

Today's Webinar Presentation

**Lease Accounting Lessons Learned from
Replacing Software Systems**

*Presented by
CoStar*

4/28/2021

will begin shortly ...

CPE Credits

Today's webinar is worth 1 Continuing Professional Education (CPE) credit.
Please be sure to enable your media player to hear audio.

To be eligible for CPE credit, you must:

- Answer **at least 3** of the 4 polling questions (during the webinar) and have a total viewing time of at least 50 minutes.
- Participants will have the opportunity to download their CPE certificate immediately following the webinar if above requirements are met.
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- We are unable to grant CPE credit in cases where technical difficulties disqualify eligibility. CPE Program Sponsorship guidelines prohibit us from issuing credit to those not verified by the technology to have satisfied the minimum requirements listed above.

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Lease Accounting Lessons Learned from Replacing Software Systems

Presented by  CoStar



Presented by



Matt Waters, CPA

Director of Lease Accounting with CoStar

Former lease accounting manager with Home Depot and American Tower with 15 years experience.

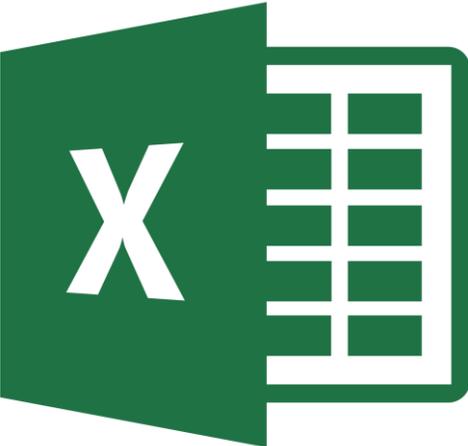
Lease Accounting Lessons Learned from Replacing Software Systems



Public Company Adoption of ASC 842 and IFRS 16

Common Scenario

Pre-2019
ASC 840 / IAS 17
Managed in Spreadsheets



Q1 2019
ASC 842 / IFRS 16
Initial Balances Calculated with
a Lease Solution



Challenges Reintroduce Spreadsheets

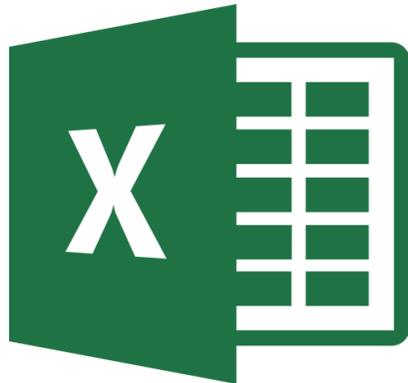
- Manual JE Uploads
- Supplemental Spreadsheets
- Spreadsheets for Remeasurements
- Manual Internal Controls
- Manual Validation of Data
- Spreadsheets for Business Reports
- Lack of Flexibility
- Non-generic items forced into spreadsheets



The Replacement Solution

Frustrated by deficiencies, many companies decide to replace their lease accounting solution.

GENERIC
Lease
SOLUTION



Replacement Project



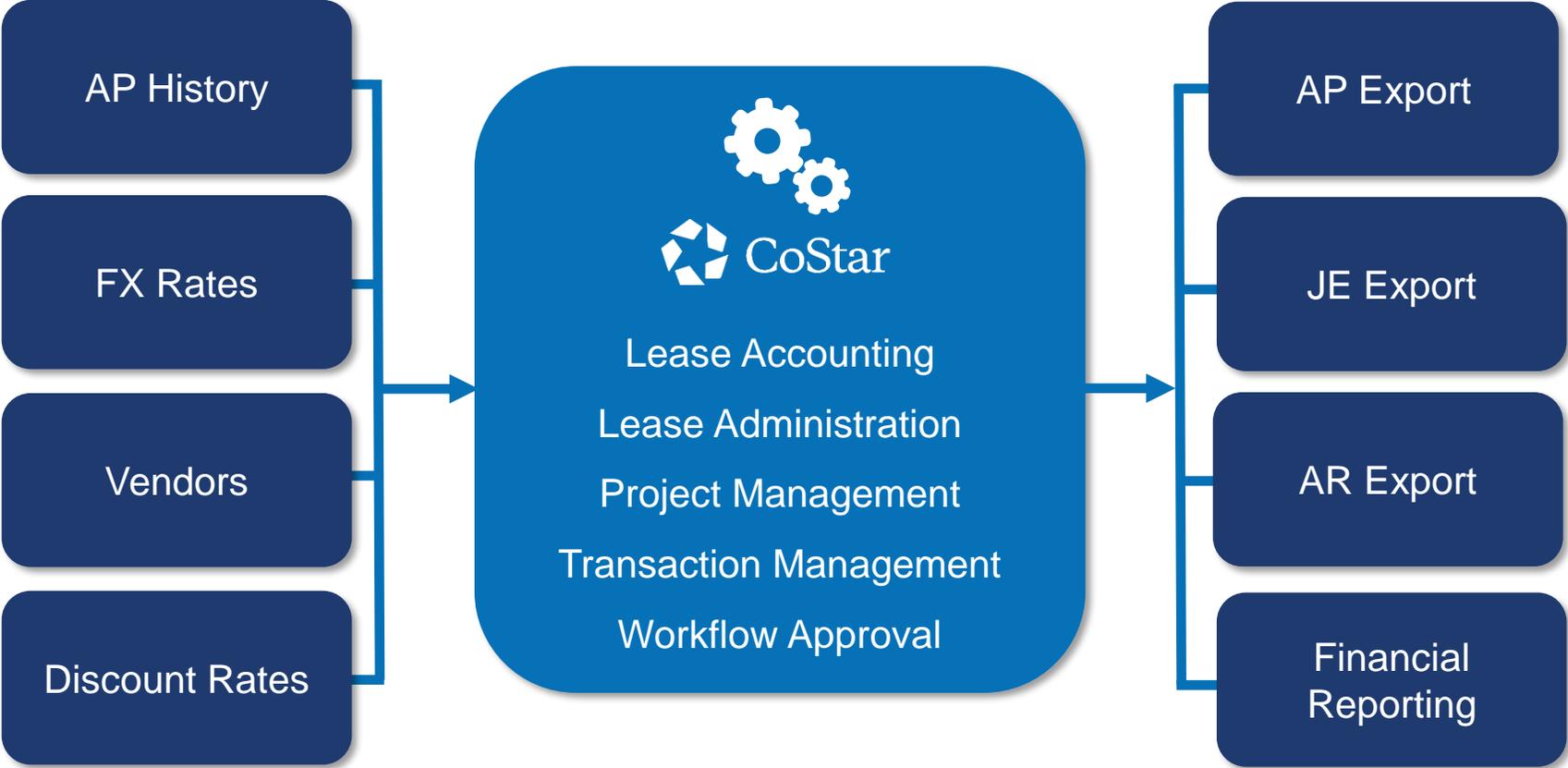
CoStar
REAL ESTATE
MANAGER™



CoStar Gives Companies Control

- Automatic Integrations
- Flexibility
- Remeasurements
- Retrospective True-ups
- Audit Detail for Reports
- Workflow and Controls
- Data Validation
- Ad Hoc Reports
- Company-Specific Fields
- CoStar Integrated Data

Automatic Integrations



Integration Experience and Technology Alliances

CoStar has delivered and supports 700+ system integrations.

ERP and accounting GL / AP / AR systems

Purchasing, sales, vendor, fleet and custom systems

\$4.5B+ in monthly rent payments



CoStar integrations have proven reliability with these leading systems.



Flexibility - Separate Schedules for Reporting and Tax

- Accounting teams often find that amortizing components separately is helpful for reporting and identifying book tax differences.
- A common example is Tennant Improvement Allowances (TIA)
- Also used for purchase accounting adjustments

Accounting Summary

TIA - Operating (ASC 842)										Include All - Operating (ASC 842)											
Action	#	Measure Event	Status	Begin Date	End Date	Term (Years)	# of Periods	Total Amount	Discount Rate	Present Value (USD)	Direct Costs (USD)	Beginning Asset	Beginning Liability	Level Expense	Currency	Reporting Exception	Charge Type	Impaired	Comments	Last Modified By	Last Modified
⚙	1	Initial	Scheduled	1/1/2020	12/31/2022	3.00	36.00	0.00	0.0000% APR	0.00	0.00	36,000.00	0.00	1,000.00	USD	No	Income	No		CoStar Suppo...	02/23/2021 1...

Amortization Table

Period Name	Asset Balance - Closing [F] (USD)	Asset Amortization [F] (USD)	Accumulated Asset Amortization [F]	Level Expense [F] (USD)	Manual Asset Adjustment (USD)	Liability Balance - Closing (USD)	Liability Reduction (USD)	Short Term Liability - Closing (USD)	Long Term Liability - Closing (USD)	Scheduled Payments (USD)	Lease Liability Interest Expense	JE Status
Beginning Balance	36,000.00				36,000.00	0.00	0.00	0.00	0.00	0.00		Scheduled
Jan - 2020	35,000.00	1,000.00	1,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Feb - 2020	34,000.00	1,000.00	2,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Mar - 2020	33,000.00	1,000.00	3,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Apr - 2020	32,000.00	1,000.00	4,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
May - 2020	31,000.00	1,000.00	5,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Jun - 2020	30,000.00	1,000.00	6,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Jul - 2020	29,000.00	1,000.00	7,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Aug - 2020	28,000.00	1,000.00	8,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Sep - 2020	27,000.00	1,000.00	9,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Oct - 2020	26,000.00	1,000.00	10,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Nov - 2020	25,000.00	1,000.00	11,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled
Dec - 2020	24,000.00	1,000.00	12,000.00	1,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Scheduled

Remeasurements and Retrospective True-ups

Renewal
Termination
Partial Termination
Impairment
Data Correction

The Original Schedule (A) – Journal Entries Approved and Exported as such

Period	Asset Amortization	Asset Adjustment	S/T Liability Reduction	L/T Liability Reduction	S/T Liability Adjustment	L/T Liability Adjustment	Interest Expense	Status
Jan-2018	12,034.78		(800.78)	12,665.44			595.34	Approved
Feb-2018	12,034.78		(802.45)	12,711.87			570.58	Approved
Mar-2018	12,034.78		(804.13)	12,738.36			545.77	Approved

The Remeasured Schedule (B) – What the Journal Entry Amounts Should Have Been

Period	Asset Amortization	Asset Adjustment	S/T Liability Reduction	L/T Liability Reduction	S/T Liability Adjustment	L/T Liability Adjustment	Interest Expense	Status
Jan-2018	12,647.95	318,267.18	(784.02)	12,005.62	(8,048.48)	326,315.66	1,258.40	Approved
Feb-2018	12,647.95		(785.65)	12,030.63			1,235.02	Approved
Mar-2018	12,647.95		(787.29)	12,055.70			1,211.59	Approved
Apr-2018	12,647.95		(788.93)	12,080.81			1,188.12	Scheduled

The Retro Schedule (C) – The Deltas Between Original and Remeasured Schedule

Period	Asset Amortization	Asset Adjustment	S/T Liability Reduction	L/T Liability Reduction	S/T Liability Adjustment	L/T Liability Adjustment	Interest Expense	Status
Jan-2018	613.17	318,267.18	16.76	(679.82)	(8,048.48)	326,315.66	663.06	Approved
Feb-2018	613.17		16.80	(681.24)			664.44	Approved
Mar-2018	613.17		16.84	(682.66)			665.82	Approved
Apr-2018	1,839.51	318,267.18	50.40	(2,043.72)	(8,048.48)	326,315.66	1,993.32	Scheduled

Discount Rate (Lessee's Incremental Borrowing Rate)

- Needed for all new leases to set up the lease liability and ROU Asset
- Also required for most remeasurement events
- Accountants must manually find and document the rate every time if automation is not in place

Matching Discount Rate profiles to Accounting Schedules

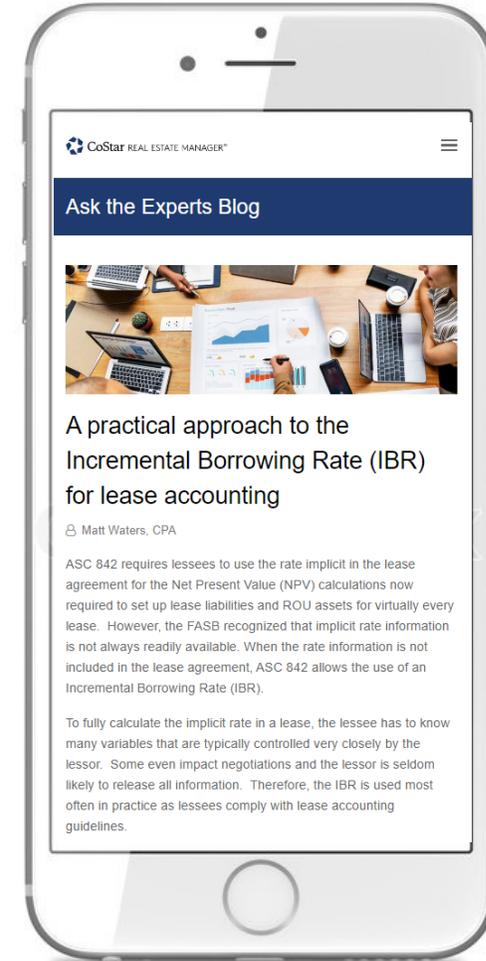
Once rates are loaded, adding a new schedule will automatically choose the correct rate.

Accounting: ABC Office Building (2552) Calculate Values Save & Close Apply Cancel

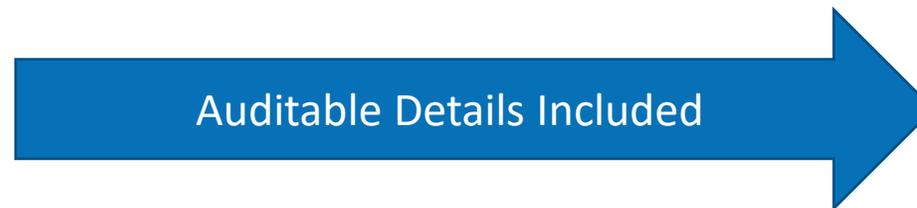
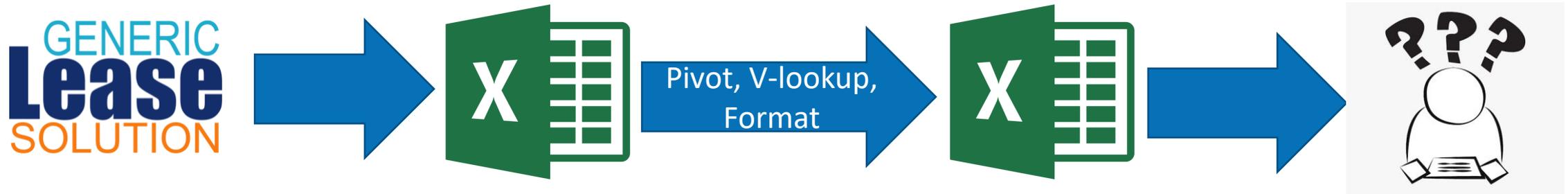
Add Schedule

Details

Classification:	FRS 15	Begin:	01/01/2020	End:	12/31/2022
Amortization Profile:	Include All	Remaining Economic Life:	30 Years		
Journal Entry Profile:	Select Journal Entry Profile	Fair Market Value:			
Discount Rate Profile:	5% 0 - 36 Months Sunday Dec 15 2019 USD United States	Annual Rate:	5%		
Charge Type:	Expense				
Local Currency:	USD				
Functional Currency:	USD	Rate:	1		
Reporting Exception:					
Comments:					



Reports Should Include Details for Auditors



Audit Readiness – Roll-Forward Report

Accounting Roll-Forward

(truncated sample)

Portfolio: Acme Brands Portfolio

Reporting Currency: United States Dollar (USD)

				ROU Asset Roll-Forward								
System Lease ID	Store Number	Name	Classification	Asset Balance - Opening	Depreciation	Additions	Terminations	Partial Terminations	Impairments	Renewals	Other	Asset Balance Closing
				Lease Liability Roll-Forward								
System Lease ID	Store Number	Name	Classification	Liability Balance - Opening	Amortization	Additions	Terminations	Partial Terminations	Impairments	Renewals	Other	Liability Balance Closing

- Auditors typically ask for a roll-forward report
- The purpose of a roll-forward is to walk the auditor from beginning balance to ending balance, highlighting the changes that have occurred during the audited period
- This applies to the right of use asset balance and the lease liability balance, and the report needs to show the detail **lease by lease**
- Preparing this for every audit manually is a time consuming
- **CoStar automates the Lease Accounting Roll-Forward Report**

Comprehensive Reporting - Including Ad Hoc Reports

Standard Accounting Reports:

- ASC 842 & IFRS 16 Disclosures
w/ Asset Level Details for Auditors
- Roll Forward Report
- Tax Data Reporting
- Accounting Summary Report
- Forecast Reporting
- Amortization by Lease

Ad Hoc Reporting

- Save, Share & Bookmark
- Schedule Automated Delivery

Advanced Financial Reports:

- Annual Obligation by Account
- Annual Allocations By Lease
- Monthly Charges by Account (and Allocation Center)
- Lease Options Report
- FX: Local > Functional > Reporting Currency
- CoStar Change History (Audit) Report

Complex Reporting Needs Supported:

- Monthly/Quarterly/Annually – Multi-GAAP – Custom Calendar
- Region – Portfolio – Business Unit – Cost Center

Workflow and Controls

Lease Administration Workflow

- Abstract > Lease Verification Fields > Verified or Unverified

Lease Accounting Workflow

- Needs Review > Pending Approval > Approved



Accounting Settings - Workflow Cancel Save

Workflow Settings

Increment status one level at a time
Forces the workflow status to increment through each status in order. Can still be decremented down to any workflow status OFF

Enable status change comments
Presents a dialog to enter comments when a user is performing a workflow status change OFF

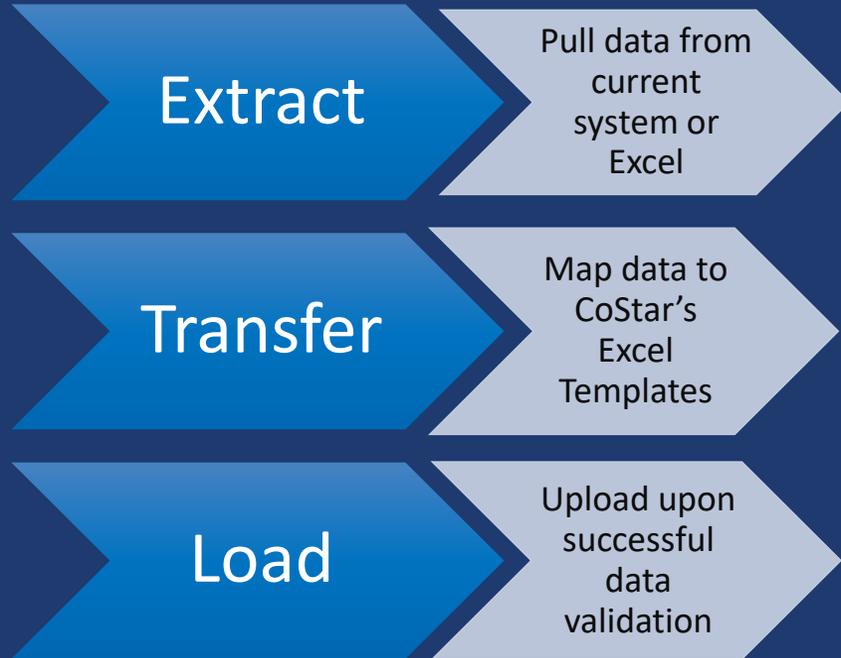
User can approve his/her own changes
Allows a user to change the status to an Approved status if the last status change was made by that user OFF

Require status change comments
When status change comments are enabled, this will additionally require that the user enter a comment prior to saving OFF

Workflow Statuses + Add Workflow Status

Order ↑	Name	Is Approved	Is Review	Allow Schedule Edit	Allow JE Approval	Allow JE Export	Is Active ↓	Has Rights Assigned	Assign Rights
0	Not Applicable	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	No	
1	Needs Review	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	No	
2	Pending Approval	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	No	
3	Approved	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	No	

Data Validation



Select Data Source
Data Validation
Process

Validation Tests

File Format Pass

Field Mapping Pass

Data Validation Pass

Validation Results

Number of source records	1544		Errors	0
Number of valid records	1544		Number of records	0
Number of valid records to be inserted	1544		Number of instances	0
Number of valid records to be updated	0			
Number of invalid records	0			

Financials

Number of Lease records updated	1			
Total Charges	1,352,190.00			

Successfully Validated!

- Easy & Fast
- Data Validation
- Error Handling

ID	Template Name	Object Type	Portfolio	Status	Records Processed	Uploaded Date	Uploaded By
476	07_0_Accounting	Accounting	ACME Real Estate Portfolio	Completed	2500 of 2500	5/29/2020 3:34 PM	CoStar Support Admin
474	05_0_Expenses	GLEventID	ACME Real Estate Portfolio	Completed	12500 of 12500	5/29/2020 3:23 PM	CoStar Support Admin
473	02_RE_02_0_Lease	Lease	ACME Real Estate Portfolio	Completed	1250 of 1250	5/29/2020 3:18 PM	CoStar Support Admin



Company-Specific Fields

GENERIC
Lease
SOLUTION



VS



CoStar
REAL ESTATE
MANAGER™

- Unlimited Company-Specific Fields
- Hierarchy
- Building Detail
- Allocations
- Divisional Details
- Regional Details
- Location Performance Data
- All Fields Available for Ad Hoc Reporting

CoStar Integrated Data

- For Real Estate Professionals:
 - Occupied Real Estate Insight
 - Informed Portfolio Planning
- Accountants:
 - Evaluate FMVs
- Researched data and analytics on millions of commercial properties
 - Rents
 - Tenant Rosters
 - Demographics
 - Commercial Listings
 - Transactions and more

233 S Wacker Dr - Willis Tower

Office - West Loop Submarket Chicago, IL 60606 | 3,859,845 SF | 2.94 AC Lot | 1973 Year Built | 800 - 263,980 Available SF

Summary Lease Tenant Demographics Images

Building

Type	5 Star Office
RBA	3,859,845 SF
Stories	110
Typical Floor	34,373 SF
Class	A
Construction	Steel
Building Ht	1451'

Year Built: 1973
Year Renov: 1991
Multi: No
Owner Occup: No
Elevators: 105 with 6 ft
Slab to Slab: 13'
Sprinklers: Wet

Parking: 950 Covered Spaces are available; Ratio of 0.06/1,000 SF

Frontage: on Jackson on Wacker

Taxes: \$11.59/SF (2020)
Opex: \$11.03/SF (2020)
Total Expenses: \$22.62/SF (2020)

Walk Score®: Walker's Paradise (97)
Transit Score®: Rider's Paradise (100)

Land

Land Acres	2.94 AC	Land SF	128,066 SF
Blgd FAR	30.14		
Zoning	C3-7, Chicago		
Parcel	17-16-216-009-0000		

For Lease >>

Smallest Space	800 SF	Office Avail	263,980 SF
Max. Contiguous	57,199 SF		
Vacant	126,988 SF		
% Leased	97.9%		

Space >>

Floor	SF Available	Use	Rent
P 1st	800.00 - 35,771.00 SF	Retail	\$17.50/N
P 24th	16,408.00 SF	Office	\$37.00/MG
P 39th	12,000.00 - 26,654.00 SF	Office	\$37.00/MG
P 40th	11,027.00 SF	Office	\$37.00/MG
P 40th	3,236.00 SF	Office	\$37.00/MG
P 55th	21,000.00 SF	Office	\$45.00/FS
P 56th	15,000.00 SF	Office	\$45.00/FS
P 62nd	9,962.00 SF	Office	\$37.00/MG

13 Other Spaces

Leasing Activity >>

Sign Date	SF Leased	Use	Rent	Rent Type
Mar 2020	2,383 SF	Office	\$37.00/N	Asking
Oct 2019	34,373 SF	Office	\$35.00/NNN	Asking
Oct 2019	41,089 SF	Office	\$35.00/NNN	Asking
Oct 2019	9,077 SF	Office	\$35.00/NNN	Asking
Oct 2019	2,778 SF	Office	\$35.00/NNN	Asking

291 Other Lease Comps

Tenants >>

Name	Exp Date	SF Occupied
United Continental Hold...	Feb 2...	816,301 SF
Schiff Hardin LLP	Apr 2...	150,000 SF
Willis Group Holdings	Feb 2...	137,284 SF
Seyfarth Shaw LLP	Feb 2...	134,284 SF
Morgan Stanley	May 2...	122,256 SF

113 Other Tenants

Demographics >>

	1 Mi	3 Mi	5 Mi
Population	89,164	404,368	839,325
Households	51,542	209,034	383,706
Average Age	35	36	35
Median HH Income	107,191	87,417	73,624
Diversity: Employment	986,264	1,628,274	

Images and Videos

Primary Photo

Building Photo

Building Photo

Plat Map

1st Floor

Typical Floor Plan

Cassidy & Pinkard Multi-Tenant Layout

POWERED BY CoStar

Date Calc.

phpps

Search Advanced

Admin, CoStar Support Log out

Fair Market Value

233 S Wacker Dr - Willis Tower ★★★★★

Office - West Loop Submarket | 3,859,845 SF | 2.94 AC Lot | 1973 Year Built | 800 - 263,980 Available SF

Chicago, IL 60606 LEED

[Summary](#) | [Lease](#) | [Tenant](#) | [Demographics](#) | [Images](#)

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- Fair Market Value is a key variable required for finance vs. operating lease testing
- FMV is relevant for impairment calculations and business combinations

- Researched data and analytics on millions of commercial properties
 - Rents
 - Sales Comps
 - Cap Rates

thank you!

FOR YOUR PARTICIPATION DURING
THIS WEBCAST!

Your CPE certificate will be emailed within 24 hours
should you meet the criteria.

For any additional questions regarding CPE, please email Conf@financialexecutives.org