REAL LEASE ACCOUNTING:

The Top 10 Things You Should Be Doing Today
Today’s Presenters:

Dave Karpook
Strategic Business Consultant
Planon Corporation

Deb Vallo
Principal
Arazzo Solutions LLC
Changes to FASB and IASB Lease Accounting Guidelines

• All leases >12 months are moved to the balance sheet
  • IASB allows leases for low value assets to be excluded
  • FASB allows classification between operating and finance leases

• Re-measurements

• Timeline
  • 2019 begins reporting under new guidelines (for public companies)
  • Based on fiscal year

• Reporting
  • Modified or full retrospective reporting
  • Disclosure report
The Impact

• Balance sheet will reflect additional assets and liabilities
• P&L will need to be adjusted
• Audit may have added risk – this is new for your auditors, too!
• Credit rating may be affected by additional liabilities
• Access to capital may be affected by change in credit rating
• Higher level of effort required to report lease information
• Higher visibility all the way up to the C-level
What Should I Do Now?

Here are the top ten things you can do today to get your organization ready:

1. Form your project team
2. Engage your auditors
3. Look for professional guidance
4. Develop your internal timeline
5. Update accounting policies
6. Document organizational constraints
7. Organize your lease inventory – real estate and equipment
8. Review your service contracts
9. Determine your technology requirements
10. TEST! TEST! TEST!
Form Your Project Team

• Take a multi-disciplinary approach
• Understand who your stakeholders are
• At a minimum you should include:
  ➢ Accounting
  ➢ Corporate finance
  ➢ Real estate strategy
  ➢ Lease administration
  ➢ Information technology
  ➢ Asset management
  ➢ Procurement
  ➢ Internal / external audit
Engage Your Auditors

• Internal and external auditors
• Gray areas in interpreting new guideline requirements
  • “Reasonably certain”
  • Gross leases
  • Sales tax / VAT
• Re-measurement triggers
• Documentation

I ❤ My Auditor
Said no one - ever!
Look For Professional Guidance

• Consultants, technologists and other experts

• You may benefit from:
  ➢ Outside perspectives
  ➢ Credibility
  ➢ Experiences with other organizations
  ➢ Specialized knowledge
  ➢ Access to resources
  ➢ Project management skills
  ➢ Supplemental staffing
Develop Internal Timeline

- Determine Extended Team
  - Lease Admin
  - Finance
  - Treasury
  - Asset Mgmt
  - Transaction Mgmt
  - IT
  - Auditors

- Lease Data
  - Evaluate Current State
  - Missing Data Points
  - Lease Abstracts
  - Scrub
  - Software System
  - Maintain

- Additional Data Points
  - Cap Rate
  - Discount Rate
  - Useful Life
  - IDCs
  - Real Estate
  - Equipment

Meetings with Extended Team
Steering Committee Meetings
Policies
Use Cases
Test
Test
Test
Update Accounting Policies

• Existing policy
• Auditor approval and sign off
• Transition period
• Retrospective reporting
• Disclosure reporting
• Re-measurement requirements
Document Organizational Constraints

- Resource limitations
- Competing priorities / deadlines
- Knowledge gaps
- Geography
  - Remote operations
  - National borders
  - Languages
  - Currencies
- Internal politics
- Executive support
Organize Your Lease Inventory

- Include both real estate and asset leases
- How are they managed today?
- What format(s) do they exist in?
- Have they been abstracted electronically?
- Are they:
  - Complete
  - Accurate
  - Updated
Review Your Service Contracts

• Do you know about all of them? (Hint: They may be scattered in all parts of the organization)
• Are there embedded leases?
• Does your team know how to find them?
• How long will it take you to prepare them for accounting?
• What is the long-term management plan?
Determine Your Technology Requirements

- Current system evaluation
- New system evaluation
  - Ease of use and deployment
  - Lease tracking (RE and equipment)
  - Security
  - Use cases
  - Robust audit trail
  - Reporting
  - Integrations

- Lease abstraction tool
• Use cases provided by Finance according to updated accounting policies
• Non-production environment
• Test data
• Calculation results
• Corral the obscure leases
• Testing flow
  • Test data
  • Standard functionality + new calculations
  • Integrations
  • UAT – “day in the life of”
Q & A
Webinar Series 2017

- August  
  Optimizing Your Real Estate Portfolio – Case Studies
- September  
  REAL Annual Update and WWP Events
We’ve been on both sides of the fence:
• We’ve walked in your shoes
• We’ve also been on the technical and software side

Services
• Lease Accounting Compliance
• Lease Administration & Budgeting
• Project Management & Upgrade Support
• System Support & Needs Analysis

Learning Series: Lease Accounting Changes for Non-accountants

www.arazzosolutions.com/learning-series
Real Estate and Property Management Track:

• Ambient FM: How Buildings Are Learning to Listen and Speak to Us
• The Abuja Technology Village story so far.
• Translating space standards across regions and cultures: Successes and challenges
• Will Robots or Millennials Rule the Future of the Workplace? Predictions for 0-5 years, 6-10 years, 25+ years
• Futureproof, Flexible, and other F-words: How Industries Implement Activity-Based Work without Inciting a Rebellion
• Artificial Intelligence in RE & FM
• Office Space: An In Depth Look at the Leasing Process from Tours to Termination Rights
IFMA’s REAL Community

Your community needs you!

Please lend a hand and a voice to help our community become a more valuable resource for IFMA’s membership.

Please email me at davidkarpook@hotmail.com if you would like to serve on one of these committees:

- Webinars
- Marketing and Communications
- Events and Hospitality
- Education and Research
- Membership
Thank You