Lease ROU Asset		4,599

II. Recording the Entries

Example # 4 – Lease Incentive

- 3 year term (36 months)
- Commencement date = 1/1/2022
- Discount rate = 3%
- Payments begin 7/1/2022; \$5,000 a month
- 5% increase in payments every year
- \$15,000 of allowable direct costs
- Lease includes a lease incentive for \$25,000

Present Value Calculation			Lease Liability				ROU Asset				
Year	Cash Payment	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1	30,000.00	29,370.00	151,134.00	(30,000.00)	4,333.00	125,467.00	141,134.00	(49,717.00)	4,333.00	(45,384.00)	95,750.00
2	63,000.00	60,309.00	125,467.00	(63,000.00)	2,783.00	65,250.00	95,750.00	(49,717.00)	2,783.00	(46,934.00)	48,816.00
3	66,150.00	61,455.00	65,250.00	(66,150.00)	900.00	-	48,816.00	(49,717.00)	900.00	(48,817.00)	-
	159,150.00	151,134.00		(159,150.00)	8,016.00			(149,151.00)	8,016.00	(141,135.00)	

Remaining Lease Costs for Lease Expense	
Total lease payments*	159,150
Initial direct costs*	15,000
Lease incentive*	(25,000)
Remaining Lease Costs*	149,150
<i>divided by lease term (36 months)</i>	4,143
<i>annual lease expense (multiplied by 12)</i>	49,717

II. Recording the Entries

Example # 4 – Lease Incentive (Monthly Breakdown)

Present Value Calculation				Lease Liability				ROU Asset				
Date*	Cash Payment*	Month	Present Value	Lease Liability Beginning Balance	Payment	Interest	Lease Liability Ending Balance*	ROU Asset Beginning Balance	A Lease Expense	B Interest	A-B Asset Deduction	ROU Asset Ending Balance*
1/1/2022	-	-	-	151,134	-	378	151,512	141,134	(4,143)	378	(3,765)	137,369
2/1/2022	-	1	-	151,512	-	379	151,891	137,369	(4,143)	379	(3,764)	133,604
3/1/2022	-	2	-	151,891	-	380	152,270	133,604	(4,143)	380	(3,763)	129,841
4/1/2022	-	3	-	152,270	-	381	152,651	129,841	(4,143)	381	(3,762)	126,079
5/1/2022	-	4	-	152,651	-	382	153,033	126,079	(4,143)	382	(3,761)	122,317
6/1/2022	-	5	-	153,033	-	383	153,415	122,317	(4,143)	383	(3,760)	118,557
7/1/2022	5,000	6	4,926	153,415	(5,000)	371	148,786	118,557	(4,143)	371	(3,772)	114,785
8/1/2022	5,000	7	4,913	148,786	(5,000)	359	144,146	114,785	(4,143)	359	(3,784)	111,001
9/1/2022	5,000	8	4,901	144,146	(5,000)	348	139,494	111,001	(4,143)	348	(3,795)	107,206
10/1/2022	5,000	9	4,889	139,494	(5,000)	336	134,830	107,206	(4,143)	336	(3,807)	103,399
11/1/2022	5,000	10	4,877	134,830	(5,000)	325	130,154	103,399	(4,143)	325	(3,818)	99,581
12/1/2022	5,000	11	4,865	130,154	(5,000)	313	125,467	99,581	(4,143)	313	(3,830)	95,751
YEAR 1	30,000		29,370		(30,000)	4,333			(49,717)	4,333	(45,383)	
1/1/2023	5,250	12	5,095	125,467	(5,250)	301	120,518	95,751	(4,143)	301	(3,843)	91,908
2/1/2023	5,250	13	5,082	120,518	(5,250)	288	115,556	91,908	(4,143)	288	(3,855)	88,053
3/1/2023	5,250	14	5,070	115,556	(5,250)	276	110,582	88,053	(4,143)	276	(3,867)	84,186
4/1/2023	5,250	15	5,057	110,582	(5,250)	263	105,595	84,186	(4,143)	263	(3,880)	80,306
5/1/2023	5,250	16	5,044	105,595	(5,250)	251	100,596	80,306	(4,143)	251	(3,892)	76,414
6/1/2023	5,250	17	5,032	100,596	(5,250)	238	95,584	76,414	(4,143)	238	(3,905)	72,509
7/1/2023	5,250	18	5,019	95,584	(5,250)	226	90,560	72,509	(4,143)	226	(3,917)	68,592
8/1/2023	5,250	19	5,007	90,560	(5,250)	213	85,523	68,592	(4,143)	213	(3,930)	64,662
9/1/2023	5,250	20	4,994	85,523	(5,250)	201	80,474	64,662	(4,143)	201	(3,942)	60,720
10/1/2023	5,250	21	4,982	80,474	(5,250)	188	75,412	60,720	(4,143)	188	(3,955)	56,765
11/1/2023	5,250	22	4,969	75,412	(5,250)	175	70,337	56,765	(4,143)	175	(3,968)	52,797
12/1/2023	5,250	23	4,957	70,337	(5,250)	163	65,250	52,797	(4,143)	163	(3,980)	48,817
YEAR 2	63,000		60,309		(63,000)	2,783			(49,717)	2,783	(46,934)	
1/1/2024	5,513	24	5,192	65,250	(5,513)	149	59,887	48,817	(4,143)	149	(3,994)	44,823
2/1/2024	5,513	25	5,179	59,887	(5,513)	136	54,510	44,823	(4,143)	136	(4,007)	40,816
3/1/2024	5,513	26	5,166	54,510	(5,513)	122	49,120	40,816	(4,143)	122	(4,021)	36,795
4/1/2024	5,513	27	5,153	49,120	(5,513)	109	43,717	36,795	(4,143)	109	(4,034)	32,761
5/1/2024	5,513	28	5,140	43,717	(5,513)	96	38,300	32,761	(4,143)	96	(4,048)	28,714
6/1/2024	5,513	29	5,127	38,300	(5,513)	82	32,869	28,714	(4,143)	82	(4,061)	24,653
7/1/2024	5,513	30	5,115	32,869	(5,513)	68	27,425	24,653	(4,143)	68	(4,075)	20,578
8/1/2024	5,513	31	5,102	27,425	(5,513)	55	21,968	20,578	(4,143)	55	(4,088)	16,490
9/1/2024	5,513	32	5,089	21,968	(5,513)	41	16,496	16,490	(4,143)	41	(4,102)	12,388
10/1/2024	5,513	33	5,076	16,496	(5,513)	27	11,011	12,388	(4,143)	27	(4,116)	8,272
11/1/2024	5,513	34	5,064	11,011	(5,513)	14	5,513	8,272	(4,143)	14	(4,129)	4,143
12/1/2024	5,513	35	5,051	5,513	(5,513)	0	0	4,143	(4,143)	0	(4,143)	0
YEAR 3	66,150		61,455		(66,150)	900			(49,717)	900	(48,817)	
Total	159,150		151,134		(159,150)	8,016			(149,150)	8,016		

II. Recording the Entries

Example # 4 – Lease Incentive (Journal Entries)

Journal Entry: Initial Measurement

Lease commencement date 1/1/2022

DR	Operating Lease ROU Asset	141,134	
DR	Cash – Lease Incentive	25,000	
CR	Cash/AP – Initial Direct Costs		15,000
CR	Operating Lease Liability/Obligation		151,134

For purposes of current and noncurrent classification, lease liabilities and ROU assets are subject to the same considerations as other similar liabilities and assets.

Journal Entry: Subsequent Measurement

Payment date 6/1/2023

For monthly entries, enter the payment date. For payments made in advance, the cash payment entry is as of the payment date, while the lease expense entry is as of the end of the month of payment (e.g. for payment date of 3/1/20X1, the payment entry is recorded as of 3/1/20X1, and the lease expense entry is recorded as of 3/31/20X1).

DR	Operating Lease Liability/Obligation	5,250	
CR	Cash/AP – Lease Payment		5,250

DR	Lease Expense	4,143	
CR	Operating Lease Liability/Obligation		238
CR	Operating Lease ROU Asset		3,905

III. Financial Statement Presentation

TRANSITION METHODS (842 - 10 - 65 - 1)

- Required to adopt using a modified retrospective transition (two options) (Update 2018-11)
 - **OPTION # 1** : Retrospectively to each prior reporting period presented in the financial statements. Application date is the later of the earliest period presented in the FS or the commencement date of the lease (Original requirement 2016-02)
 - **OPTION # 2** : Retrospectively at the beginning of the current period through a cumulative-effect adjustment to equity. (Optional with Update 2018-11)

III. Financial Statement Presentation

TRANSITION METHODS (842 - 10 - 65 - 1) (continued)

		Prior year (2021)	Current Year (2022)
Option 1	Retrospective to opening balance of prior year	ASC 842	ASC 842
Option 2	(Optional) Retrospective to opening balance of current year	ASC 840 (Prior Guidance)	ASC 842

III. Financial Statement Presentation

LEASES (TOPIC 842)



BALANCE SHEET PRESENTATION - ASSETS

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents - Undesignated	\$ 3,218,922	\$ 3,176,568
Cash and cash equivalents - Board designated - capital reserve	2,794	2,793
Cash and cash equivalents - Board designated - master plan	719,662	1,897,283
Cash and cash equivalents - Board designated - capital replacement	495,489	796,211
Investments - Undesignated	250,595	250,570
Investments - Board designated - capital reserve	2,826,071	2,314,296
Accounts receivable, less allowance for doubtful accounts, 2021 \$472,679; 2020 \$554,386	349,780	387,215
Inventories	289,818	205,211
Right-of-use assets	106,393	109,848
Prepaid expenses and other current assets	338,795	249,197
Total current assets	8,598,319	9,389,192
Non-current assets		
Property and equipment, at cost		
Golf course, lakes, and land	32,217,666	30,421,487
Vehicles and equipment	5,747,454	5,665,734
Buildings and improvements	26,038,981	25,355,488
Furniture, fixtures, and equipment	2,545,390	2,399,912
Construction in progress	3,479,327	786,022
	70,028,818	64,628,643
Less accumulated depreciation	(31,175,381)	(29,558,152)
Net property and equipment	38,853,437	35,070,491
Investments - Board designated - capital reserve	-	509,517
Investment in real estate	575,000	575,000
Right-of-use assets	153,270	259,662
Total non-current assets	39,581,707	36,414,670
Total assets	\$ 48,180,026	\$ 45,803,862



BALANCE SHEET PRESENTATION - LIABILITIES

Liabilities and Property Owners' Equity

Current liabilities

Current maturities of note payable	\$	1,087,667	\$	1,052,033
Current maturities of operating lease liability		106,393		109,848
Current maturities of financing lease liability		34,580		32,945
Accounts payable		169,643		232,054
Accrued expenses		814,905		842,604
Deferred assessment revenue		43,103		45,088
Total current liabilities		2,256,291		2,314,572

Non-current liabilities

Note payable, net of current maturities and unamortized debt issuance costs		3,828,291		4,901,484
Operating lease liability		153,270		259,662
Financing lease liability		94,154		128,734
Deposits - escrow architectural control		525,646		358,116
Total non-current liabilities		4,601,361		5,647,996
Total liabilities		6,857,652		7,962,568

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III. Financial Statement Presentation

LEASES (TOPIC 842)



STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 11,126,241
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	730,686
Net investment gains	(6,876,387)
PPP loan forgiveness	(937,100)
(Increase) decrease in operating assets:	
Accounts receivable	(1,933,078)
Grants receivable	180,902
Other receivables	(569,621)
Inventories	(854,200)
Prepaid expenses	(92,284)
Other current assets	12,725
Right-of-use asset	(1,772,926)
Increase (decrease) in operating liabilities:	
Accounts payable	(264,879)
Accrued expenses	337,255
Expense reimbursements due to subgrantees	(78,552)
Refundable advances	(1,142,164)
Deferred rent and leasehold incentives	1,803,882
Grants payable	(2,006,350)
Net cash (used in) operating activities	(2,335,850)

OPERATING ACTIVITIES

	2018	2017
Change in net assets	\$ (4,563,131)	\$ 15,670,063
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Net realized and unrealized (gains) on long-term investments	(13,523,054)	(23,745,783)
Depreciation expense	5,300,209	5,304,628
Accretion of bond premium	31,728	29,218
Accretion of asset retirement obligation	35,883	34,153
Receipt of agency funds	1,937,668	1,757,610
Disbursement of agency funds	(1,937,668)	(1,757,610)
Contributions restricted for long-term investment	(1,179,607)	(5,216,341)
Income restricted for long-term investment	(102,890)	(100,423)
Gain on sale of property and equipment	-	86,149
Bad debt expense	579,082	340,857
Changes in assets and liabilities:		
Accounts receivable	83,764	(25,167)
Accrued interest income	-	(4,000)
Prepaid and other assets	259,859	(282,339)
Contributions receivable	41,197	(3,791,368)
Changes in split-interest agreements	(154,228)	(27,066)
Right-of-use asset	(170,278)	-
Accounts payable and accrued expenses	1,292,322	(1,747,704)
Deferred income	152,243	149,445
Accrued post-retirement benefits	755,344	(3,683,057)
Annuity obligations	(87,929)	(94,703)
Lease liability	193,720	-
Net cash (used in) operating activities	(11,055,766)	(17,103,438)

III. Financial Statement Presentation

FOOTNOTE DISCLOSURES

- Required to disclose quantitative and qualitative information about the following:
 - **# 1** The Leases – A description
 - **# 2** Significant judgements made in applying the requirements of ASC 842 to the leases
 - **# 3** Amounts recognized in the financial statements related to those leases.

III. Financial Statement Presentation

FOOTNOTE DISCLOSURES – THE LEASE

So what goes in the required footnote to describe the Lease(s) in the report?

- General description of the lease
- Basis, terms and conditions on which variable lease payments are determined
- Existence and terms and conditions to extend or terminate the lease.
 - Narrative above the options that are recognized as part of the ROU and lease liability
- Description of any residual value guarantees or restrictions / covenants

III. Financial Statement Presentation FOOTNOTE DISCLOSURES – SIGNIFICANT JUDGEMENTS

We have to outline what significant judgement have been made in determining the lease and its components;

- How the determination was made of whether a contract contains a lease
- The allocation of the consideration in a contract between lease and non-lease components
 - Administrative tasks to set up a contract or initiate lease
 - Reimbursement or payment of lessors costs
- Determination of discount rate for the lease

III. Financial Statement Presentation FOOTNOTE DISCLOSURES – AMOUNTS RECOGNIZED

- Operating and Finance amounts presented separately for the following
 - Cash paid for amounts included in measurement of lease liabilities
 - Supplemental noncash information on lease liabilities
 - Weighted average remaining lease term (multiple leases)
 - Weighted average discount rate (multiple leases)
- Short term lease cost
- Variable Lease cost
- Sublease Cost
- Net gain/loss on sale and leaseback transaction

III. Financial Statement Presentation DISCLOSURES – EXAMPLE

NOTE 4. LEASES

Description of the lease

“Variable payments”

Description of rate

The Organization leases office space under a non-cancelable operating lease. The lease contains no significant restrictions. The lease provides for escalating payments over the lease term from September 1, 2019 through December 31, 2029. The lease provides for a renewal option for two additional 5-year periods. The lease was amended in July 2021 and includes a building incentive that is variable until expansion is completed (estimated in December 2021). In the year ended June 30, 2021, the Organization adopted FASB Accounting Standards Update (ASU) No. 2016-02, ASC 842, *Leases*, which requires the recognition of a right-of-use asset and a lease liability based on the present value of the remaining lease payments. The Organization’s incremental borrowing rate of 5.81% was used as the discount rate in order to determine present value. The following is a schedule by years of minimum future rentals on the operating lease and the amortization of the net present value (NPV) of the lease liability as of June 30, 2021:

Describing no restrictions

The terms and incentives

Payment schedule and the required quantitative items

Year Ending June 30:	Minimum annual lease payments	Amortization of NPV of lease liability
2022	\$ 355,476	\$ 210,377
2023	364,363	232,057
2024	373,472	255,259
2025	382,809	280,080
2026	392,379	306,621
Thereafter	1,452,653	1,307,808
	<u>\$ 3,321,152</u>	<u>\$ 2,592,202</u>

The carrying value of the related right-of-use asset as of June 30, 2021 was:

Accumulated basis	\$ 2,009,049
Less – accumulated amortization	(236,123)
	<u>\$ 1,772,926</u>

Rent expense for the year ended June 30, 2021 was \$318,913.

III. Financial Statement Presentation

OTHER FOOTNOTES – EXAMPLE

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on all of the Organization’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2021. Management does not expect this ASU to have a significant impact on the Organization’s combined financial statements.

New Accounting Pronouncement

In June 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842): *Effective Dates for Certain Entities*, which, among other things, provided entities with an additional year to implement ASU 2016-02, *Leases* (Topic 842). As a result, for nonpublic companies the effective date for ASU 2016-02 has been extended to be effective for annual reporting periods beginning after December 15, 2021, and interim reporting periods beginning after December 15, 2022. Early application of the amendments in this ASU is permitted. The Foundation had already previously adopted the guidance under ASU No. 2014-09, *Revenue Recognition* (Topic 606): *Revenue from Contracts with Customers* effective May 1, 2019. The Foundation adopted ASU 2020-05, during 2020 which extended the effective date of ASU 2016-02.

Lease Accounting

The Foundation determines whether to account for its leases as operating, capital or financing leases depending on the underlying terms of the lease agreement. This determination of classification is complex and requires significant judgment about the Foundation’s cost of funds, minimum lease payments and other lease terms.

Questions?



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