

# What's New? Real Estate Portfolio Manage-

## Overview

There are significant changes being made globally to accounting procedures and the way in which organisations are expected to report on the status of their existing leases. To verify compliance, organisations will need to improve their ability to perform complex lease calculations, to document lease classification decisions, to record lease data with specific rigor, to provide transparency into the process, and to provide data to support auditing and oversight.

The new guidance changes how certain elements of lease costs are treated, and these changes in turn trigger an impact review of each organisation's cash position, equity value, contract negotiations, and performance metrics. These activities place a premium on tools for collaborative work, transparency and analysis.

The changes to ARCHIBUS ensure the lease automation system provides additional detail, financial calculations, visibility, collaboration and data hand-offs that these new governance practices require. The ARCHIBUS Extension for Lease Accounting supports this effort by providing:

- A structured means to review leases to verify that they conform
- Workflow so that teams can divide the work of data entry, classification and detailed review yet still maintain transparency on lease status and be aware of material changes to leases
- An automated decision-tree to aid in classification
- Calculation of total right-of-use asset value, lease liability and amortisation schedule per the new regulations
- Ability to export lease-dependent costs from the amortisation schedule to sub-ledger systems that match lease costs to accounts that incorporate the new standards into financial reporting

## Lease Classification Wizard

The Wizard finds your unclassified leases and walks you step-by-step through the decision tree for each one, documenting decisions and setting later actions based on earlier responses. For leases that are being classified mid-term, the Commencement Date records the date at which the system should apply the new lease guidance. The Wizard compares remaining value, market value and economic life against the present value of the lease liability to aid in accurate classification of leases as operating or finance leases.

Questionnaire - Step 1	Questionnaire - Step 2	Questionnaire - Step 3
<b>FASB Review Status</b>	Approved	
<b>FASB Lease Type</b>	Partial-Building	
<b>FASB Lease Classification</b>	Finance	
Date Inception	<input type="text" value="7/1/2013"/>	
Commencement Date	<input type="text" value="9/1/2017"/>	
Date Renewal Notice Signed	<input type="text"/>	
Date End	<input type="text" value="12/31/2018"/>	
Lease Term (Years)	<input type="text" value="5.42"/>	
Is Lease Term less than 12 months?	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Pending	
Is residual value not determinable?	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Pending	
Is there automatic transfer of ownership?	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Pending	
Is there a "reasonably certain" purchase option?	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Pending	
Is the facility specialized to purpose?	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> Pending	
Does lease begin in last 25% of asset's remaining economic life?	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> Pending	

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Questionnaire - Step 1 | **Questionnaire - Step 2**

- FASB Review Status** Approved
- FASB Lease Type** Partial-Building
- FASB Lease Classification** Operating
- Remaining Lease Term: 1.33
- Remaining Economic Life: 38.99
- Ratio Remaining Lease Term Over Remaining Economic Life: 3.41
- Does lease term exceed 75% asset's remaining economic life? No
- Incremental Borrowing Rate (%): 2.00
- Lease Payments: 508,772.19
- Initial Direct Costs: 0.00
- Initial Lease Liability: 508,772.19
- Fair Market Value of Building: 800,000.00
- Ratio Initial Lease Liability Over Fair Market Value of Building: 63.60
- Does Initial Lease Liability exceed 90% of asset's fair market value? No

Building Date Built: 8/28/2017  
Building Age: 0  
Building Statistical Life: 39

Active Rent Recurring Cost \$: 36,859.56  
Recurring Cost Period: Monthly  
Straight-Line Lease Expense \$: 33,608.38  
Building Value - Building \$: 0

## Lease Re-Evaluation

The system audits all changes to lease information and tracks any formal adjustment of the Right-of-use Asset value of the lease. Any leases that have material changes are tracked and formally submitted for re-evaluation, so these changes can be formally reviewed and approved before being used for reporting and sub-ledger entries.

Questionnaire - Step 1 | Questionnaire - Step 2 | **Questionnaire - Step 3**

- FASB Review Status** Approved
- FASB Lease Type** Partial-Building
- FASB Lease Classification** Operating

**Right-of-Use (ROU) Asset Adjustments:**

- Has space been expanded during the lease term?  Yes  No  Pending **EXPANSION**
- Has space been contracted during the lease term?  Yes  No  Pending **CONTRACTION**
- Has lease renewal changed for a longer term?  Yes  No  Pending **RENEW LONGER TERM**
- Has lease been cancelled early?  Yes  No  Pending **EARLY TERMINATION**
- Any landlord allowances received?  Yes  No  Pending **IMPROVEMENTS**

**Right-of-Use (ROU) Asset Considerations:**

- Are parking spaces assigned?  Yes  No  Pending
- Does the lease include CPI/Index rent?  Yes  No  Pending
- If percentage rent, are you paying less than market rate rent?  Yes  No  Pending
- Is lease defined as a Gross Rent agreement?  Yes  No  Pending

## Lease Amortisation

The Lease Classification Wizard produces the entire amortisation schedule. The schedule calculations take into account conditions such as stepped rent, indexed rent, tenant improvements, options reasonably certain to be executed, the incremental borrowing rate, and the net present value of each of these cashflows in each fiscal period. You can compound monthly, quarterly, or yearly.

## Comparing Lease Treatments

The schedule runs all calculations so you can compare operating lease figures against finance lease figures against straight line rents to evaluate the impact of classification and understand how the lease may differ in terms of classification, tax implications, and cashflow implications. The programme can also graph the differences for easier comparison.

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## Lease Classification Analysis

Enables you to review your leases side-by-side with respect to classification status, liability, and key ratios to overview classification project status, spot trends, and find anomalies.

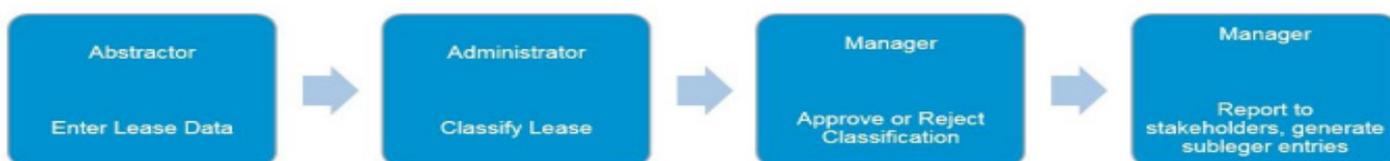
## Finance and Operating Lease Expense Recognition

Recognition reports allow you to sum your ROU Asset balances and Lease Liabilities by location and operating criteria to total your outstanding commitments and gain perspective on your overall lease liabilities.

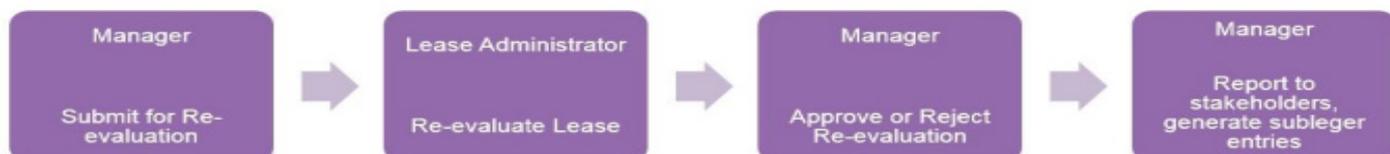
## Lease Classification and Re-evaluation Workflow

Features enable teams to divide work into roles. Lease abstractors enter base data for lease administrators to classify and submit for formal approval. Lease managers or real estate directors review the classification, cost, and amortisation details before approving leases and data for reporting and sub-ledger export. Actions appear on each form based on the current user's role and the workflow status of the lease.

### Lease Classification Process



### Lease Re-evaluation Process



## Generating Sub-Ledger Entries

The system can generate sub-ledger entries based on the lease and amortisation schedule information. If the ROU Asset has been previously reported and then adjusted through the formal re-evaluation process, the system will generate gain or loss ledger items reflecting the restatement.