**This template should be reviewed in conjunction with the applicable disclosure checklist for complete requirements (see Lease Adoption folder for latest RSM version in Word) and the Excel workbook of accompanying tables. This template focuses on lessee leases – for clients with lessor leases, review the disclosure checklist. Disclosure requirements vary depending on the type of lessor lease. Sections in gray are only required in the initial period of adoption and should be removed thereafter.**

In the transition period, disclosure is required of “Change in Accounting Principle” if the impact is significant. The disclosure requirements are met with the following:

1. *Add to audit opinion below “Basis for Opinion” paragraph (GAM 708.08.A7):*

**Change in Accounting Principle**

As discussed in Note X to the financial statements, the Company adopted new accounting guidance, Accounting Standards Codification (ASC) 842, *Leases*,effective January 1, 2022. Our opinion is not modified with respect to this matter.

1. *Accounting policy:*

Note 2. Summary of Significant Accounting Policies (continued)

**Leases:** Effective January 1, 2022, the Company elected to adopt Accounting Standards Codification (ASC) 842, *Leases.* Thenew standard was adopted using the modified retrospective transition method, under which periods prior to 2022 continue to be reported using historical accounting practices in accordance with ASC 840. The new standard provides a number of optional practical expedients in transition related to leases that commenced prior to the adoption of ASC 842. The Company elected the package of practical expedients, which does not require reassessment of lease classification, whether a contract contains a lease, or initial direct costs. The Company did not elect the use-of-hindsight practical expedient, which, if adopted, would have required the Company to use to reassess impairment of right-of-use assets and determination of lease terms, including with respect to renewals, terminations, and other purchase options.

Upon adoption of ASC 840 on January 1, 2022, the Company recorded lease liabilities – operating of $\_\_\_\_\_\_\_\_\_ and offsetting right-of-use assets – operating leases of $\_\_\_\_\_\_\_\_\_. The difference between these amounts is related to the reclassification of accrued straight-line rent upon adoption. Capital lease obligations were also reclassified from [capital lease obligations / long-term debt or other liabilities] to lease liabilities – finance and related property and equipment under capital lease were reclassified to right-of use assets – finance leases. The adoption did not have a material impact on net income or cash flows and there was no cumulative effect adjustment recorded to retained earnings upon adoption.

The Company determines if an arrangement is a lease or contains a lease at inception of the agreement. In accordance with ASC 842, lessee leases are classified as operating or finance leases based upon various criteria. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of fixed lease payments over the lease terms. The lease term commences on the date the lessor makes the asset available to the Company and includes any renewal periods the Company is reasonably certain to exercise. Operating lease liabilities are amortized to operating expenses on a straight-line basis over the respective lease terms; related lease liabilities and right-of-use assets are reduced over the respective lease terms using the effective interest method. Finance lease liabilities are amortized using the effective interest method, with related interest reported as interest expense. Finance right-of-use assets are amortized to operating expenses on a straight-line basis over the lesser of the lease term or the useful life of the asset. The Company has elected not to recognize short-term leases (with terms of one year or less) as lease liabilities and right-of use assets; related expenses are recognized on a straight-line basis over the lease term. Additionally, the Company has elected to apply the risk-free discount rate for leases in which there is no implicit discount rate.

1. *Footnote:*

Note X. Leases

**Operating leases:** [Information about nature of leases(s): general description, extension/renewal/termination options, purchase options, basis and terms for how variable lease payments (if any) are determined, residual value guarantees, restrictions/covenants imposed by leases. Disclose information about any leases that have not yet commenced but create significant rights and obligations. Disclose information about significant assumptions and judgments applied: whether a contract contains a lease, allocation of a contract between lease and nonlease components, determination of discount rate (implicit rate if determinable, otherwise use of risk-free rate or incremental borrowing rate). no need to repeat here if use of practical expedient for all leases is applied and disclosed in the accounting policy FN).]

**Finance leases:** [Same requirements as for operating leases, see above.]

***Example from a live client:***

**Operating leases:** The Company leases its office and manufacturing facilities in Vermont and California under several operating lease agreements. The Vermont leases expired in 2022, at which time they were renewed through June 2024 and treated as new leases for accounting purposes. The California facility lease contains two three-year renewal options, one of which management has determined is reasonably certain to be exercised and is, therefore, included in the lease term (through July 2027) for accounting and disclosure purposes. Base rent will be reset at the renewal date, if exercised, based on the Consumer Price Index. A risk-free discount rate was applied to the recognition of these leases. Variable lease costs relate to increases in rent due to Consumer Price Index increases, which are not included in the calculation of the lease liability or right-of-use asset and are expensed as incurred.

**Finance leases:** The Company has two master equipment leases, each of which comprises various assets which were received and placed in service on different dates in 2022 and 2021; each asset has a distinct lease commencement date and is accounted for separately. These leases contain one-dollar buy-out options at the end of each lease, which the Company reasonably expects to exercise. As a result, the leases meet the criteria as finance leases and the corresponding right-of-use assets are being amortized over the estimated useful lives of the assets, which exceed the contractual lease terms. Finance lease liabilities were determined based on interest rates implicit in the respective lease agreements.

At December 31, 2021, the Company included assets under capital lease of $\_\_\_\_\_\_\_\_\_\_\_, net of accumulated amortization of $\_\_\_\_\_\_\_\_\_, in property and equipment. Related capital lease obligations are reported separately on the balance sheet at December 31, 2021. **[OR]** Related capital lease obligations of $\_\_\_\_\_\_\_ and $\_\_\_\_\_\_ are included in accrued liabilities and other noncurrent liabilities, respectively, at December 31, 2021.

 The components of lease expenses are as follows for the years ended December 31:

[Insert table from Excel Footnote workbook]

For short-term leases, disclosure is required if what’s expensed in current year doesn’t reasonably reflect on-going short-term lease commitments. Sample wording if that is the case (if material):

Throughout 2022, there was one short-term lease. On December 31, 2022, the Company entered into additional short-term leases which will require lease payments of approximately $\_\_\_\_\_\_\_\_\_\_ in 2023.

As of December 31, 2022, minimum lease payments required for noncancelable leases are as follows:

[Insert table from Excel Footnote workbook]

Cash paid for amounts included in the measurement of lease liabilities consists of the following:

[Insert table from Excel Footnote workbook]

Additional lease disclosures are as follows:

[Insert table from Excel Footnote workbook]