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The Ridgely House Venture: Triple Net Commercial Lease/Purchase Case

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ABSTRACT: This case examines the tax, financial accounting, and governmental reporting consequences of a private Developer's actual purchase, renovation, and transfer of Ridgely House—an historical building in Ridgely, Maryland—to the Town of Ridgely. In short, the Developer purchases the building for $110,000 and incurs $190,000 in renovation costs to convert the property to a Town Hall and Police Station. He then "leases" the property back to the Town under terms and conditions outlined in a lease/purchase agreement (which can be viewed on the Web at http://faculty.ssu.edu/~kjsmith/ridgely.htm).

The case is constructed from the background information and actual lease/purchase agreement provided by the Developer. The terms of the agreement raise several questions regarding the proper tax and financial accounting treatment of various aspects of the transaction. The Developer (lessor) questions whether the transaction is to be reported for tax and financial-reporting purposes as a rental or a sale, if the property qualifies for a federal historical tax credit, and what net cash flow can be expected from the project. As an optional assignment (at the instructor's discretion), the Town (lessee) questions whether it has entered into an operating or capital lease, how to record the transaction in accordance with Governmental Accounting Standards Board (GASB) guidelines, and what disclosures are required on its Statement of Financial Position.

The case background, key lease/purchase agreement terms, and actual lease/purchase agreement provide the prerequisite material for solving the case requirements. In addition, outside resources (textbooks, online tax and financial accounting web sites, etc.) should be consulted in the process of seeking solutions to the questions posed by the Developer and the Town Commissioners. It is suggested that solutions to the case requirements be presented to the instructor in the form of an Executive Summary with supporting documentation and schedules.

BACKGROUND

History of the Building

The Ridgely House, a two and one-half story frame building located in the Central Business District in Ridgely, Maryland, is the most prominent building in town. Constructed as a combination store and

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residence by the Saulsbury Family in 1867, it was one of the first buildings erected after the Town's founding that same year. The house was converted to a residence in the 1870s and remained in the Saulsbury family until the early 1900s. (There are unconfirmed reports that the building was sold in 1906 to cover real estate taxes in arrears.) From approximately 1920 until 1952, the building was used as a doctor's residence and hospital. Many of the older residents of Ridgely were born in this building and remember the two doctors who occupied it during that period. Shortly thereafter, the building was converted into apartments.

Over the past decade the physical condition of the Ridgely House has deteriorated, raising concern among town residents. Recently, however, the present owner placed the building up for sale. Archie Carroll, whose insurance office is located across Central Avenue, envisioned it as Ridgely's new town hall, and bought an option[1] on it, which he subsequently transferred to Developer Joseph Quinn. Mr. Quinn's firm, County Management and Development Company, exercised the option and contracted to buy the property.

The Developer plans to convert the building to commercial office space and to renovate the building for that use. The conversion and use of the building as commercial office space is permitted under current Ridgely zoning ordinances. It is also consistent with: (1) the Comprehensive Plan adopted by the Commissioners of Ridgely in 1989; and, (2) the draft Comprehensive Plan as prepared by the Ridgely Planning Commission and adopted by the Ridgely Town Commissioners in March 1997. As Town Commissioner Dale Mumford noted, "this historical landmark needs to be preserved and the town needs more space."

In fact, the draft Comprehensive Plan outlines this conversion project as a significant element of the Ridgely revitalization strategy. The Town Commission and local residents and business owners have been concerned with the deterioration of several properties within the Central Business District. Recently three deteriorated buildings were removed from that section of town. Two are slated to be replaced with a branch of a local bank attracted to Ridgely by the opportunity to participate in the Town's revitalization. The lot for the third building, next to the Ridgely House, remains vacant. Although there is not a direct correlation between the Ridgely House project and the fate of the adjacent lot, the success of the Ridgely House project may encourage the lot's owner to ensure that it is developed for a purpose suitable for a central business district.

Town Incentives

Ridgely (the Town) has several incentives for participating with the Developer in the Ridgely House conversion project. First, it desires to renovate a blighted and neglected building (the Ridgely House) located in the Central Business District, and to return it to its status as one of the premier buildings in the Town. Second, the Town seeks to encourage renovation of other buildings in

[1] An option is a contractual right to purchase or sell something at a specified price within a designated time period. In this case, it was valuable to the holder because it locked in the purchase price and took the property "off the market" for the option period. The option thus allowed the holder to conduct preliminary activities (e.g., obtain a survey of the property, examine financing alternatives, obtain an assessment of the property's market value, etc.) prior to formally committing to purchase the property.

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Ridgely as part of its commitment to revitalization of the Town, and believes that a viable means of accomplishing this goal is through partnerships between the Town and private property owners and investors. Third, the Town Commissioners seek to encourage new businesses to locate in Ridgely, either in the Central Business District or in available existing buildings and open land. As evidence of this goal, the Town Commissioners are actively seeking an appropriate use for the existing Town Hall, which is an historic railroad station.

Last, the Town seeks to lower the occupancy cost of a new Town Hall and Police Station. The premise for the financial savings is twofold. First is the Developer's ability to qualify for a $140,000, 4 percent 20-year second mortgage from the Maryland Department of Housing and Community Development, for which the Town does not qualify.[2] (The proceeds from this loan will be used to cover post-acquisition renovation expenses.) The 4 percent loan will result in lower lease payments by the Town to the Developer than the Town would have incurred if it were a Town-financed project because: (1) this rate is lower than that which the Town could obtain if it sought direct financing from a lending institution; and, (2) the Developer intends to pass the savings on to the Town in the form of lower lease payments (as specified in Addendum C, paragraph 8 of the lease Agreement). Second is the expectation that the Developer will obtain Federal Historical Tax Credits on the building.[3] The lease/purchase agreement (on the Web at http://faculty.ssu.edu/~kjsmith/ridgely.htm) specifies that such credits obtained by the Developer will be applied as a reduction in the Town's lease payments over the initial lease term.

Developer Incentives

The Developer (Lessor) has had close ties with the Town over the years, arising from his prior service as its independent auditor, and is motivated to help the Town prosper. The Developer's altruistic intentions notwithstanding, the lease/purchase agreement provisions reveal that the Town is responsible for insurance, maintenance, and taxes on the leased property in addition to the monthly rental payments. Thus, this "Triple Net Commercial Lease/Purchase Agreement"[4] effectively provides the Developer with a steady and stable cash flow over the lease term while transferring the property's ownership

[2] The Developer obtained private bank financing for the initial $110,000 investment and is the mortgagee (i.e., borrower) on that loan.

[3] In order for the Developer to obtain the Federal Historical Tax Credit, the Ridgely House must be listed on the National Register. The National Register is a listing of U.S. historical structures and districts. It is maintained by the U.S. Secretary of the Interior, who, along with the National Historical Trust (a nonprofit organization), determines what structures and districts are eligible for listing. Although the Ridgely House is not listed on the National Register, the Maryland Historical Trust has determined that it is located within an eligible historic district. Accordingly, the Ridgely House will be nominated to the National Register during 2000. The Developer of the Ridgely House and the Town Commission are hoping that the successful renovation and use of the historic renovation tax credit will serve as a demonstration project that will encourage additional investment in the Central Business District of Ridgely and also in the surrounding residential neighborhoods. Those neighborhoods are part of the Ridgely Historic District, as identified by the Maryland Historical Trust.

[4] Under a net lease, the lessee maintains and insures the leased asset. The contract in the Ridgely House case is termed a "Triple Net Commercial Lease/Purchase Agreement" because it transfers responsibility for insurance, maintenance, and taxes from the Developer (lessor) to the Town (lessee) over the lease term(s), per paragraphs 7, 10, and 11 of the Agreement.

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costs to the Town. (Hereinafter we refer to this simply as "the Agreement.")

KEY LEASE/PURCHASE AGREEMENT TERMS

Developer's Investment

The Developer is required to purchase the property upon signing of the Agreement with the Town. Specifically, the Developer is to pay $110,000 for the land and building, and to invest up to $140,000 for renovations. Per Section 1(c) of the Agreement, any excess renovation costs are to be approved and borne by the Town. Actual renovation costs on the property were $190,000. The excess $50,000 was to be reimbursed to the Developer either in the form of Federal tax credits or, if the credits were disallowed, by cash reimbursement from the Town.

Lease Terms

The lease terms appear in Exhibit 1, Panel A. The first term is six years followed by three five-year renewable terms. The income-tax credit recapture rules relating to disposal of the property within the first six years of ownership motivated the Developer to designate the initial term as six years.

Per paragraph 3 of the lease Agreement (as amended by Addendum C, paragraph 7), after the initial six-year term the Town has the option to renew the lease for up to three additional five-year terms, assuming the parties can come to terms on the monthly rental fee. The Town is to give the Developer written notice of intent to renew not sooner than 90 days nor later than 180 days prior to the end of a term. All provisions of the initial lease agreement are to apply during the renewal terms.

Should the Town choose not to renew the lease after the initial six-year term, it is obligated to purchase the property for the sum of $220,000. If the purchase option is exercised at the expiration of the second five-year term, the purchase price is $170,000, after the third term it is $105,000, and after the fourth term it is $50,000. These provisions appear in paragraph 22 of the Agreement.

The Developer projects a 10 percent compounded increase in rent revenue for each new option period, subject to agreement by the Town Commissioners. The resulting anticipated monthly rentals appear in Panel B of Exhibit 1. (Note: the 10 percent increase applies only to successive option periods; within each option period, the lease payment is constant.)

Cost of Ownership and Maintenance of Property

The Agreement calls for the Town to pay state, county, and local real estate taxes; personal property taxes, utilities, repairs and maintenance (including the mechanical equipment and grounds maintenance); and insurance coverage for fire and public liability (at specific coverage amounts). Paragraphs 7–11 of the Agreement specify these obligations in more detail.

Financing for Acquisition and Improvement of Property

The Developer obtains a 20-year, 8.75 percent fixed-rate first mortgage from a local bank for the full $110,000 initial purchase price. This results in a monthly amortization of $972.08 commencing April 1, 2000. As a result of an appraiser's assessment, the initial purchase price is allocated $60,000 to the land, and $50,000 to the building. The Developer paid (or will pay) $50,000 of the $190,000 renovation costs out-of-pocket, and financed (or will finance) the $140,000 balance with a 20-year, 4 percent fixed-rate second

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EXHIBIT 1
Lease Terms, Option Prices, and Projected Rentals for the Ridgely House Venture

Panel A: Lease Terms and Option Prices

Term	Time Period	Option Price (at the end of the lease term)
1st	Six years	$220,000.00
2nd	Five years	$170,000.00
3rd	Five years	$105,000.00
4th	Five years	$50,000.00

Panel B: Developer's Projected Monthly Rental Fees

Term	Time Period	Monthly Rental Fee
1st	72 months	$2,100.00[a]
2nd	60 months	$2,370.00
3rd	60 months	$2,541.00
4th	60 months	$2,795.00

[a] The initial rent was scheduled to be $2,000.00 per month but was later changed to be $2,100.00 because the final State of Maryland loan for $140,000.00 was for 4 percent instead of 3 percent. The amount of rent for any subsequent five-year term is subject to negotiation between the parties.

mortgage.[5] The monthly amortization on this loan is $848.37, commencing July 1, 2001.

REQUIRED

Assume that the Agreement has been signed by both the Developer and Town officials on January 30, 2000, and that the lease provisions commence July 1, 2000.[6] Prior to the consummation of the Agreement, you were hired by the Developer to determine the tax, accounting, and cash flow consequences of this transaction. Consult your tax and intermediate texts, library resources, and on-line tax resources (such as the Research Institute of America [RIA] OnPoint System) to assist you in this assignment. Specifically, the Developer seeks answers to series of questions. Prepare an Executive Summary for the Developer that summarizes the answer to each of the following questions with appropriate citations and references. Where applicable, provide detailed analyses in supplementary schedules to support your conclusions.

1. What is a lease/purchase agreement and what is the incentive for

[5] Of the $190,000 renovation cost, the Developer is responsible for $140,000. Per paragraph 1(c) of the Agreement, the Town must reimburse the Developer $50,000 at the inception of the lease in the event that the historical tax credits are disallowed. The Town does not know the Developer's implicit rate in the lease; the Town's long-term incremental borrowing rate is 6.375%. (Most municipalities pay 75% of the Prime Rate.)

[6] Per Addendum A (paragraph 2) of the Agreement, the Town must commence lease payments to the Developer on July 1, 2000 even though it cannot occupy the building until renovations are complete. Renovations are estimated to be completed by June 30, 2001.

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the lessor and lessee for entering into such an agreement? (Hint—consult the conceptual discussion sections of the lease chapters in a recent intermediate accounting and/or financial management text.)

2. Determine the proper tax treatment by the Developer for this transaction, i.e., is it to be treated as a rental agreement or a sale? Why? How should the Developer treat the lease for financial-reporting purposes? (Hint—consult IRC Section 162; Revenue Rulings 55-540 through 542, 72-408,75-41; Federal Tax Coordinator paragraphs L-6222 and L-6224; 200 RIA Federal Tax Handbook paragraph 2700; and SFAS Nos. 13 and 66.)
3. Independent of your answers above, assume that the transaction is a sale. How should the Developer calculate the sales price? (Hint—consult the "test rate of interest" provisions in IRC Section 1274(d)(1)(A); Revenue Ruling 72-408; and United States Tax Reporter paragraphs 4382.02, 4834.01.)
4. What is the Developer's tax basis in the property? What amount of gain or loss should the Developer recognize on January 30, 2000? How should the gain or loss be classified for federal income tax purposes? (Hint—consult IRC Sections 1211, 1221, and 1222.)
5. Can the Developer treat the transaction as an installment sale? Why or why not? (Hint—consult IRC Section 453.) Should the Developer automatically elect the installment sales method if the transaction qualifies? Why or why not? (Hint—consult IRC Sections 691, 1211, 1222.) Does this transaction qualify for the installment method of revenue recognition for financial reporting purposes? Why or why not? (Hint—consult Accounting Principles Board Opinion No. 10.)
6. What is the important tax issue relating to the difference between the total cash flow accruing to the Developer over the initial lease term and the reported sales price? How should the Developer treat this difference? (Hint—consult IRC Section 483.)
7. Does the Developer qualify for a federal historical tax credit? Why or why not? (Hint—consult IRC Section 47; and Federal Tax Coordinator paragraph L-9610.)
8. Prepare for the Developer a series of operating cash flow statements pertaining to the lease for each year separately by lease term, i.e., statements for each year of the first six-year term, the second five-year term, etc. For each series of cash flow statements, assume that the purchase option is exercised at the end of the lease term. In a separate schedule, summarize the pre-tax net cash flow to the Developer at the end of each of the four lease terms, again assuming purchase of the property by the Town at the end of the lease term in question. To assist in calculating the loan payoff balances at the end of each lease term, set up loan amortization schedules for the Developer's first and second mortgages using a spreadsheet program. Turn in printed copies of the spreadsheets as part of the supporting documentation for this question.

OPTIONAL REQUIREMENTS

Now assume that the Town Commissioners have hired you to assess the tax, accounting, and cash flow consequences of this transaction to the Town. In this regard, you might want to consult advanced accounting and governmental accounting texts, as well

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as online resources such as http://www.gasb.org. Prepare an Executive Summary for the Town Commissioners that answers each of the following questions. Provide citations, references, and detailed analyses in the form of supplementary schedules to support your conclusions.

9. From the Town's perspective, is this an operating or a capital lease? What journal entries should the Town make July 1 and August 1, 2000? Assume that the Town's fiscal year ends December 31. What lease disclosures are appropriate for the Town on its Year 2000 Statement of Financial Position? Assume that as of 12/31/00, the Town has not decided whether to renew the lease when the initial six-year term expires. [Hint—consult Governmental Accounting Standards Board (GASB) Statement No. 1, paragraph 8; and SFAS No. 13.]
10. What, if any, change in the Town's reporting of the building will occur when it is subject to the reporting requirements of GASB Statement No. 34 (*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*)? Assume that the Town of Ridgely has less than $10 million in annual revenues.

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TEACHING NOTES

The Ridgely House case is based on the actual lease agreement between the Developer and the town of Ridgely. The objective is to challenge senior accounting majors to utilize their accounting, taxation, and financial management knowledge to evaluate the tax and accounting consequences of this transaction to each of the principal parties.

Implementation Guidelines

Given the depth and breath of the subject matter and knowledge base covered, this case should probably be reserved for senior-level students taking either a corporate taxation, advanced accounting, and/or governmental accounting course. It is assumed that students have completed intermediate accounting and federal taxation for individuals. The case would also appear to be a valuable adjunct to a graduate accounting special topics course.

Instructors are advised to distribute the case to students at or near the beginning of the semester and that it be given as a team assignment, with a minimum of two, and preferably three to four, team members. Not only does this allow students to enhance their interpersonal communication and negotiation skills, it facilitates timely completion of the case requirements.

We also recommend that teams be given a timetable for completion of each of the assigned questions. After the instructor accepts a team's solution to each question as factually accurate and complete, the next question in sequence should be assigned for completion within relatively short (e.g., two-week) period of time. By adhering to a schedule of this kind for completion of the assigned questions, the student teams are able to complete the research in a timely manner, which better ensures that they have sufficient time to prepare a carefully crafted Executive Summary for submission to the instructor at the end of the course.

Although we are flexible with respect to the form and substance of the Executive Summary, we do impose certain restrictions. Students must prepare a summary for each question. This summary discusses the tax and/or financial-reporting issue at hand, the aspects of the case relevant to the specific question, the recommended solution, and relevant citations in support of the recommended solution. This summary should be no more than two pages for each question. However, the teams are free to support their summaries with any supplementary attachments that they deem relevant. Often they submit supporting data in the form of highlighted IRC Sections, Revenue Rulings, and self-generated computational schedules and journal entries. The Executive Summary facilitates an assessment of the organizational and writing skills of the teams as well as their abilities to conceptualize the needs of their constituents, i.e., the Developer and, optionally, the Town Commissioners.[7]

With respect to grading of individual team members, we assigned 50 percent of the grade to effort, 25 percent to accuracy, and 25 percent to peer evaluation scores. The effort grade is based on attendance at office-hour review sessions and quality of Executive Summary presentations, including grammatical construction

[7] Although we did not require in-class presentations by each of the teams, this would appear to be a viable adjunct to the written case requirements for instructors equally interested in developing students' oral communication skills.

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and content of supporting documentation and analysis. The accuracy portion of the grade is based on the factual accuracy of the answers in the Executive Summary.[8] Each student also gets to subjectively rate the performance (on a scale ranging from 0 to 25) of each of the other team members. The average of the scores assigned by the other team members to each student forms the basis for that student's peer evaluation grade. We present this grading scheme for guidance only, and do not mean to be overly prescriptive as to grading strategy.

SUGGESTED SOLUTIONS[9]

Requirement 1: Nature of a Lease/Purchase Agreement and its Advantages to the Lessor and Lessee

A lease/purchase agreement is one that contractually commits the lessee to: (1) make periodic payments on the leased asset over the stated lease term; and (2) make a lump-sum payment to the lessor at the end of the lease term, after which formal title to the asset transfers to the lessee. Often this arrangement is mutually beneficial to the lessor and lessee. From the lessee's perspective, an asset can be purchased on an installment payment plan with minimal initial cash outlay. This is in contrast to an outright acquisition of the asset where a substantial cash outflow is often necessary at the time of purchase. In addition, as with the circumstances surrounding the Ridgely House case, the lessor may be able to "finance" the asset at a more favorable interest rate than can the lessee. The lessor may then pass the savings on to the lessee in the form of lower periodic lease payments. From the lessor's perspective, the arrangement is essentially an installment sale. As such, the lessor bears no risk of loss at the lease termination date due to obsolescence, physical deterioration, market value declines, etc.

Requirement 2: Proper Tax and Financial Reporting Treatment of Lease by Developer

There are basically two alternative treatments for a lease with a purchase option. Either the lease is a rental arrangement or it is really a sale. If it is deemed to be a rental arrangement, the lessor maintains the leased asset on its books and records the periodic lease payments as rental income over the lease term. If the lease is determined to be a sale, at the inception of the lease the lessor records the sale of the asset. The periodic lease payments are recorded as principal and interest payments on the receivable recorded at the lease inception date.

Tax Treatment

The tax status of the triple net lease/purchase agreement between the Developer and the Town of Ridgely can be determined by reference to Revenue Rulings 55-540, 541, and 542, as well as the text of ¶ L-6222 and ¶ L-6224 of the Federal Tax Coordinator.

[8] Even though the instructor evaluated each team's solution to the individual questions over the course of the semester, the answers in the submitted Executive Summary were also evaluated for technical accuracy.

[9] The following analyses and solutions reflect tax regulations and financial reporting guidelines current as of January 1, 2000.

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¶ L-6222 states that whether a lease with a purchase option is really a sale at the outset depends on the intent of the parties. Intent is determined from the written provisions, read in light of the circumstances existing at the time the agreement was executed.

¶ L-6224 describes a lease of real property that was held to be a sale, given the following facts: (1) the lessee intended to buy the property; (2) the lessee's rental payments were the same as the installment payments under the purchase option; (3) the lessee essentially assumed all of the benefits and burdens of ownership; and (4) the lessee made substantial improvements.[10] It also describes a net lease that was treated as a sale by taxpayers who were nominal lessors, given the following facts: (1) the lessee was responsible for all costs in connection with the lease; (2) the lessee was responsible for the repair and maintenance of the assets (i.e., shelving); (3) if the assets could not be used because of physical destruction, the lease remained in force and there was no abatement of rent; (4) the lease payments were used by the lessor to purchase the assets; and (5) a call option existed, which gave the lessor the right to sell the assets to the lessee, effectively protecting the lessor from substantial risk of loss if there was a decline in the value of the assets over time.[11]

Careful review of the aforementioned terms and conditions of the Ridgely House lease indicates that the provisions from both of the example situations given in ¶ L-6224 are met. Thus this lease/purchase agreement should be treated as a sale. Additional support for the tax treatment of this transaction as a sale can be found in IRC 162 Revenue Rulings 75-41, 72-408, and 55-540.

Financial Reporting

SFAS Nos.13 and 66 specify the appropriate treatment of this lease by the Developer for financial-reporting purposes. SFAS No. 66 specifies that a lease involving land and buildings is accounted for as a sale if: (1) the transaction gives rise to a dealer's profit (or loss); and (2) as provided for in SFAS No. 13, paragraph 7, ownership of the property is transferred to the lessee by the end of the lease term. Because the Ridgely House lease meets both of these criteria, the Developer should treat the transaction as a sale. Thus, the tax and financial accounting treatment of this transaction is consistent.

Requirement 3: Determine the Developer's Sales Price

The sales price can be determined by reference to IRC Section 1274.[12] The sales price is determined by discounting to present value at the appropriate discount rate both the loan payments and option price at the end of the initial lease term. This is the case because the first purchase option for the Town arises

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[10] Martin (1965) 44 TC 731, affd. and revd. (1967, CA6) 20 AFTR 2d 5031, 379 F2d 282, 67-2 USTC ¶ 9542.

[11] Kwiat (1989) TC Memo 1989-382, PH TCM ¶ 89382, 57 CCH TCM 1104.

[12] IRC Section 1274 addresses how to determine the sales price of property that is exchanged for certain debt instruments. This Section applies to the cash payments over the initial lease term in the Ridgely House case because there is no stated interest rate in the exchange, i.e., it is imputed. Section 1274 prescribes how to calculate the imputed principal amount (i.e., sales price) of the transaction. This is illustrated in the "present value of rental payments" and "present value of lump-sum payment at the end of the lease" computations in the solution to Requirement 3.

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at this time (see Revenue Ruling 72-408). ¶4382.02 of the United State Tax Reporter (USTR) indicates that present values are determined by discounting the payments from the due date(s) to the date of sale or exchange, using the "test rate of interest." The test rate of interest is usually the lowest Applicable Federal Rate (AFR) based on the appropriate compounding period (i.e., month, quarter, etc.) during either the three-month period ending with the first month in which there is a binding written contract, or during the three-month period ending with the month in which the sale has occurred (IRC Section 1274(d)(2)(B)). IRC Section 1274(d)(1)(A) indicates that if the loan or advance covers a period in excess of three years, but not over nine years, the mid-term AFRs should be used (see also USTR ¶ 4834.01 and Revenue Ruling 72-408). The rates can be found in the weekly IRS Revenue Rulings.

The Ridgely House agreement was settled on January 30, 2000, and called for monthly lease payments commencing July 1, 2000. Thus, the lowest monthly rates appearing in Table 1 of the Revenue Rulings for the previous November, December, and January should be selected to discount the payments. The applicable test rate of interest is 5.92 percent. The sales price is $281,991, determined as follows:

Present Value of Monthly Rental Payments

Interest rate:	5.92% (compounded monthly, first payment July 1, 2000)
Periods:	72
Monthly Payment:	$2,100
Present value:	$127,629

Present Value of Lump-Sum Payment (Option Price) at the End of the Lease

Interest rate:	5.92%
Periods:	72
Future Value:	$220,000
Present value:	$154,362

Requirement 4: The Developer's Basis in the Property and Status of the Gain

The Developer's tax basis is equal to $250,000, i.e., the initial $300,000 investment ($110,000 purchase price plus $190,000 in renovations) less the $50,000 reimbursement from the Town. The anticipated gain on sale on January 30, 2000 is $31,991, calculated as the difference between the estimated sales price of $281,991 and the Developer's basis of $250,000. This is a short-term capital gain (STCG) because: (1) the property meets the IRC Section 1221 definition of a capital asset;[13] and (2) since title passed at the signing of the Agreement, the

[13] Section 1221 does not define what *is* a capital asset, rather it lists five categories of assets that are deemed *not* to be capital assets. If a specific asset does not appear in one of these categories, it is generally appropriate to classify the item as a capital asset. However, Chapter 1, Subchapter P of the Internal Revenue Code denotes statutory exceptions to this general treatment, none of which apply to the Ridgely House. Thus, the Ridgely House meets the IRC Section 1221 "by exception" definition of a capital asset.

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Developer's holding period[14] for the property is less than one year. IRC Section 1222(1) specifies STCG treatment be accorded to transactions in which the seller's holding period is not more than one year.

Under current tax law (see IRC Sections 1211 and 1222), short-term and long-term capital losses can be used to offset STCGs. A taxpayer must report as ordinary income the excess of short-term capital gains for the taxable year over the short-term and long-term capital losses for that year.

Requirement 5: Eligibility of the Transaction for Installment Sale Recognition

The transaction qualifies for installment sale treatment (for tax purposes) because there is at least one payment to be received after the taxable year in which the sale takes place (IRC Section 453; ¶2700 in the RIA Federal Tax Handbook). Installment sales recognition allows the Developer to recognize the anticipated gain of $31,991 over the entire initial lease term (six years) in proportion to the cash payments received each year of the lease. However, this treatment is optional, not mandatory, for the Developer.

Under certain circumstances, a taxpayer may conclude that it is economically more beneficial to report the entire gain in the year of sale. For example, anticipated increases in marginal income and/or tax rates in future years of the lease term might significantly raise the present value of the tax burden on the gain as recognized under the installment method. In addition, the taxpayer may have unused net capital loss carry-forwards from prior years that may be offset against the gain in the year of sale, per IRC Section 1211.[15] Finally, per IRC Section 691, if a taxpayer elects the installment method and subsequently dies during the installment period, in the year of death all deferred installment income must be reported by the decedent's estate. The increased taxes (i.e., cash outflow) resulting from this additional taxable income would not be compensated for by increased cash inflows because the lessee would not be required to accelerate the lease payments to the decedent's estate. Thus, a potential cash flow deficiency exists under these facts and circumstances.

In the present case, the Developer cannot report the gain on sale using the installment method for financial-reporting purposes. APB Opinion No. 10 allows revenue from an installment sale to be reported using the installment method *only* in cases where the receivable is collected over an extended period *and* the probability of collection is not reasonable assured. The facts and circumstances surrounding the Ridgely House case do not suggest that collection of the receivable is in doubt, thus precluding use of the installment method. (In the event that the Developer elects to report the gain using the installment method for tax purposes, students should be alerted to the fact that a

[14] Holding period for capital assets is defined in IRC Section 1223. It is generally the time period between the taxpayer's date of purchase and date of sale.

[15] IRC Section 1222(10) defines a net capital loss as "the excess of the losses from sales or exchanges of capital assets over the sum allowed under Section 1211." Per Section 1211, losses from the sale or exchange of capital assets shall be allowed only to the extent of gains from such sales, plus (if losses exceed gains) the lower of $3,000 or the excess of losses over gains.

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deferred tax financial-reporting situation arises per the provisions of SFAS No. 109.)

Requirement 6: Proper Treatment of the Difference between the Total Cash Inflows and the Reported Sales Price

The difference between the total cash flow accruing to the Developer ($371,200[16]) and the reported sales price of $281,991 raises an important tax issue. IRC Section 483 (b) specifies this difference to be "unstated interest," reportable as ordinary income.[17] For the Ridgely House project the calculations are as follows:

Unstated Interest Calculation	
$371,200 – $281,991 = $89,209	$89,209/$371,200 = 0.24 = 24%

Total payments from the Town in 2000 amount to $12,600 ($2,100 × 6). Thus, $3,024 ($12,600 × 0.24) should be reported as interest income for 2000.

Requirement 7: Developer's Qualification for a Federal Historical Tax Credit

The Federal tax credit for which the Developer seeks tax relief is termed the "Rehabilitation Credit." IRC Section 47 governs the situation and states the following:

> General Rule: For purposes of Section 46, the rehabilitation credit for any taxable year is the sum of—
>
> (1) If the building was placed in service after 1936, 10% of the qualified rehabilitation expenditures with respect to any qualified building other than a certified historic structure.
> (2) If the building was placed in service before 1936, 20% of the qualified rehabilitation expenditures with respect to any certified historic structure.

[16] Amount represents the sum of the undiscounted cash flows to be paid to the Developer over the entire lease term, i.e., $151,200 ($2100 × 72) plus the option proceeds ($220,000) at the end of the first lease term.

[17] ¶ J-6224 of the Federal Tax Coordinator states that where property is sold under an installment arrangement, and the parties either fail to state an interest rate or the contract specifies an unreasonably low rate, part of the payments received by the seller may have to be included in the seller's gross income as interest income, i.e., "unstated interest." Adequate stated interest exists if the transaction calls for a rate that is at least equal to the test rate of interest applicable to the debt instrument (5.92 percent in this case). The Ridgely House lease agreement does not state an interest rate applicable to the lease payments, thus an unstated interest calculation must be made. The amount of unstated interest is the amount by which the total of the deferred payments that are part of the sales price and due later than six months after the date of the sale, exceeds the present values of the deferred payments plus the present values of the stated interest payments (USTR ¶ 4834.01). This excess amount is then divided by the total undiscounted payments to arrive at a percentage to be applied in determining the amount of rental payments received in the tax year to be reported as ordinary interest income. This procedure is illustrated in the solution to Requirement 6.

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The Ridgely House is an historic structure that was built before 1936 and would appear to qualify for the 20 percent credit.[18] However, qualified rehabilitation expenditures do not include those amounts expended in connection with the rehabilitation of a building that are allocable to that portion of the building which is "tax exempt use property" (IRC Section 47(c)(2)(B)(v)(I)). Because the building is leased to the Town of Ridgely, a tax-exempt entity for tax-exempt use, the Developer may *not* claim the credit. Moreover, because this is a lease to a tax-exempt entity that contains a purchase option, it is a "disqualified lease," i.e., it is not eligible for the credit (¶ L-9610, Federal Tax Coordinator). Thus, for these two reasons the Developer may not claim the "Rehabilitation Credit."

Requirement 8: Developer's Cash Flow Statements for Each Lease Term and in Summary Form

The Agreement should be carefully reviewed prior to preparing the cash flow statements for the Developer. The only cash outflows for which the Developer is responsible are to pay back the personal loans (i.e., the first and second mortgage loans) obtained to purchase and renovate the property. The Town is responsible for all other expenses.

Exhibits 2–5 present a summary of the annual cash flows for each successive lease term. Annual cash flows consist of rental income less the payments on the two mortgage obligations. At the end of each lease term, the applicable option price is factored into each analysis. The Option Flows consist of the term option price ($220,000 at the end of the first term, etc.) plus the total excess of rents over the mortgage payments during the lease term, less the payoff amount for each loan at the end of the lease term.

As noted in Requirement 8, students should construct a mortgage amortization schedule for each of the Developer's loans to determine correct payoff amounts at the end of each lease term. The Financing for Acquisition and Improvement of Property section in the body of the case provides all the necessary information to construct the amortization schedules. These payoff amounts are reported in Panel C of the cash flow statements, which appear in Exhibits 2–5.

Exhibit 6 presents a cash flow summary for all four lease terms. The "Total Net Cash Flow" amounts at the end of each option period represent the cumulative net cash flow to the Developer if the Town chooses to purchase the property at the end of that specific option period.

[18] Instructors should carefully review preliminary responses to this portion of the case before allowing students to proceed further. Our experience indicates that many students go into an inordinate amount of detail describing the nature of the qualified expenditures, limitations, etc. Interpreting the above information, many students might conclude that the Ridgely House is eligible for the Federal Historical Tax Credit. However, for the reasons noted in the solution to Requirement 7, the Ridgely House Lease/Purchase arrangement fails to qualify for the credit.

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EXHIBIT 2
Ridgely Project Cash Flows
First Lease Term: 2000–2006
(6 years starting at 07/01/00)

Panel A: Annual Cash Flows

	2000	2001	2002	2003
Rents[a]	$12,600.00	$25,200.00	$25,200.00	$25,200.00
Less:[b]				
1st mortgage	8,748.72	11,664.96	11,664.96	11,664.96
2nd mortgage	—	5,090.22	10,180.44	10,180.44
Excess	$ 3,851.28	$ 8,444.82	$ 3,354.60	$ 3,354.60

	2004	2005	2006
Rents	$25,200.00	$25,200.00	$12,600.00
Less:			
1st mortgage	11,664.96	11,664.96	5,832.48
2nd mortgage	10,180.44	10,180.44	5,090.22
Excess	$3,354.60	$3,354.60	$1,677.30

Panel B: Annual Cash Flow Summary

Total Rents	$151,200.00
Less: Total 1st mortgage	72,906.00
Total 2nd mortgage	50,902.20
Total excess	$ 27,391.80

Panel C: Net Cash Flows (Undiscounted) if Purchase Option is Exercised at End of 1st Lease Term

Cash from purchase option[c]	$220,000.00
Total Excess	27,391.80
Total Inflow	247,391.80
Less: 1st mortgage payable	93,789.92[d]
2nd mortgage payable	115,075.61[e]
Net Cash Flow	$ 38,526.27

[a] Rents equal $2100/month.
[b] 1st mortgage commenced 04/01/00; 2nd mortgage commenced 07/01/01.
[c] If the option is exercised, then the Town of Ridgely owes $220,000 to the Developer.
[d] Principal balance after payment on 06/01/06 ($93,110.99) plus one month accrued interest ($93,110.99 × 0.0875/12 = $678.93).
[e] Principal balance after payment on 06/01/06 ($114,693.30) plus one month accrued interest ($114,693.30 × 0.04/12 = $382.31).

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EXHIBIT 3
Ridgely Project Cash Flows
Second Lease Term: 2006–2011
(5 years starting at 07/01/06)

Panel A: Annual Cash Flows

	2006	2007	2008
Rents[a]	$13,860.00	$27,720.00	$27,720.00
Less:			
1st mortgage	5,832.48	11,664.96	11,664.96
2nd mortgage	5,090.22	10,180.44	10,180.44
Excess	$ 2,937.30	$ 5,874.60	$ 5,874.60

	2009	2010	2011
Rents	$27,720.00	$27,720.00	$13,860.00
Less:			
1st mortgage	11,664.96	11,664.96	5,832.48
2nd mortgage	10,180.44	10,180.44	5,090.22
Excess	$ 5,874.60	$ 5,874.60	$ 2,937.30

Panel B: Annual Cash Flow Summary

Total Rents	$138,600.00
Less: Total 1st mortgage	58,324.80
Total 2nd mortgage	50,902.20
Total Excess	$ 29,373.00

Panel C: Net Cash Flows (Undiscounted) if Purchase Option is Exercised at End of 2nd Lease Term

Cash from purchase option[b]	$170,000.00
Total Excess	29,373.00
Total Inflow	$199,373.00
Less: 1st mortgage payable	71,663.99[c]
2nd mortgage payable	84,073.21[d]
Net Cash Flow	$ 43,635.80

[a] Rents equal $2,310 per month ($2,100 per month × 1.10).
[b] If the option is exercised, the Town of Ridgely owes the Developer $170,000.
[c] Principal balance after payment on 06/01/11 ($71,145.22) plus one month accrued interest ($71,145.22 × 0.0875/12 = $518.77).
[d] Principal balance after payment on 06/01/11 ($83,793.90) plus one month accrued interest ($83,793.90 × 0.04/12 = $279.31).

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EXHIBIT 4
Ridgely Project Cash Flows
Third Lease Term: 2011–2016
(5 years starting at 07/01/11)

Panel A: Annual Cash Flows

	2011	2012	2013
Rents[a]	$15,246.00	$30,492.00	$30,492.00
Less:			
1st mortgage	5,832.48	11,664.96	11,664.96
2nd mortgage	5,090.22	10,180.44	10,180.44
Excess	$ 4,323.30	$ 8,646.60	$ 8,646.60

	2014	2015	2016
Rents	$30,492.00	$30,492.00	$15,426.00
Less:			
1st mortgage	5,832.48	11,664.96	11,664.96
2nd mortgage	5,090.22	10,180.44	10,180.44
Excess	$ 8,646.60	$ 8,646.60	$ 4,323.60

Panel B: Annual Cash Flow Summary

Total Rents	$152,460.00
Less: Total 1st mortgage	58,324.80
Total 2nd mortgage	50,902.20
Total Excess	$ 43,233.00

Panel C: Net Cash Flows (Undiscounted) if Purchase Option is Exercised at End of 3rd Lease Term

Cash from purchase option[b]	$105,000.00
Total Excess	43,233.00
Total Inflow	$147,233.00
Less: 1st mortgage payable	37,449.02[c]
2nd mortgage payable	46,219.38[d]
Net Cash Flow	$ 64,564.60

[a] Rents equal $2,541 per month ($2,310 per month × 1.10).
[b] If the option is exercised, then the Town of Ridgely owes $105,000 to the Developer.
[c] Principal balance after payment on 06/01/16 ($37,177.93) plus one month accrued interest ($37,177.93 × 0.0875/12 = $271.09).
[d] Principal balance after payment on 06/01/16 ($46,065.83) plus one month accrued interest ($46,065.83 × 0.04/12 = $153.55).

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EXHIBIT 5
Ridgely Project Cash Flows
Third Lease Term: 2016–2021
(5 years starting at 07/01/16)

Panel A: Annual Cash Flows

	2016	2017	2018
Rents[a]	$16,770.60	$33,541.20	$33,541.20
Less:			
1st mortgage	5,832.48	11,664.96	11,664.96
2nd mortgage	5,090.22	10,180.44	10,180.44
Excess	$ 5,847.90	$11,695.80	$11,695.80

	2019	2020	2021
Rents	$33,541.20	$33,541.20	$16,770.60
Less:			
1st mortgage	11,664.96	2,916.24	—
2nd mortgage	10,180.44	10,180.44	5,090.22
Excess	$11,695.80	$20,444.52	$11,680.38

Panel B: Annual Cash Flow Summary

Total Rents	$167,706.00
Less: Total 1st mortgage	43,743.60
Total 2nd mortgage	50,902.20
Total excess	$ 73,060.20

Panel C: Net Cash Flows (Undiscounted) if Purchase Option is Exercised at End of 4th Lease Term

Cash from purchase option[b]	$ 50,000.00
Total Excess	73,060.20
Total Inflow	$123,060.20
Less: 1st mortgage payable	—
2nd mortgage payable	—
Net Cash Flow	$123,060.20

[a] Rents equal $2,795.10 per month ($2,541 per month × 1.10).
[b] If the option is exercised, then the Town of Ridgely owes $50,000 to the Developer.

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EXHIBIT 6
Ridgely Project
Cash Flow Summary

If option 1 is elected:

RENTS	$151,200.00
Plus: Option price	220,000.00
Total inflows	$371,200.00
Less:	
Payments—	
1st mortgage	72,906.00
2nd mortgage	50,902.20
Payoff—	
1st mortgage	93,789.92
2nd mortgage	115,075.61
Net Cash Flow	$ 38,526.27

If option 2 is elected:

RENTS	$138,600.00
Plus: Option price	170,000.00
Total inflows	$277,200.00
Less:	
Payments—	
1st mortgage	58,324.80
2nd mortgage	50,902.20
Payoff—	
1st mortgage	71,663.99
2nd mortgage	84,073.21
Net Cash Flow for term	$ 43,635.80
Plus: Term 1 Total Excess[a]	27,391.80
Total Net Cash Flow	$71,027.60

If option 3 is elected:

RENTS	$152,460.00
Plus: Option price	105,000.00
Total inflows	$257,460.00
Less:	
Payments—	
1st mortgage	58,324.80
2nd mortgage	50,902.20
Payoff—	
1st mortgage	37,449.02
2nd mortgage	46,219.38
Net Cash Flow for term	$ 64,564.60
Plus: Term 1 Total Excess	27,391.80
Term 2 Total Excess	29,373.00
Total Net Cash Flow	$121,329.40

If option 4 is elected:

RENTS	$167,706.00
Plus: Option price	50,000.00
Total inflows	$217,706.00
Less:	
Payments—	
1st mortgage	43,743.60
2nd mortgage	50,902.20
Payoff—	
1st mortgage	—
2nd mortgage	—
Net Cash Flow	$123,060.20
Plus: Term 1 Total Excess	27,391.80
Term 2 Total Excess	29,373.00
Term 3 Total Excess	43,233.00
Total Net Cash Flow	$223,058.00

[a] Total Excess represents total rents less total mortgage payments in prior periods. These amounts appear in Panel B of Exhibits 2–5. Cash flows from purchase options and mortgage payoffs in prior periods are excluded as it is assumed that the purchase option is not exercised in prior periods.

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OPTIONAL REQUIREMENTS

Requirement 9: Status of the Lease to the Town, Journal Entries during 2000 by the Town, and the Town's Lease Disclosure on its Year 2000 Statement of Financial Position

Current financial accounting and reporting by the Town is based on National Council on Governmental Accounting (NCGA) Statement No. 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, as continued in force by GASB Statement No. 1, ¶ 8. In essence, NCGA No. 5 prescribes that governmental reporting follow the accounting and reporting requirements of SFAS No. 13 as amended, with appropriate modifications to reflect government accounting's distinguishing features.

The Town should capitalize this lease per criterion 1 of SFAS No. 13, ¶ 17, as it is anticipated by the terms of the Agreement that it will receive title to the property at the end of the lease term, i.e., in 72 months. The amount to be capitalized is equal to the present value of the monthly lease payments of $2,100 plus the present value of the purchase price to be received at the end of the initial lease term. The Town will discount each of these cash flows to present value at its long-term incremental borrowing rate of 6.375 percent.[19] Thus, the present value of the lease payments is $126,035, the present value of the option price is $150,226, and the net present value of the transaction is $276,261. The journal entries on July 1, 2000 are as follows:

	Debit	Credit
General Fixed-Asset Account Group		
Buildings	$276,261	
Investment in fixed assets		$276,261
To record the acquisition of a building under a capital lease		
General Long-Term Debt Account Group		
Amount to be provided for repayment of capital lease	$276,261	
Capital lease obligations		$276,261
To record the obligation incurred by capital lease		
Governmental Fund		
Fixed assets—expenditure	$276,261	
Other financing sources—capital lease		$276,261
To record the acquisition of a building under a capital lease		
General Long-Term Debt Account Group		
Capital lease obligations	$2,100	
Amount to be provided for repayment of capital leases		$2,100
To recognize the reduction of the lease obligation due to the first payment[20]		

[19] As specified in SFAS No. 13, the Town (i.e., lessee) must discount all cash flows using its incremental borrowing rate if it does not know the lessor's implicit rate.

[20] Because the 7/1/00 lease payment occurs at the inception of the lease, the entire amount is a reduction of the principal balance.

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Governmental Fund

Debt service expenditure (lease principal)	$2,100	
Cash		$2,100
To record the first lease payment		

The August 1, 2000 lease payment consists of interest on the unpaid principal balance of $274,161 ($276,261 – $2,100) in the amount of $1,456 ($274,161 × [6.375%/12]), and principal of $644 ($2,100 – $1,456). The August 1, 2000 journal entries are as follows:

General Long-Term Debt Account Group

Capital lease obligations	$644	
Amount to be provided for repayment of capital leases		$644
To recognize the reduction of the lease obligation (second payment)		

Governmental Fund

Debt service expenditure (lease principal)	$644	
Debt service expenditure (lease interest)	1,456	
Cash		$2,100
To record the second lease payment		

It should be noted that, in accordance with currently applicable GASB reporting requirements, the Town does not record depreciation on the building. GASB requires the Town to disclose the specifics of its capital and operating lease obligations. Exhibit 7 illustrates an appropriate note disclosure for the Town at the end of the first year of the initial six-year lease term. The capitalized cost is based on the assumption that the Town will exercise the purchase option at the end of this term. This assumption is valid because at 12/31/00, the Town's contractual commitment extends only to the end of the initial term, and its renewal intentions are unknown.

Requirement 10: Change in the Town's Reporting of Ridgely House When It is Subject to the Reporting Requirements of Newly Enacted GASB Statement No. 34

Because the Town's annual revenues are under $10 million, it must, for fiscal periods commencing after June 15, 2003, comply with GASB No. 34 reporting requirements. However, earlier application is encouraged.

Several GASB No. 34 provisions will apply to the Town with respect to its reporting of the Ridgely House. Paragraph 11 (f) specifies that the Town's management prepare a Discussion and Analysis report in which there is disclosure of its capital asset activity (i.e., acquisitions and disposals) during the year. Moreover, paragraph 19 specifies that the building and improvements be reported at historical cost as capital assets and separated from the Town's infrastructure assets (e.g., sidewalks, streets, sewer and water systems, etc.).

Paragraph 21 requires that the Town depreciate the renovated Ridgely House over its useful life in a systematic and rational manner. Paragraph 22 prescribes

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EXHIBIT 7
Town of Ridgely, Maryland
Note Disclosure as to Leases[a]

Leases

Obligations under capital leases represent the remaining principal amounts payable under the lease/purchase agreement for the acquisition of Ridgely House. The lease is recorded as a capital lease in the General Fund, General Long-Term Liabilities Account Group, and General Fixed Assets Account Group. The leased building has a capitalized cost of $276,261.[b]

The following is a summary of capital lease transactions of the Town for the year ended December 31, 2000:

Capital Lease Obligations, July 1, 2000	$276,261
Additions	0
Principal payments ($12,600 – interest of $8,687)	3,913
Capital Lease Obligation, December 31, 2000	$272,348

Future lease payments by year and in the aggregate under capital leases, and the net present value of the minimum capital lease payment as of December 31, 2000 are as follows:

Year Ending December 31	General Long-Term Liability
2001	$ 25,200
2002	25,200
2003	25,200
2004	25,200
2005	25,200
2006	232,600
Total minimum lease payment	$358,600
Less amount representing interest	86,252
Present value of net minimum capital lease payments	$272,348

[a] This disclosure is appropriate for the end of the first year of the initial six-year lease term. It is the only contractually binding term at this date, and the Town has no commitment to renew the lease at the expiration of this term.

[b] The capitalized cost is the present value of the 72 lease payments over the initial lease term discounted to present value at the Town's incremental long-term borrowing rate of 6.375 percent.

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that annual depreciation expense should be reported in a Statement of Activities as discussed in paragraphs 44 and 45. The Statement of Activities reports program revenues and expenses, as well as net (expense) revenue changes in net assets by function. Typical primary government reportable functions are governmental activities (e.g., administration, public safety, education, etc.) and business-type activities (e.g., enterprise activities such as sewer and water, waste disposal, etc.). See GASB Statement No. 34, paragraph 54 (Poteau and Allen 2000) for a complete illustration of the suggested format of the Statement of Activities.

Relevant to Ridgely House, paragraph 44 specifies that depreciation expense for capital assets that are specifically related to a function (e.g., public safety) should be included in the Town's direct expenses. As applied to this case, depreciation expense would be allocated between general government and public safety, based on the portion the building's total square footage occupied by the general government and the police department. As a capital asset that is depreciated per paragraph 22, paragraph 20 specifies that Ridgely House be reported net of accumulated depreciation in a statement of net assets. Finally, paragraphs 116, 117, and 119 prescribe detailed disclosures in the notes to the Town's financial statements about Ridgely House including beginning and end-of-year balances and current-period depreciation expense, with disclosure of the amount charged to each of the functions in the Statement of Activities.[21]

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[21] For a complete illustration of both the Statement of Net Assets and the Statement of Activities, see Poteau and Allen (2000, 25–28).

REFERENCES

Kwiat (1989) TC Memo 1989-382,PH TCM 989382, 57 CCH TCM 1104.

Martin (1965) 44 TC 731, affd. and revd. (1967, CA6) 20 AFTR 2d 5031, 379 F2d 282, 67-2 USTC 99542.

Poteau, R. R., and M. O. Allen. 2000. *New Governmental Financial Reporting Requirements*. GASB No. 34. *Pennsylvania CPA Journal* (Spring): 23–29.

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