2022 Accounting & Auditing Update

November 17, 2022

Agenda Overview

- FASB Update
- Regulatory Updates
- ASC 740, Tax Provision Updates and Common Pitfalls
- ASC 842, Leases - Lessons Learned
- Understanding and Accounting for Bitcoin and other Cryptocurrencies
- ASC 326, Current Expected Credit Losses (CECL)
- The Importance of ESG Factors and What Accountants Need to Know
- Financial Reporting Valuation During Economic Uncertainty
- Merger, Acquisitions and What Blows Up a Deal
- Financial Implications of SALT and Employee Retention Credit Updates
- Forensic Files - Real Stories of Financial Frauds

Speaker

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FASB Update

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Topics Covered

New Auditing Standard Updates (ASUs)!

- Effective for 2022 Year-End Audits
- Effective in 2023 and Beyond

Accounting Updates Effective for 2022 Year-End Audits

ASUs Effective for 2022 Year-End Audits

ASU Number	Standard Name
ASU 2016-02	Leases (Topic 842)
ASU 2018-01	Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842
ASU 2018-10	Codification Improvements to Topic 842, Leases
ASU 2018-11	Leases (Topic 842): Targeted Improvements
ASU 2018-14	Changes to Disclosure Requirements for Defined Benefit Plans (Topic 715-20)
ASU 2018-15	Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (Topic 350-40)
ASU 2018-20	Leases (Topic 842): Narrow-Scope Improvements for Lessors
ASU 2019-01	Leases (Topic 842): Codification Improvements
ASU 2019-12	Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes
ASU 2020-01	Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)
ASU 2020-05	Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities
ASU 2020-07	Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets
ASU 2020-08	Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs
ASU 2021-01	Reference Rate Reform (Topic 848): Scope

Effective for 2022 Year-End Audits

ASU Number	Standard Name
ASU 2021-04	Earnings Per Share (Topic 260), Debt— Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40)
ASU 2021-05	Leases (Topic 842) Lessors—Certain Leases with Variable Lease Payments
ASU 2021-07	Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)
ASU 2021-10	Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

ASU 2018-14

Changes to Disclosure Requirements for Defined Benefit Plans (Topic 715-20)	
Effective Dates	
Public Entities	**Nonpublic Entities**
Fiscal periods ending after December 15, 2020.	Fiscal periods beginning after December 15, 2021

Early adoption is permitted.
Applied retrospectively

ASU 2018-14

Why?

- This ASU is part of the FASB's broader initiative to improve the effectiveness of the disclosures in the notes to the financial statements.

- This Update was issued to eliminate complex disclosures that didn't provide significant value to the readers of the financial statements and add disclosures to create additional transparency around pension assets and pension benefit obligations.

ASU 2018-14

Amended Disclosures

- Applies to both pension plans and other postretirement plans
- Simplifies the disclosures requirements by deleting the following:

1. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
2. The amount and timing of plan assets expected to be returned to the employer.
3. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
4. For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.
5. For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

ASU 2018-14

Amended Disclosures

- Create additional transparency by adding the following disclosure requirements
  1. The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates
  2. An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period
  3. For defined benefit plans only
     I. The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
     II. The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

ASU 2018-15

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (Topic 350-40)	
Effective Dates	
Public Entities	**Nonpublic Entities**
Effective for annual periods, including interim periods within those annual periods, in 2020.	For all other calendar-year companies and organizations, the changes will be effective for annual periods in 2022.

Early adoption is permitted.
Applied retrospectively

ASU 2018-15

Why?

ASU 2015-05 clarified the accounting for cloud computing arrangements. If the cloud computing arrangement included a software license, then the contract was treated as internal-use software.

- This allowed the purchaser to capitalize the license and related implementation costs.
- It also clarified that when an arrangement didn't have a software license embedded, that it was a service contract and should be treated as an operating expense. This clarification put an end to treating service contracts as fixed assets, etc.

However, ASU 2015-05 didn't determine the process for handling the implementation costs for cloud computing arrangements met the criteria of a service contract.

ASU 2018-15

What is the Issue?

If a cloud computing arrangement includes a license to internal-use software, then the software license is accounted for by the customer in accordance with Subtopic 350-40.

- This generally means that an intangible asset is recognized for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized.

If a cloud computing arrangement does **not include a software license**, the entity should account for the arrangement as a service contract.

- This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred.

Service Contract Example – ADP Payoll, QuickBooks ERP System

Intangible Asset Example – Microsoft Office, Acumatica ERP System

ASU 2018-15

Main Provisions

The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).

For a hosting arrangement that is a service contract:

- **Costs to develop** or obtain internal-use software can't be capitalized.
- Costs incurred during the **preliminary project and post-implementation stages** are expensed as the activities are performed
- Costs for implementation in the **application development stage** are capitalized and are expensed over the term of the term of the hosting arrangement, including consideration of options to extend or terminate the arrangement. Capitalized costs are subject to impairment evaluation.

ASU 2018-15

Financial Statement Presentation

- Present the capitalized implementation costs on the balance sheet in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

- Present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element.

ASU 2020-07

Presentation and Disclosure by Not-for-Profit Entities For Contributed Nonfinancial Assets (Topic 958)	
Effective Dates	
Public Entities	**Nonpublic Entities**
N/A	For annual financial statements issued beginning after June 15, 2021 and interim periods within fiscal years beginning after June 15, 2022.

Early adoption is permitted.
Applied retrospectively

ASU 2020-07

Why?

Increased transparency

- Expansion of disclosures
- GAAP required recording, but was silent as to other contributed financial disclosure types

What's In-Scope:

- Nonfinancial gifts including, but not limited to:
  - Gifts-in-kind
  - Donated services
  - Other noncash contributions

ASU 2020-07

What is the Guidance?

- Record on separate line on the financial statements
- New Disclosures
  - A. Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and
  - B. For each category of contributed nonfinancial assets recognized
    - i. Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the period
      - ➢ If utilized, a description of the programs or other activities in which they were used
  - C. The NFP’s policy about monetizing rather than utilizing contributed nonfinancial assets
  - D. The valuation techniques and inputs used to arrive at the fair value measure
  - E. The principal market (or most advantageous market) used to arrive at the fair value measure

ASU 2020-07

Example Statement of Changes in Net Assets

Not-for-Profit Entity A
Statement of Changes in Net Assets
Year Ended June 30, 20X1
(in thousands)

Net assets without donor restrictions:	
Total revenues and gains	$ 20,840
Net assets released from restrictions (Note D)	19,240
Total expenses and losses	(32,050)
Increase in net assets without donor restrictions	8,030
Net assets with donor restrictions:	
~~Contributions~~	~~8,390~~
Contributions of cash and other financial assets	7,430
Contributions of nonfinancial assets	960
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420
Increase in net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	$ 286,090

GBQ

ASU 2020-07

Example Footnote Disclosure

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	$ 550,000	$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	$ 1,220,783	$ 565,556

ASU 2020-07

Example Footnote Disclosure

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

ASU 2021-10

Disclosure by Business Entities About Government Assistance (Topic 832)	
Effective Dates	
Public Entities	**Nonpublic Entities**
Fiscal periods ending after December 15, 2021.	Fiscal periods beginning after December 15, 2021

Early adoption is permitted.

Either (1) prospectively to all transactions within the scope of the amendments that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or (2) retrospectively to those transactions

ASU 2021-10

Why?

- Due to the volume and variety of government assistance provided during the COVID-19 pandemic, the FASB elected to update their guidance around the required disclosures for assistance received.
- Prior to this update, the FASB had no direct guidance on the accounting and disclosure of government assistance
- The goal of the new ASU is to provide more transparency about transactions with the government (through the disclosure of the types of assistance, how the entity accounted for the assistance, and the effect of the assistance on the financial statements) so that investors and other financial statement users can better understand the entity’s financial position

ASU 2021-10

What is the Guidance?

- Increases the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on an entity's financial statements
- Requires the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy:
    1. Information about the nature of the transactions and the related accounting policy used to account for the transactions
    2. The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item
    3. Significant terms and conditions of the transactions, including commitments and contingencies.
- Furthermore, an entity is required to disclose information about the significant terms and conditions of transactions with a government, which may include
    1. The duration or period of the agreement
    2. Any commitments made by the parties
    3. Provisions for recapture, including the conditions that allow recapture
    4. Other contingencies

ASU 2021-07

Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (Topic 718)	
Effective Dates	
Public Entities	**Nonpublic Entities**
N/A	For all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

Early adoption is permitted.
Applied retrospectively

ASU 2021-07

Why?

- The Private Company Council (PCC) added this issue to its agenda in response to feedback from private company stakeholders indicating that determining the fair value of private company share-option awards at grant date or upon a modification to an award is often costly and complex.
- As a practical expedient, a nonpublic entity is allowed to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the "reasonable application" of a "reasonable valuation" method.
- The practical expedient describes the four characteristics of the reasonable application of a reasonable valuation method (next slide):

ASU 2021-10

Practical Expedient

1. The date on which the valuation's reasonableness is evaluated is the measurement date
2. The factors to be considered in a reasonable valuation:
   a) The value of the tangible and intangible assets of the entity.
   b) The present value of the anticipated future cash flows of the entity.
   c) The market value of stock or equity interests in similar entities engaged in trades or businesses substantially similar to those engaged in by the entity for which stock is to be valued.
   d) Recent arm's-length transactions involving the sale or transfer of the stock or equity interests of the entity.
   e) Other relevant factors such as control premiums or discounts for lack of marketability and whether the valuation is used for other purposes that have a material economic effect on the entity, its stockholders, or its creditors.
   f) The entity's consistent use of a valuation method to determine the value of its stock or assets for other purposes.

ASU 2021-10

Practical Expedient

3. The scope of information to be considered in a reasonable valuation is all information material to the value of the entity.

4. The following criteria must be met for the use of a previously calculated value to be considered reasonable:
    a) The value is updated for any information available after the date of calculation that may materially affect the value of the entity.
    b) The value is calculated no more than 12 months earlier than the date for which the value is being used.

ASU 2020-08

Nonrefundable Fees and Other Costs (Topic 310-20)	
Effective Dates	
Public Entities	**Nonpublic Entities**
Fiscal years, including interim periods within those periods, beginning after December 15, 2020.	Annual periods beginning after December 15, 2021, and for interim periods in annual periods beginning after December 15, 2022.

Early adoption is permitted.
Implementation is prospective as of the period of the adoption for existing and new callable debt securities.

ASU 2020-08

What is the Guidance?

- This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period.

- The amendments in ASU 2020-08 clarify that for callable debt securities with multiple call dates, the reevaluation of whether the amortized cost basis exceeds the amount repayable by the issuer at the next call date should be performed in each reporting period. Any excess should be amortized to the next call date.

ASU 2020-01

Investments –Equity Securities and Derivatives and Hedging (Topics 323 and 815)	
Effective Dates	
Public Entities	**Nonpublic Entities**
Fiscal years, including interim periods within those periods, beginning after December 15, 2020.	Annual periods beginning after December 15, 2021, and for interim periods in annual periods beginning after December 15, 2022.

Early adoption is permitted.
Implementation is prospective

ASU 2020-01

Why?

- The amendments are intended to reduce diversity in practice and increase comparability of the accounting for equity securities, equity method investments, and certain derivatives.
- Under Topic 321, if the measurement alternative is elected and an entity identifies an observable transaction for a similar investment of the same issuer, the entity should remeasure the equity security at fair value as of the date that the observable transaction occurred.
- After the issuance of ASU 2016-01, there was diversity in practice as to whether an entity should consider observable transactions that would require it to either apply or discontinue the equity method of accounting for the purpose of applying the measurement alternative.
- The amended guidance was issued to clarify the interaction of the accounting for equity securities under Topic 321, Investments—Equity Securities; investments accounted for under the equity method of accounting in Topic 323, Investments—Equity Method and Joint Ventures; and the accounting for certain forward contracts and purchased options accounted for under Topic 815, Derivatives and Hedging.

ASU 2020-01

Why?

- The amendments are intended to reduce diversity in practice and increase comparability of the accounting for equity securities, equity method investments, and certain derivatives.
- One of the provisions in Topic 321 provided entities with the ability to measure certain equity securities without readily determinable fair values at cost, minus impairment, if any. Under this alternative, if an entity identifies observable prices changes in orderly transactions for identical or a similar investment with the same issuer, the entity should measure the equity security at fair value as of the date that the observable transaction occurred. Questions were raised about the alternative in Topic 321 and the equity method of accounting in Topic 323, specifically related to whether an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for purposes of applying the alternative
- The amended guidance was issued to clarify the interaction of the accounting for equity securities under Topic 321, Investments—Equity Securities; investments accounted for under the equity method of accounting in Topic 323, Investments—Equity Method and Joint Ventures; and the accounting for certain forward contracts and purchased options accounted for under Topic 815, Derivatives and Hedging.

ASU 2020-01

What is the Guidance?

Issue 1: Accounting for Certain Equity Securities upon the Application or Discontinuation of the Equity Method of Accounting

- An entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method.

Issue 2: Scope Considerations for Forward Contracts and Purchased Options on Certain Securities

- For the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options.

Accounting Updates Effective for Future Audits

ASUs Effective in Future Years

ASU Number	Standard Name
ASU 2016-02	Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments
ASU 2018-19	Codification Improvements to Topic 326, Financial Instruments—Credit Losses
ASU 2019-04	Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments
ASU 2019-05	Financial Instruments—Credit Losses (Topic 326) Targeted Transition Relief
ASU 2019-11	Codification Improvements to Topic 326, Financial Instruments—Credit Losses
ASU 2017-04	Intangibles—Goodwill and Other (Topic 350)
ASU 2018-12	Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts
ASU 2019-09	Financial Services—Insurance (Topic 944): Effective Date
ASU 2020-11	Financial Services—Insurance (Topic 944): Effective Date and Early Application
ASU 2019-10	Financial Instruments—Leases (Topic 842): Effective Dates
ASU 2020-03	Codification Improvements to Financial Instruments
ASU 2020-06	Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging —Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity
ASU 2021-02	Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient

ASUs Effective in Future Years

ASU Number	Standard Name
ASU 2021-02	Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient
ASU 2021-08	Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers
ASU 2022-01	Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method
ASU 2022-02	Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures
ASU 2022-03	Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions
ASU 2022-04	Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

ASU 2021-02

Franchisors—Revenue from Contracts with Customers (Subtopic 952-606)	
Effective Dates	
Public Entities	**Nonpublic Entities**
N/A	For entities that have not already adopted ASC 952-606, concurrent with ASC 952-606.

ASU 2021-02

Revenue? I thought that was over!

- The FASB continues to issue ASUs that simply adoption for certain entities and provide practical expedients for nonpublic entities
- As part of adoption of ASC 606, private company stakeholders in the franchise industry raised concerns with the FASB about the cost and complexity associated with identifying performance obligations related to pre-opening services provided in a franchise agreement
- Under the five-step revenue model in Topic 606, the franchisor is required to determine whether the pre-opening activities represent distinct performance obligations and, if so, to evaluate the standalone selling prices for those performance obligations in order to determine the timing and amount of revenue recognition.
- Many stakeholders expressed concerns about the level of effort required in applying this guidance by private company franchisors, especially for franchisors that are startups or that have fewer resources for applying the general requirements.

ASU 2021-02

Main Provisions

- As a practical expedient, franchisors that are not public business entities may account for the following pre-opening services as distinct from the promise to grant the franchise license:
    - Assistance in the selection of a site.
    - Assistance in obtaining and preparing the facilities for their intended use, including related financing, architectural, engineering, and lease negotiation services.
    - Training of the franchisee's personnel or the franchisee.
    - Preparation and distribution of manuals and similar material concerning operations, administration, and record keeping.
    - Bookkeeping, information technology, and advisory services, including setting up the franchisee's records and advising the franchisee about income, real estate, and other taxes or about regulations affecting the franchisee's business.
    - Inspection, testing, and other quality control programs.
    - Franchisors that elect to use the practical expedient may elect an accounting policy to account for the bundle of pre-opening services as a single performance obligation, instead of evaluating whether each of the pre-opening services is distinct.
    - Franchisors electing to use the practical expedient or making the accounting policy election should disclose that fact.

ASU 2021-02

Insights

- The practical expedient is intended to provide relief from Step 2 of ASC 606 by allowing franchisors to treat each of the aforementioned items as separate from the franchise fee.
- Interpreting these items as indistinct from the franchise license would inappropriately defer revenue related to these services over the term of the agreement when all pre-opening related services had been rendered.
- Use of the practical expedient allows franchisors to recognize revenues related to preopening services once those services have been rendered, while revenues allocated to the franchise license would be deferred over the license term.
- The practical expedient is intended to provide relief from Step 2. However, it does not provide any relief from determining standalone selling prices of the services provided that are considered distinct.

ASU 2021-08

Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	
Effective Dates	
Public Entities	**Nonpublic Entities**
Fiscal years beginning after December 15, 2022	Fiscal years beginning after December 15, 2023

Early adoption is permitted.
Implementation is prospective

ASU 2021-08

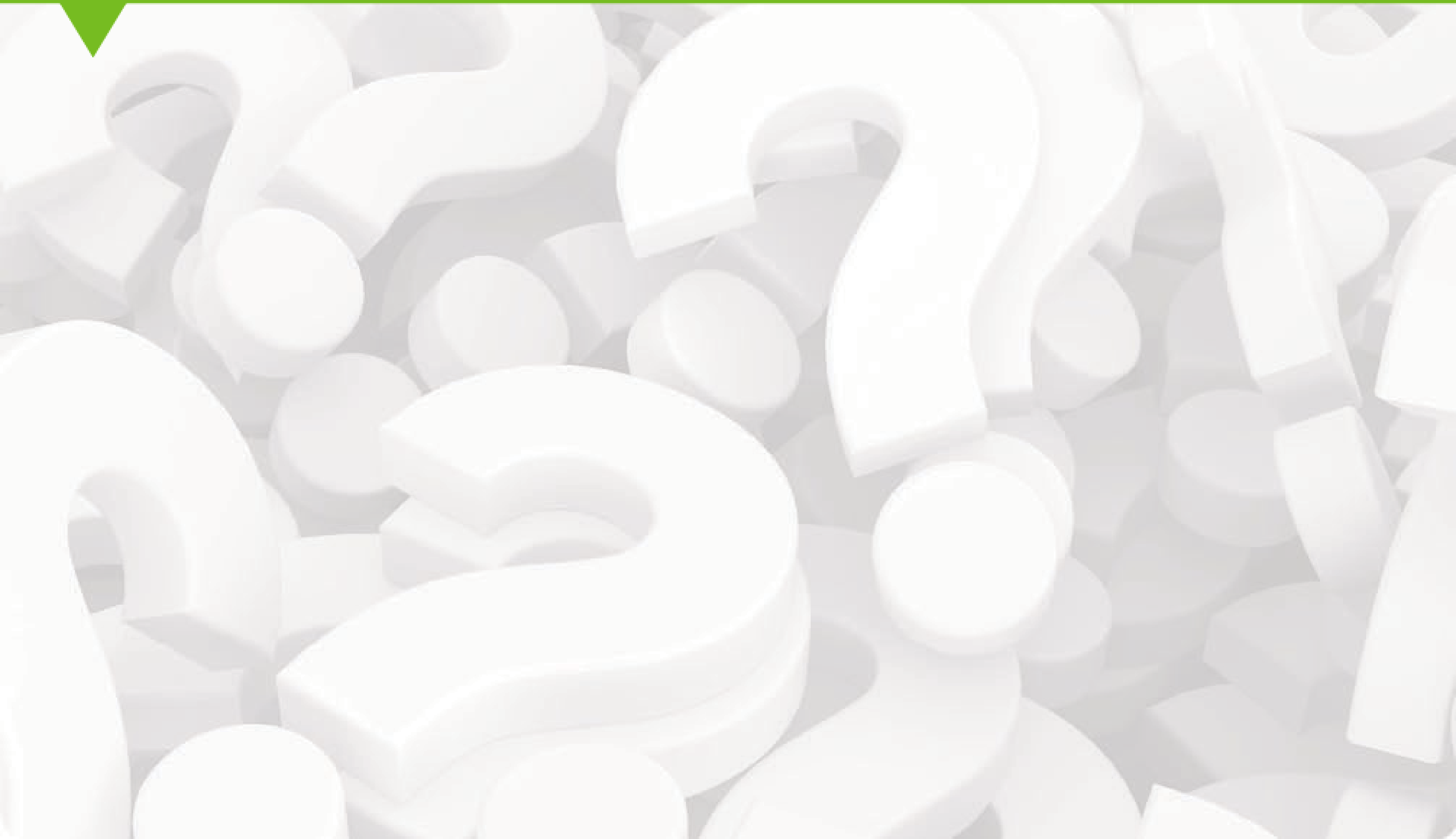
Why?

- Under legacy guidance, Companies that acquired an entity with deferred revenue were required to record that deferred revenue at fair value as of the acquisition date
- Diversity in practice arose following the issuance of ASC 606 as a result of differing views as to whether the ASC 606 concept of a performance obligation or the ASC 805 concept of a legal obligation should be used to measure a contract.

Main Provisions

- The ASU clarifies that an acquirer should apply the concept of a performance obligation.
- As a result, the contract assets and contract liabilities recognized by the acquirer as of the acquisition date will generally be the same as the amount presented in the acquiree's financial statements immediately prior to the acquisition date, unless, for example, one of the following conditions exists:
    - The acquiree and acquirer have different revenue recognition policies;
    - The acquiree does not follow U.S. GAAP;
    - There were errors in how the acquiree applied the guidance in ASC 606.
- In certain circumstances, the amendments may result in higher contract liability balances and, therefore, more goodwill under the amendments than under the existing fair value guidance.

Questions?



Regulatory Updates

Speaker

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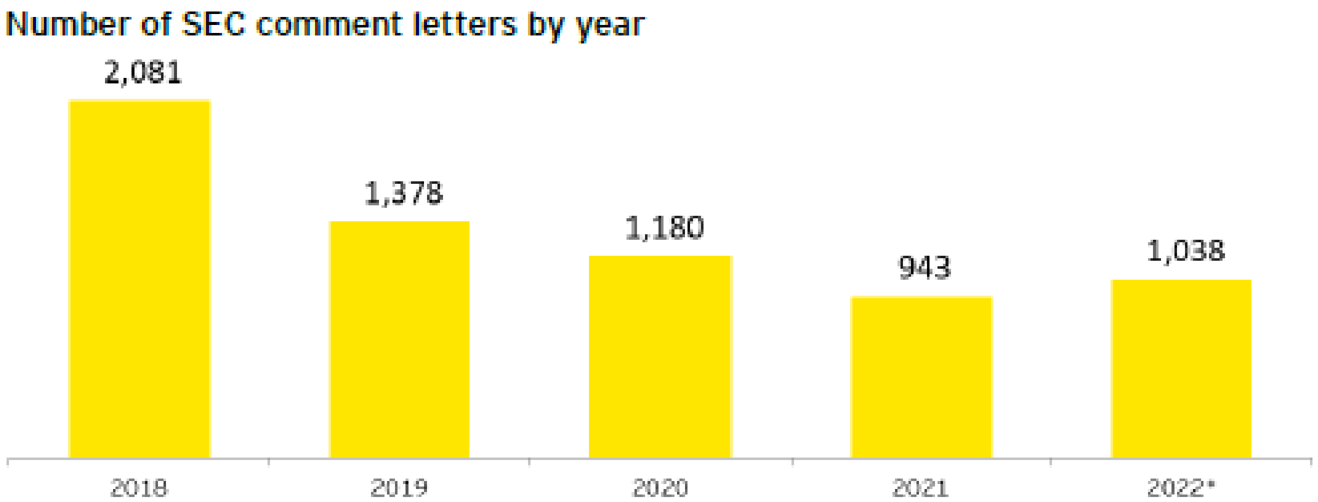
Regulatory Update

In this session, I will be your guide through the alphabet soup of the accounting world. That’s right! There are many acronyms that we hold near and dear to our hearts that will be covered during the session:

- SEC
- PCAOB
- FASB
- PCC
- AICPA
- GASB

SEC Updates – Comment Letter Trends

- The volume of SEC staff comment letters remained fairly steady to the prior year. Slight increase related to climate-related disclosure inquiries. The size of registrants receiving comment letters continues to focus on companies with higher float.

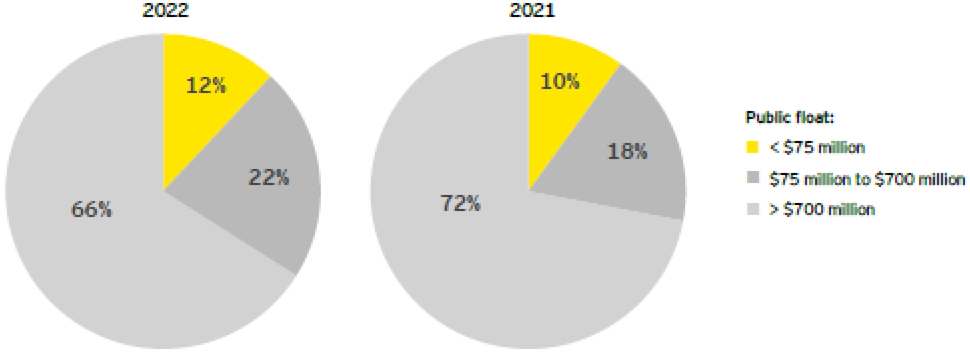


Source: Audit Analytics – SEC UPLOAD of comment letters related to Forms 10-K and 10-Q that were publicly available during the 12-month periods ended on 30 June each year.

* The SEC publicly releases comment letters no earlier than 20 business days after the completion of its reviews, meaning the SEC staff may have issued some letters before 30 June, but those letters may not have been publicly available as of the date of our analysis and, therefore, are not included herein.

SEC Updates – Comment Letter Trends

Size of registrants receiving comment letters on Forms 10-K and 10-Q filings



Source: Audit Analytics – SEC UPLOAD comment letters issued related to Forms 10-K and 10-Q for the 12-month periods ended 30 June 2022 and 30 June 2021.

Comment area	Ranking 12 months ended 30 June[1] 2022	Ranking 12 months ended 30 June[1] 2021	Comment area received as a % of registrants receiving comment letters 2022	Average letters per registrant[3] 2022
Non-GAAP financial measures	1	1	44%	1.4
Management's discussion and analysis (MD&A)[2]	2	2	36%	1.1
Segment reporting	3	3	15%	1.2
Revenue recognition	4	4	11%	1.2
Fair value measurements	5	5	9%	1.1
Climate-related disclosures	6	N/A[4]	8%	2.2
Inventory and cost of sales	7	9	7%	1.3
Signatures/exhibits/agreements	8	6	7%	1.0
Goodwill and intangible assets	9	7	6%	1.1
Acquisitions and business combinations	10	N/A[4]	6%	1.2

SEC Updates – Additional Points of Emphasis

- Additional points of emphasis included within comment letters and statements from the SEC include:
    - ESG/Climate-Related Disclosures
        - Impact of legislation
        - Consequences of regulation/international accords
        - Physical effects of climate change
        - Material expenditures for climate-related projects & compliance cost increases
    - Non-GAAP measures (an annual recurrence at this point)
        - Item 10(e)(1)(i) of Regulation S-K
            - Present the most directly comparable financial measure, provide a reconciliation
            - Disclose the reason the non-GAAP measure is useful to investors
    - MD&A
        - SEC wants increased clarity and more detail on material changes, significant/unusual transactions, uncertainties, etc.
        - KPI's
        - Critical accounting estimates

SEC Updates – Pay vs. Performance

- SEC adopted rules in August 2022 to expand on current executive compensation requirements and provide more rigid guidelines for pay vs. performance linkage.
- Effective for years ending after December 16, 2022 (i.e. calendar year filers will have to include these updates in their 10-K filing for calendar 2022).
- Summary Compensation Table example – three years and total compensation by type

Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(2)(3)	Option Awards (\$)(3)	Non-equity incentive plan compensation (\$)(4)	All other compensation (\$)(5)	Total (\$)
2021	950,000	—	—	3,999,997	—	230,840	5,180,837
2020	893,365	4,104,000	12,608,000	1,399,999	475,000	146,825	19,627,189
2019	950,000	—	—	—	2,308,500	37,144	3,295,644
2021	575,000	—	—	1,541,998	—	20,595	2,137,593
2020	540,721	1,047,750	2,758,000	859,998	488,750	8,550	5,703,769
2019	575,000	—	—	—	1,397,250	40,307	2,012,557
2021	590,400	—	—	899,996	—	98,547	1,588,943
2020	555,983	876,448	2,206,400	599,998	219,450	231,689	4,689,968
2019	590,424	—	—	—	1,882,273	275,268	2,747,965
2021	500,000	—	—	1,062,000	—	8,700	1,570,700
2020	470,192	769,500	2,206,400	749,998	340,000	8,550	4,544,640
2019	455,769	—	—	—	969,819	11,003	1,436,591
2021	447,116	—	599,992	599,996	—	250,429	1,897,533

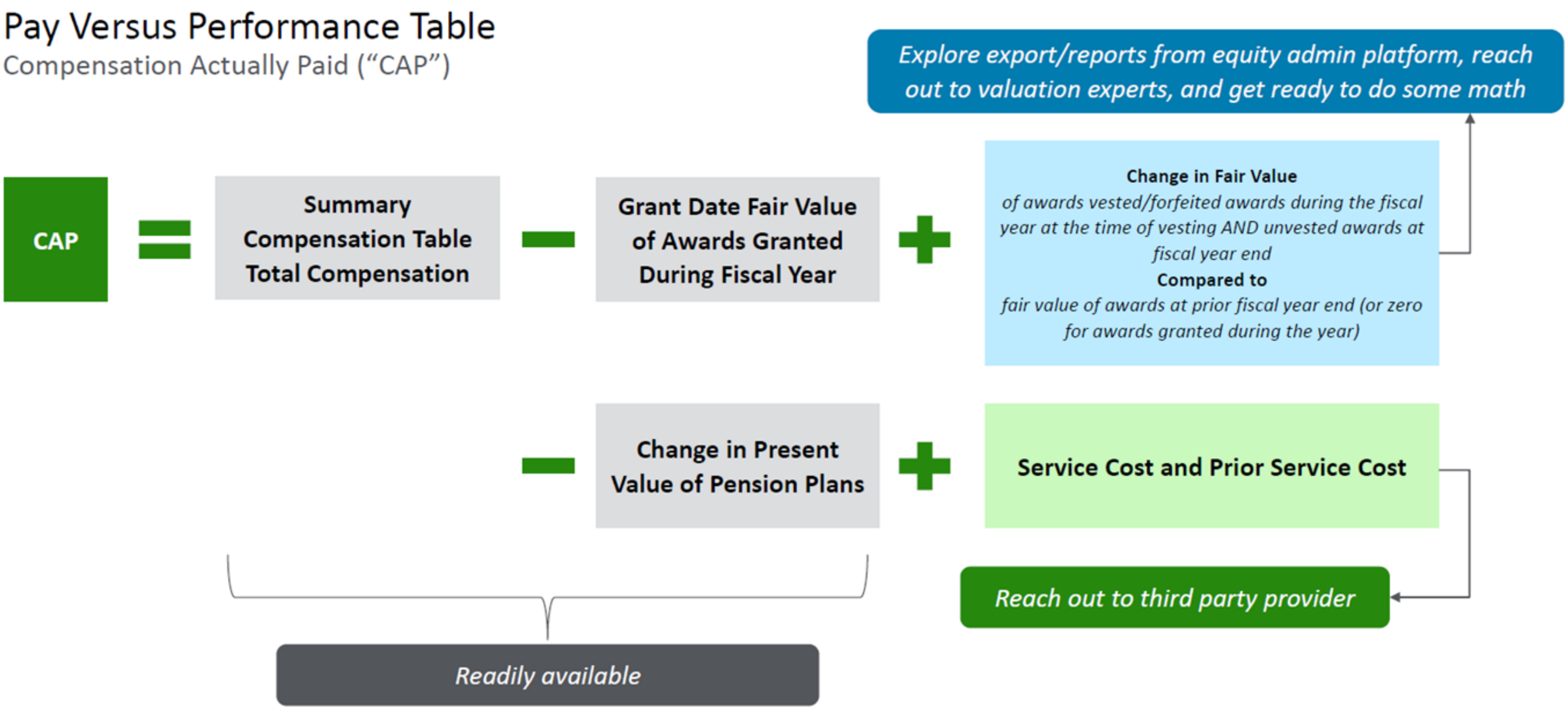
SEC Updates – Pay vs. Performance

- New requirements in addition to existing guidance
  - Compensation actually paid (CAP) for principal executive officer (PEO)
  - Average Summary Compensation and average CAP to non PEO's
  - Three to seven performance measures that are the most important KPI's
  - Registrant is also required to describe:
    - Relationships between CAP and relevant performance measures
    - The relationship between total shareholder return (TSR) and the TSR of its peer group

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	[Company-Selected Measure]*
					Total Shareholder Return	[Peer Group Total Shareholder Return]*		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Y1								
Y2								
Y3								
Y4*								
Y5*								

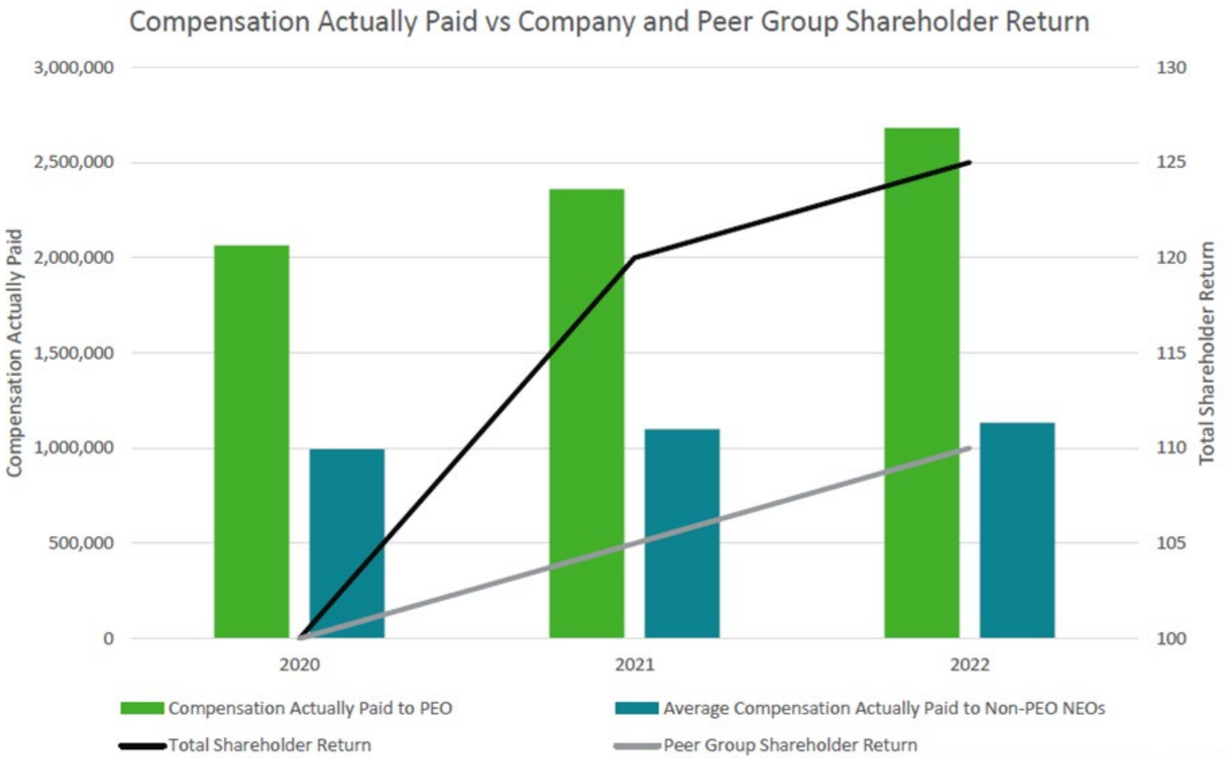
SEC Updates – Pay vs. Performance

- CAP calculation may take quite a bit of math depending on your compensation structure.



SEC Updates – Pay vs. Performance

- Given the number of variables/requirements associated with the CAP to TSR comparison, disclosure in narrative format could be cumbersome, we anticipate visuals being used to assist.



**Note: there is no requirement to describe CAP vs Peer Group TSR; only company TSR vs peer group TSR.*

SEC Updates – Pay vs. Performance

- There is a phase in period as well as small reporting company relief.
  - After phase in, 3 year vs. 5 year
  - Not required to disclose TSR of peer group or company selected measures

Proxy or Information Statement	Number of Years for which Disclosure Must Be Provided	Inline XBRL Tagging Required?
Registrants (other than SRCs)		
First filing providing disclosure	Three years	Yes
Second filing providing disclosure	Four years	Yes
Third filing providing disclosure	Five Years	Yes
SRCs		
First filing providing disclosure	Two years	No
Second filing providing disclosure	Three years	No
Third filing providing disclosure	Three years	Yes

SEC Updates – Pay vs. Performance

- Key Takeaways:
  - Certain items will be easy to obtain and are most likely already calculated
  - Other items are more complex in nature and will require diligent planning (CAP, TSR of peer group, company performance measures)
  - Company selected performance measures typically will include ST and LT incentive plan metrics at a minimum plus other pertinent metrics utilized (revenue, EPS, EBITDA, etc.). Stakeholder input (compensation committee, investor relations, CEO, etc.) will be necessary.

SEC Updates – JOBS Act Inflation Adjustments

- The Jumpstart Our Business Startups (JOBS) Act of 2012 created "emerging growth company" filer status.
- The JOBS Act requires the SEC to inflation-adjust the annual gross revenues used to determine EGC status every five years. The previous and inflation-adjusted annual gross revenues are:

Previous Threshold	New Threshold
$1,070,000,000	$1,235,000,000

- Rules became effective on September 20, 2022

SEC Updates – Erroneously Awarded Compensation

- New guidance requiring the adoption and disclosure of a policy to clawback previously awarded incentive based compensation in the instance of an accounting restatement that is either:
    - Material to the previously issued financial statements
    - Would result in a material misstatement in the current period if left uncorrected
- Strengthens previous rules on clawbacks through the Dodd-Frank Act and Sarbanes-Oxley Act which were deemed too broad.
- Applies to, at a minimum, executive officers listed in the proxy statement or 10-K as well as key individuals associated with policy making.
- Three-year lookback period.
- The amount of the clawback must be equal to the amount of incentive-based compensation received that exceeds the amount of incentive-based compensation that otherwise would have been received had it been determined based on the restated amounts, and must be computed without regard to any taxes paid by the executive officer.

GBQ

New Tax Legislation

- It has been a wildly speculative year when it comes to proposed tax legislation. There are, however, certain tax implications that have arisen through the Inflation Reduction Act and the CHIPS Act
    - 15% Corporate AMT (effective beginning 1/1/23)
        - Expense/associated liability should be recorded as incurred
        - Although no changes in current corporate tax rates, changes could impact the assessment of the realizability of DTA’s
    - 1% excise tax on stock repurchases
        - The Stock Buyback Tax imposes a 1% excise tax on covered corporations on the fair market value of any stock of the corporation which is repurchased by such corporation beginning after December 31, 2022.
    - CHIPS investment tax credit (25% of investment)
        - 25% tax credit of qualified investment in manufacturing facilities for semiconductors

Happy 20-Year Anniversary Sarbanes Oxley!

- SEC Chair Gary Gensler recently gave a speech at the Center for Audit Quality discussing the impact of SOX

- Discussed what has worked and future of SEC focus:
    - Independence
    - Holding corporations and senior executives accountable (Erroneously awarded comp)
    - Creating a level playing field for all issuers

- Don’t get cold feet when it comes to SOX!

ESG (Environmental, Social & Governance)

- ESG continues to be a hot topic. Climate relates disclosures are coming and coming soon. Comment period ended in June 2022 and is undergoing final deliberation.
- Gold standard of reporting guidelines is the Greenhouse Gas Protocol https://ghgprotocol.org/

The proposed rules are intended to provide more consistent, comparable and reliable information so that investors can better evaluate the impact of climate-related matters on a registrant.

Financial statement disclosures would include: — Financial impact metrics, line item basis — Expenditure metrics, disaggregated — Financial estimates and assumptions — Financial statement audit and audit of internal controls over new information	**Greenhouse Gas (GHG) emissions** disclosures would include: — Scopes 1 and 2, with limited assurance for accelerated filers and large accelerated filers, moving to reasonable assurance after two years — Scope 3, if material or part of goals/targets under a phased transition
Other disclosures would include: — Governance and risk management processes — Physical and transition risks, actual or likely impacts — Targets, goals and any transition plan — Scenario analysis, if used — Carbon offsets or renewable energy credits (RECs) — Internal carbon pricing, if established	**Proposed applicability** — Domestic and foreign filers — Registration statements — Periodic reporting — Scope 3 safe harbor; smaller reporting companies exempt — Phased transition possibly starting fiscal 2023; limited assurance one year later

ESG (Environmental, Social & Governance)

Phased transition

An effective date will remain open until the SEC adopts the final rules. The proposal illustrates the effect of the proposed phased transition and relief on the first compliance date – assuming an effective date of December 2022 for the final rule and a registrant with a December 31 year-end.

	Disclosures excluding Scope 3 emissions	Scope 3 emissions
Large accelerated filer	Fiscal 2023 (filed in 2024)	Fiscal 2024 (filed in 2025)
Accelerated filer and non-accelerated filer	Fiscal 2024 (filed in 2025)	Fiscal 2025 (filed in 2026)
Smaller reporting company	Fiscal 2025 (filed in 2026)	Exempt

Similarly, the proposal illustrates the phasing in of assurance requirements assuming an effective date of December 2022 for the final rule and a registrant with a December 31 year-end.

	Scopes 1 and 2 disclosure	Limited assurance	Reasonable assurance
Large accelerated filer	Fiscal 2023 (filed in 2024)	Fiscal 2024 (filed in 2025)	Fiscal 2026 (filed in 2027)
Accelerated filer	Fiscal 2024 (filed in 2025)	Fiscal 2025 (filed in 2026)	Fiscal 2027 (filed in 2028)

PCAOB

- Strengthened regulations for lead auditors expected for the supervision of audits involving other auditors
- Additional standard setting for quality control standards at CPA firms ongoing (focus on assignment and documentation of firm supervisory responsibility)
- Updated guidelines under the Holding Foreign Companies Accountable Act (HFCAA)
    - The guidelines, among other things, provide a framework for the PCAOB to use when determining whether the PCAOB Board is unable to inspect or investigate registered public accounting firms in a foreign jurisdiction
- Future policy making is expected to be centered on:
    - Usage of technology and automation within audits
    - Auditor’s response to risks of material misstatement (including unpredictability, identifying management bias, revisions to planned audit response, etc.)
    - Evaluating the relevance and reliability of audit evidence obtained from external sources

PCAOB – Areas of Planned Focus

- PCAOB recently released a preview of their plan for conducting inspection in the next 12 months which will be primarily focused on financial reporting and audit risks driven by the recent economic environment:
  - Increased deal activity (IPO, M&A, SPAC)
  - Supply chain disruption
  - Financial market volatility
  - Audit firm risks (turnover, remote auditing, etc.)

- Planned areas of focus within their inspections will include:
  - Fraud
  - IPO’s & M&A activity
  - Audit firms execution challenges
  - Independence
  - CAM’s
  - Audit areas with continued deficiencies
  - Audit firms quality control
  - Technology

FASB Technical Agenda Updates

- The FASB has recently made some changes to its research agenda
    - Additions
        - Accounting for and disclosure of software costs
        - Statement of cash flows
        - Financial KPI's
        - Accounting for digital assets
        - Accounting for environmental credit programs
    - Subtractions
        - Subsequent accounting for goodwill and identifiable intangibles
        - Lease modifications
        - Accounting for asset acquisitions and business combinations

FASB Proposal – Accounting for Joint Venture Formation

- A new proposed ASU was released in late October related to Joint Venture (JV) accounting
- Currently there is diversity in practice of how a newly formed JV recognizes assets and liabilities at the formation/measurement date.
- This new ASU, if released in current form, would require newly formed JV's to recognized their assets and liabilities at fair value in the same manner as a business combination under ASC 805.

FASB – Other Projects & Priorities

- Proposed ASU related to the "Proportionate Amortization Method" (PAM)
    - Includes clarification regarding evaluation of the qualification criteria of the investments
    - Alternative to the cost and equity method of accounting, scope of PAMs is currently limited to investments in qualified affordable housing projects.

- FASB is seeking feedback on incorporating International Accounting Standard (IAS) 20 into US GAAP
    - IAS 20 relates to the accounting for and disclosure of government grants
    - Invitation to comment is seeking feedback on what aspects should be incorporated, whether preparers currently apply IAS 20 by analogy or another method as well as questions on issues/challenges and stakeholder opinion

Private Company Council (PCC)

- As a reminder, there is an advisory group that regularly meets with the FASB to advise them on private company matters. They advise the FASB on private company users needs to help identify expedients and alternatives to GAAP that may be preferable to private companies.
- There are many recent updates to discuss from recent Private Company Council meetings
  - Disaggregation – Income statement expenses
    - Objective is to improve the usefulness of income statements through the disaggregation of expenses
  - Accounting for and disclosure of digital assets
  - Targeted improvements for income tax disclosures
    - Goal is to improve the transparency and decision usefulness of income tax disclosures
    - Primary focus is on the income taxes paid and rate reconciliation tables
  - Leases – Implementation Issues
    - Specifically concentrated on related party leases

Accounting for and Disclosure of Crypto Assets

- The Board decided to require that an entity:
  - Measure crypto assets at fair value
  - Recognize increases and decreases in fair value in comprehensive income each reporting period
  - Recognize certain costs incurred to acquire crypto assets, such as commissions, as an expense (unless the entity follows specialized industry measurement guidance that requires otherwise).
- The Board also considered:
  - Various measurement alternatives for crypto assets with inactive markets and decided not to pursue those alternatives
  - Whether to provide implementation guidance relative to the application of fair value measurement of crypto assets
  - Whether there should be a difference for private companies for the measurement of crypto assets
- The Board will consider presentation, disclosure, and transition at a future meeting.

AICPA – SAS 142

- SAS 142 clarified certain language surrounding what constitutes audit evidence and sets out attributes that should be taken into account when evaluating information.
- Drafted and adopted due to the changing nature in transacting business.
- New requirements include (not an all inclusive list):
    - Expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained
    - Automated tools and techniques
    - Professional skepticism
    - Management specialists
- Effective for periods ending on or after December 15, 2022 (i.e. calendar year-end 2022 audits).

AICPA – SAS 143

- This standard enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates.
- Enhances the auditing standards relating to auditing accounting estimates and the auditor's focus on factors driving estimation uncertainty and potential management bias.
    - Explains the nature of accounting estimates and the concepts of estimation uncertainty
    - Provides information about scalability of the SAS for all types of accounting estimates (think simple to complex)
    - Requires a separate assessment of inherent risk and control risk
    - Provides an enhanced risk assessment
    - Addresses the exercise of professional skepticism
- Effective for audits of financial statements for periods ending on or after December 15, 2023

AICPA – SAS 144

- Increases and clarifies audit requirements for evaluating information when management has used the work of a specialist in developing accounting estimates. Some common examples of this include, but are not limited to:
    - Actuary for pension/post-retirement related information
    - LIFO reserves

- End game is an alignment of current PCAOB standards with that of the AICPA and clarifying certain language of what is required by the auditor in evaluating information provided by specialists:
    - Relevance and reliability of information
    - Use of an inventory taking firm is no longer considered the use of a management specialist

- Effective for audits of financial statements for periods ending on or after December 15, 2023

AICPA – SAS 145

- Risk assessment continues to be a hot topic at both the AICPA and PCAOB level
- This SAS will increase the requirements for auditors in understanding an audited entity, its environment and assessing the risks of material misstatement
- Certain enhancements include:
  - Requirements/guidance related to obtaining an understanding of the entity’s internal control and assessing control risk
  - Guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate
- Other changes:
  - A revised definition of significant risk
  - Requirement to evaluate the design of certain ITGC’s
  - Separately assess inherent risk and control risk
  - “Stand-back” requirement intended to drive an evaluation of the completeness of an auditor’s identification of significant classes of transactions, account balances and disclosures.
- Effective for audits of financial statements for periods ending on or after December 15, 2023

AICPA – CPA Exam Updates

- Changes to CPA Exam to take effect in 2024. Joint effort between the AICPA and NASBA

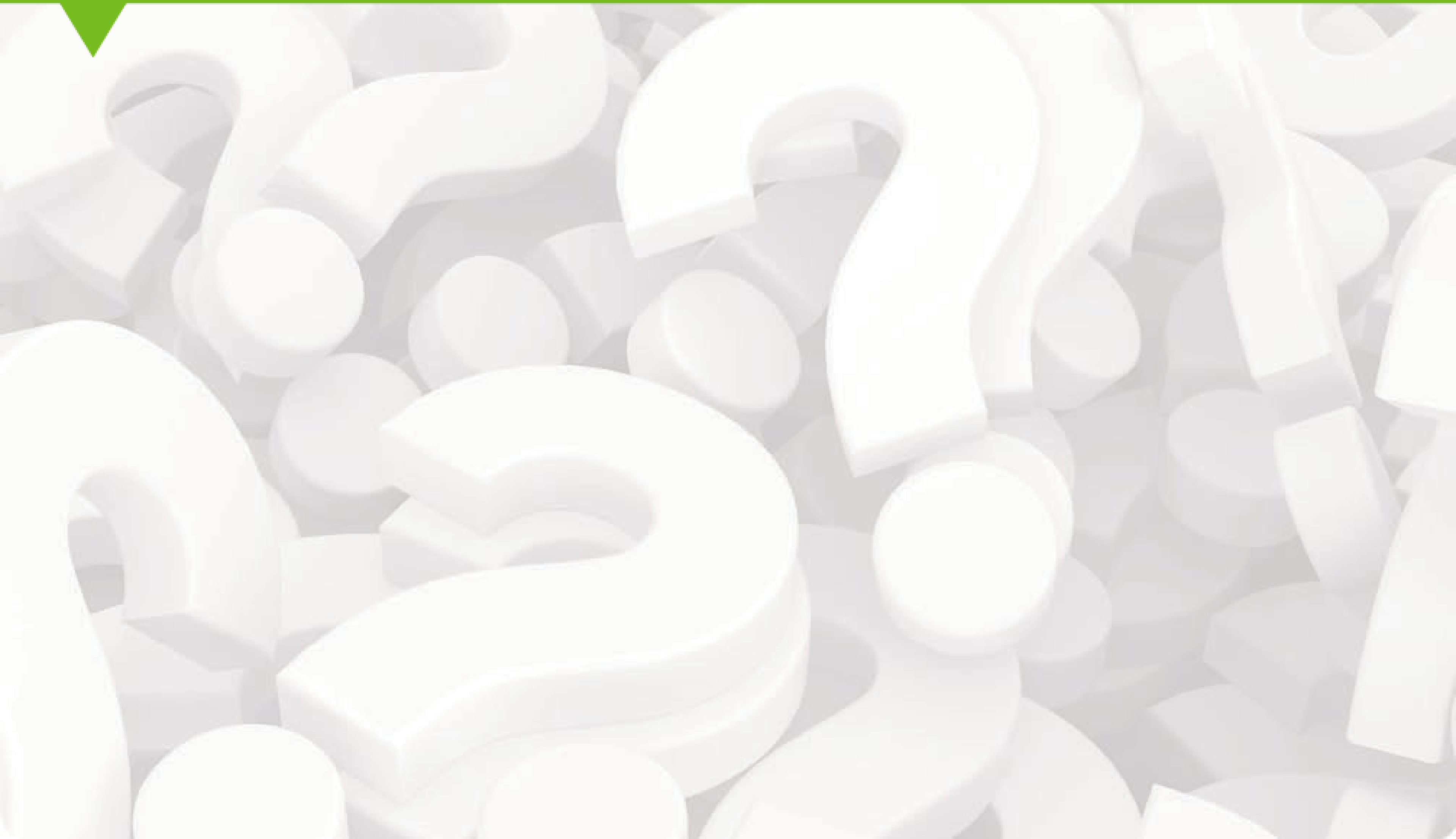
- Exam will include three core parts
    - Auditing & AIS
    - Accounting & Data Analytics
    - Tax

- Candidates will also be required to choose one of the following three disciplines
    - Business Analysis & Reporting
    - Information Systems & Controls
    - Tax Compliance & Planning

GASB/Single Audit Update

- Increases in federal funding (CARES, ARP, ERA, etc.) are resulting in additional organizations meeting the requirements to have what is referred to as a single audit as well as additional complexity to organizations who currently do receive an audit.
- In simplest terms, a single audit will most likely be required if an entity either expends more than $750,000 in federal dollars or receives a qualified federal loan greater than $750,000.
- A single audit also requires an audit of the entity's financial statements which must be completed within 9 months after the entity's fiscal year-end.
- Single audits require tests of internal control over direct and material audit areas in addition to tests of compliance with program requirements and so the level of internal control necessary to receive an unmodified opinion under a single audit is greater than a comparable audit in accordance with GAAS.
- Certain federal funding structures have been carved out (i.e. PPP funding, Restaurant Revitalization Fund, etc.)
- Individuals performing single audits need to have specialized CPE
    - >80 hours every two years with at least 24 of those being specialized yellow book CPE.

Questions?



ASC 740, Tax Provision Updates and Common Pitfalls

Speaker

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State PTE Taxes – ASC 740 Impact?

- 2017 Tax Reform introduced $10,000 state and local tax limitation "SALT Cap" on Federal individual return
- More than 30 states have enacted or are considering legislation to allow Partnerships and S-Corporations (pass-through entities "PTE") to elect to pay tax at the entity level for state income tax purposes
  - *Ohio starting 2022
- Basic mechanics of Ohio pass-through entity tax election:
  - Ohio tax paid by PTE and taken as a deduction on PTE's Federal tax return (SALT Cap workaround)
  - The owners add-back the Ohio tax on their individual Ohio return, but then claim a credit against their personal tax liability and any excess is refunded to the individual
- Limited guidance exists within ASC 740, however examples under ASC 740-10-55-226 through 228 provide FASB insight

State PTE Taxes – ASC 740-10-55-226

- Example 35
  - Entity A, a partnership with two partners—Partner 1 and Partner 2—has nexus in Jurisdiction J. Jurisdiction J assesses an income tax on Entity A and allows Partners 1 and 2 to file a tax return and use their pro rata share of Entity A's income tax payment as a credit (that is, payment against the tax liability of the owners). Because the owners may file a tax return and utilize Entity A's payment as a payment against their personal income tax, the income tax would be attributed to the owners by Jurisdiction J's laws whether or not the owners file an income tax return. Because the income tax has been attributed to the owners, payments to Jurisdiction J for income taxes should be treated as a transaction with the owners.

- **Conclusion** – Entity treats tax payments as a distribution to partners

State PTE Taxes – ASC 740-10-55-227

- Example 36
  - If the fact pattern in paragraph 740-10-55-226 changed such that Jurisdiction J has no provision for the owners to file tax returns and the laws and regulations of Jurisdiction J do not indicate that the payments are made on behalf of Partners 1 and 2,income taxes are attributed to Entity A on the basis of Jurisdiction J's laws and are accounted for based on the guidance in this Subtopic.

- **Conclusion** – Entity treats tax payments as income tax expense (ASC 740 applies)

State PTE Taxes – Considerations

- General conclusion is that equity treatment applies if the tax is attributed to the owner through being creditable on their individual tax return or deemed paid on their behalf.

- Analysis is required on a jurisdiction-by-jurisdiction basis.

- Federal return book-tax difference

- Materiality considerations

Research & Development – Tax Law Change

- 2017 Tax Reform Act – Revenue Raiser
  - For tax years beginning BEFORE January 1, 2022, taxpayers may deduct expenditures made for research activities.
  - However, for tax years beginning AFTER December 31, 2021, research expenditures must be capitalized and amortized over a five-year period (15 years for research conducted outside of the United States).
    - Amortization begins with the midpoint of the taxable year for the first year

- Legislative fix?

Research & Development – IRC §174

- All costs incidental to the development or improvement of a product
- Activities intended to discover information that would eliminate uncertainty
- Examples of potential Section 174 costs include the following:
    - Compensation of employees conducting research
    - Supplies consumed during research activities
    - Costs associated with research facilities:
        - Rent
        - Utilities
        - Depreciation
    - Attorney fees related to patent applications
    - Computer software development costs

Research & Development – Impact Example

Assume taxpayer incurs $5,000,000 of Section 174 costs annually and all research activity is conducted within the U.S.

Tax Year	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
R&D Costs, Annually	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Tax Amortization	500,000	1,500,000	2,500,000	3,500,000	4,500,000	5,000,000
Book/Tax Difference	4,500,000	3,500,000	2,500,000	1,500,000	500,000	0
Fed Corp Rate	21%	21%	21%	21%	21%	21%
Current Tax Impact	**945,000**	**735,000**	**525,000**	**315,000**	**105,000**	**0**

Research & Development – Considerations

- Tracking – How do I start to analyze?
  - Financial Statement R&D footnote disclosure
  - IRC §41 R&D Tax Credit
  - UNICAP §263A R&D Costs
  - *None of the above will be an all-inclusive remedy
- Estimated tax payments 2022
- Legislative fix – subsequent event footnote
- R&D credit study opportunity?

Tax Sidebar – Net Operating Loss Carryforward

- Prior to the Tax Cuts and Jobs Act ("TCJA") of 2017, NOLs incurred were eligible for a 2-year carryback and 20-year carryforward
- TCJA eliminated NOL carrybacks for tax years ending after December 31, 2017
- Post TCJA there were effectively two groups of NOL carryforwards:
  - Group 1 – NOLs generated in tax years beginning BEFORE December 31, 2017 (Pre TCJA NOLs)
    - 20-year carryforward and available to offset 100% of taxable income
  - Group 2 – NOLs generated in tax years beginning AFTER December 31, 2017 (Post TCJA NOLs)
    - Unlimited carryforward and available to offset 80% of taxable income

GBQ

Tax Sidebar – §163(j) Interest Limitation

- IRC Section §163(j) generally limits the deduction for net business interest expense to 30% of a taxpayer's adjusted taxable income

- Adjusted taxable income (ATI) – In general:
  - For tax years beginning in 2018 through 2021 – EBITDA
  - For tax years beginning in 2022 – EBIT
    - Major impact on entities with material depreciation and amortization

- Any business interest expense disallowed is carried forward and treated as business interest expense in the following year
  - Indefinite carryforward period

Valuation Allowance – DTA Measurement

- ASC 740-10-30-2
  - (a) The measurement of current and deferred tax liabilities and assets is based on provisions of the **enacted** tax law; *the effects of future changes in tax laws or rates are not anticipated*
  - (b) The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized
- ASC 740-10-30-5(e) requires that a valuation allowance be recognized if it is more likely than not (based on the weight of available evidence) that the tax benefit of some portion or all of a deferred tax asset will not be realized

Valuation Allowance – DTA Future Realization

- Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback, carryforward period available under the tax law.

- The following four possible sources of taxable income may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

  - Future reversals of existing taxable temporary differences
    - **Schedule out impacts of future reversals
  - Future taxable income exclusive of reversing temporary differences and carryforwards
  - Taxable income in prior carryback year(s) if carryback is permitted under the tax law
    - Currently no Federal carryback permitted in U.S.
  - Tax-planning strategies

Valuation Allowance – Submit Your Evidence

- All available evidence, both positive and negative, shall be considered to determine whether, based on the weight of that evidence, a valuation allowance for deferred tax assets is needed.

- Information about an entity's current financial position and its results of operations for the current and preceding years ordinarily is readily available. That historical information is supplemented by all currently available information about future years.

- A valuation allowance is most likely needed in circumstances with negative evidence:
  - Cumulative losses in recent years (Super Factor)
  - Expected losses in future years
  - Unfavorable unsettled circumstances

Valuation Allowance - Scheduling Example

Facts: A calendar year corporation with a cumulative loss history has the following deferred tax assets and liability as of December 31, 2022:

- NOL carryforward of 4,000 (DTA)
- §163(j) interest carryforward of 1,000 (DTA)
- Excess tax depreciation over books of 3,000 (DTL)
  - Expected to reverse equally over the next 3 years
- There are no other deferred items and company does not have enough positive evidence that would outweigh the cumulative loss history

What is the needed valuation allowance? Net DTA of 2,000 – so VA of 2,000, right?? "Not so fast my friends!" - Lee Corso

Valuation Allowance - Scheduling Example

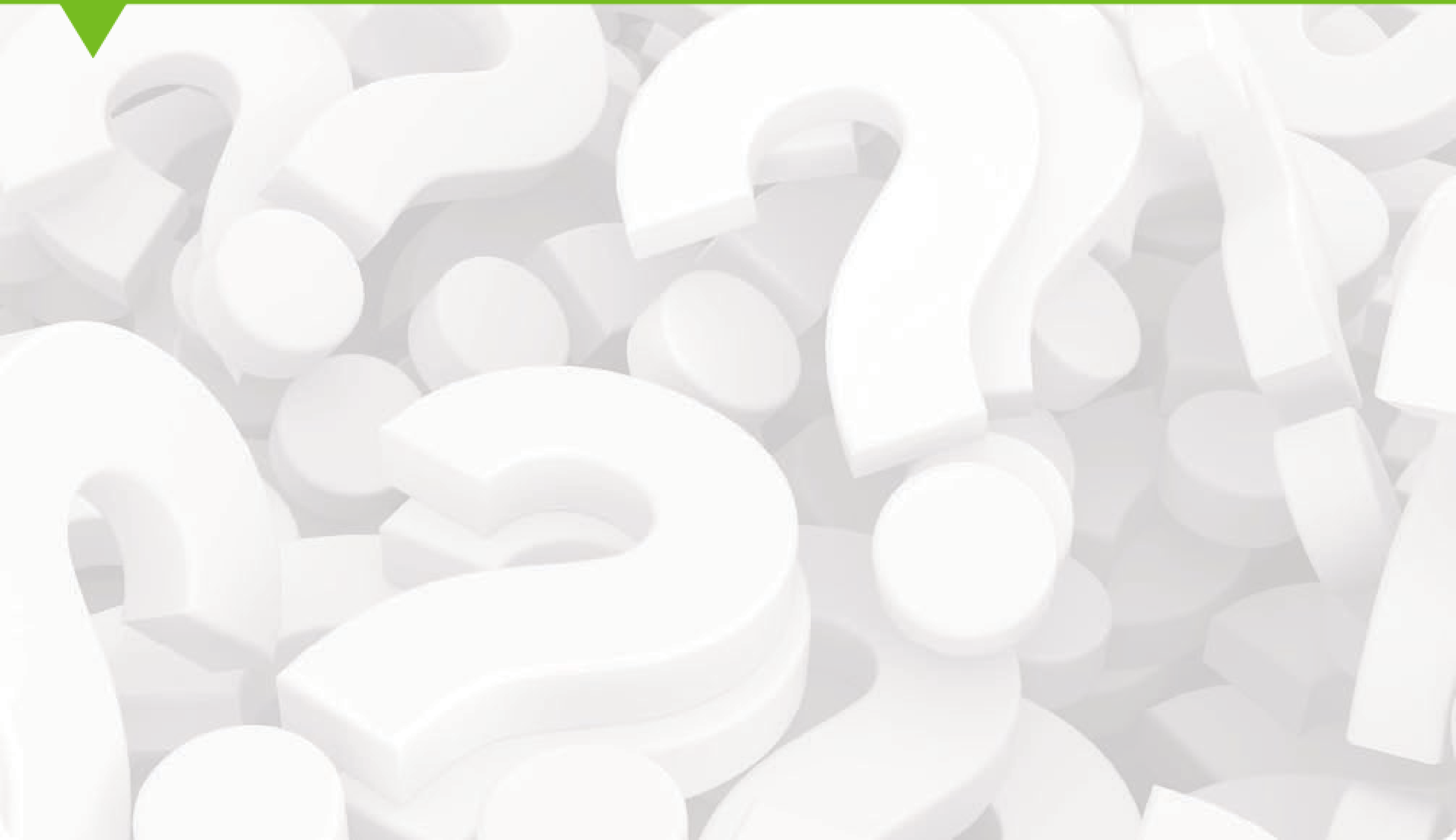
	12/31/22	12/31/23	12/31/24	12/31/25	Remaining DTA
Post-2017 NOL (DTA)	4,000	(560)	(560)	(560)	**2,320**
163(j) Interest (DTA)	1,000	(300)	(300)	(300)	**100**
Fixed Assets (DTL)	(3,000)	1,000	1,000	1,000	**-**
Net DTA/(DTL)	2,000				**2,420**
Valuation Allowance	(2,420)				
Net DTA/(DTL)	**(420)**				

Balance Sheet Classification of Deferred Taxes

ASU 2015-17 Issued November 20, 2015:

- Requires entities to present deferred tax assets and deferred tax liabilities as noncurrent on the balance sheet
- FASB agreed that current versus noncurrent classification provided little benefit to financial statement users
- Effective for financial statements beginning after December 15, 2016 (public companies) and December 15, 2017 (non-public companies)

Questions?



Break

We will resume at 10:45 AM

ASC 842, Leases - Lessons Learned

Speaker

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ASC 842 Crash Course

- The "end game" is to get all leases with service lengths greater than 12 months onto the balance sheet.
- Leases 12 months or less in length are excluded from the guidance and are expensed pro-rata over the contract with no balance sheet impact.
- Operating/capital terminology was replaced with operating/finance leases.
- Finance lease requirements remained relatively unchanged outside of the following:
    - Bargain purchase option reworded to purchase option reasonably certain to be exercised.
    - New 5th category – specialized nature asset that only the lessee can use (i.e., no alternative use to the lessor without significant modification).

ASC 842 vs 840

ASC 842

- ✓ Lease classification determined at lease commencement
- ✓ Fixed payments and "in substance" fixed payments are identified as payments
- ✓ Executory costs (i.e., insurance, taxes, maintenance) considered
- ✓ Added a 5th criterion to determinate Finance/Capital Lease
- ✓ Asset is recorded at the amount calculated using a discount rate
- ✓ Only expected amounts owed at the end of the lease term should be included as lease payments

ASC 840

- ✓ Lease classification determined at execution
- ✓ Capital lease classification resulted in a liability
- ✓ Operating lease footnote disclosures only
- ✓ Executory costs (i.e., insurance, taxes, maintenance) excluded
- ✓ 4 Criterion tests for Capital vs. Operating Lease
- ✓ Lease < Fair Value
- ✓ Residual value guarantees were included in the minimum lease payments

ASC 842 Takeaways

- Recognition patterns for capital/finance leases are relatively unchanged from ASC 840 to ASC 842. The biggest change for these leases is enhanced disclosures.

- The primary difference in recognition pattern between operating and finance leases is how the ROU asset is amortized.
    - ROU asset for financing leases is amortized over the shorter of their estimated useful lives or the terms of the respective leases, including periods covered by renewal options that the Company is reasonably assured of exercising.
    - ROU asset for operating leases is amortized based on total rental expense compared to the amount representing interest

- Additionally, operating leases result in greater operating cash outflows when compared to finance leases whose cash outflows are considered akin to debt.

ASC 842 Transition Observations

- Two transition methods to choose from:
  - Modified retrospective transition with an initial application at <u>beginning</u> of the earliest period presented – i.e., prior periods and current period are under ASC 842
  - Modified retrospective transition with an initial application at adoption date – i.e., prior periods still under ASC 840(MOST POPULAR)
- Package of three practical expedients selected
- Use of Hindsight Practical expedient was limited
- Other expedients (combining lease/nonlease components, short-term leases) widely elected
- Leases with original terms of more than 12 months <u>do not qualify</u> for the short-term lease transition exemption even if the remaining term at the adoption date is 12 months or less
- Generally limited impact to equity accounts (mostly an asset/liability balance sheet gross up)

ASC 842 Implementation Challenges

- Lease identification and embedded leases
  - Supply agreements / contract manufacturing agreements
  - IT service contracts
  - Outsourcing arrangements
  - Other contracts (e.g., medical device equipment with purchase of consumables)

  Tools to consider in the process: start with leases footnote, supplement with lease questionnaires, GL A/P account reviews, cross functional discussions (legal, accounting, IT, treasury, etc.)

- Data collection
  - Locating lease contracts and related amendments across the organization
  - Data accuracy/ extraction
  - Completeness of population
  - Manual (e.g., spreadsheets) vs. automated (e.g., lease software tool) processing

ASC 842- Implementation Challenges- Continued

- Determining discount rate

  Incremental borrowing rate: rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment

  - Not a one-size-fits-all approach (depends on volume and size of leases and on sensitivity to discount rates)
  - Approaches to consider:
    - Estimate the discount rate using the company's stated or implied credit rating and a market analysis of recently issued debt to companies with a similar credit rating
    - Use interest rate on existing or newly issued debt as data point
    - Adjustments to consider (collateralization, duration of lease, amount of lease payments, etc.)
    - Engage a third-party valuation specialist to assist
  - Lessees that are not PBEs: Ability to use risk-free rate of interest (now by asset class)
- Completeness and accuracy of disclosures required under ASC 842
  - Dependent on lease identification process
  - Consider early during data extraction process

Presentation Observations

- ASC 842 requires operating and finance lease ROU assets and operating and finance lease liabilities to be presented (or disclosed) separately from one another and from other assets and other liabilities
- Some entities have presented operating lease ROU assets in standalone line item; others included it in an existing line item (e.g., other assets) and disclosed separately
- Many entities have disclosed finance lease ROU assets within property, plant and equipment line item
- Some entities have presented operating lease liabilities in standalone line item; others included it in existing line item (e.g., other liabilities)
- Most entities presented finance lease liabilities in existing line item (e.g., debt or other liabilities)

ASC 842- Practical Expedients

- Practical expedients package (must be adopted on an “all or nothing” approach)
    - No reassessment of lease classification.
    - No reevaluation of existing/expired contracts for embedded leases
    - No reassessment of previously recorded initial direct costs.
- Hindsight expedient (lease terms, options, etc.)
- Combination of lease and non-lease components
    - Would just require the PV of fixed consideration to be calculated (i.e., <u>fixed</u> lease payments excluding executory costs such as CAM, insurance, etc.). Can be elected based on the asset class.
- Private company discount rates
    - The risk-free interest rate can be utilized if there is no discount rate implicit in a lease contract.
    - This will result in larger lease liabilities on the balance sheet.
- Land easement expedient – historical treatment applies

Practical Expedients - Discount Rates

- Determining the discount rates for private companies:
    - If a rate implicit in a lease is not readily available, then non-public entities can elect to use a <u>risk-free rate</u> in lieu of determining their incremental borrowing rate.
    - The benefit of using this practical expedient is that it saves entities time and reduces audit risk. The downside is that the risk-free rate will most likely be a lower rate than what a lease’s specific incremental borrowing rate would be, which creates a larger lease liability.
- Incremental borrowing rate: rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment

Practical Expedients – Risk-Free Rate

- Determining the risk-free rate for private companies, when rate implicit is not readily available:

- Based on Treasury rates at date of implementation and commencement date of new leases in 2022
    - Fiscal year-end date matters

- Lease term to use policy election:
    - Remaining term of lease at transition date OR
    - Original term of lease

- RFR Treasury term to use policy election:
    - Rounding up
    - Rounding down
    - Closest to

Practical Expedients – Risk-Free Rate

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/03/2022	0.05	0.06	0.08	N/A	0.22	0.40	0.78	1.04	1.37	1.55	1.63	2.05	2.01

- Example: Original lease term was 15 years with 8 years remaining at date of implementation of 1/3/22
    - Using remaining term and <u>round up</u> policy would result in RFR of 1.63%
    - Using remaining term and <u>round down</u> policy would result in RFR of 1.55%
    - Using <u>original term</u> and round up policy would result in RFR of 2.05%
    - Be consistent with policy and apply to all leases

Related Party Leases

- ASC 842 does apply to all related party leases on the basis of legally enforceable provisions

- What if my lease is not formalized or written down?
    - **Proposed practical expedient is expected**
    - Only written terms and conditions will be considered without regard to being legally enforceable
    - If no written terms or conditions exist, then any verbal or implicit terms and conditions would be used

- Best practice: Formalize your related party leases in writing with all terms and conditions noted

Sale Leaseback Transactions – Big Picture

- Upon implementation date, recognize any deferred gain or loss not resulting from off-market terms as a cumulative adjustment to equity.
- For transactions post implementation date, recognize any deferred gain or loss not resulting from off-market terms in earnings in the period the sale occurred.
- Recognize any deferred loss resulting from the consideration for the sale of the asset **not being at fair value or the lease payments not being at market rates** as an adjustment to the leaseback right-of- use asset at the later of the transition date and the date of the sale of the underlying asset.
- Recognize any deferred gain resulting from the consideration for the sale of the asset **not being at fair value or the lease payments not being at market rates** as a financial liability at the later of the transition date and the date of the sale of the underlying asset.

"Day 2" Considerations

Lessee (Finance & Operating) – Subsequent Accounting

	Finance Leases		Operating Leases	
	ROU Asset	Lease Liability	ROU Asset	Lease Liability
Balance Sheet	Typically amortized on a straight-line basis to the earlier[1] of the end of its useful life or lease term	Increases to reflect interest using the effective interest method and decreases for lease payments made	Amortize based on the difference between periodic straight line lease cost (including amortization of initial direct costs) and the periodic interest accretion	Increases to reflect interest using the effective interest method and decreases for lease payments made
Income Statement	Recognize amortization expense[2]	Recognize interest expense on the lease liability and any variable lease payments incurred	Recognize straight-line rent expense and any variable lease payments incurred and not included in the lease liability[2]	

1) If the lease transfers ownership of the underlying asset to the lessee or the lessee is reasonably certain to exercise an option to purchase the underlying asset, the lessee amortizes the right-of-use asset to the end of the useful life of the underlying asset.
2) If the ROU asset is impaired under ASC 360, an impairment loss is also recognized. For operating leases, recognition in the income statement post-impairment no longer is on a straight-line basis (but still recognized as a single lease cost).

Day 2: Commencement Date for New Leases in 2022

- ROU asset and lease obligation is accounted for at commencement date

- Commencement date is defined as the date which a lessor makes the underlying asset available for use by the lessee
    - For most companies, this is the date you receive control to start construction
    - Similar to old guidance
    - Free rent period typically during construction for which an expense is recognized

Day 2: Lease Classification for New Leases in 2022

- Lease classification is governed by five criteria. If any of the five criteria in ASC 842-10-25-2 are met, a lessee should classify the lease as a finance lease:
  1. Does the lease transfer ownership by the end of the lease?
  2. Does the lease grant the lessee an option of purchase underlying asset that the lessee is reasonably certain to exercise?
  3. Is the lease term for a major part of the remaining economic life of underlying asset?
  4. Is the present value of the sum of the lease payments and any residual value guaranteed by the lessee, that is not otherwise included in the lease payments, substantially all of the fair value of the underlying asset?
  5. Is the underlying asset of such a specialized nature that it is expected to have not alternative use to the lessor at the end of the lease term?
- Any "YES" answer above is considered a Finance Lease

Day 2: Change in Lease Term & Assessment of Purchase Option

- A significant event or change in circumstances within the lessee's control directly affects whether the lessee is reasonably certain to exercise (or not to exercise) an option
- There is an event written into the contract that obliges the lessee to exercise (or not to exercise) an option to extend or terminate the lease
- The lessee elects to exercise an option even though the entity had previously determined that the lessee was not reasonably certain to do so
- The lessee elects not to exercise an option even though the entity had previously determined that the lessee was reasonably certain to do so

Examples of significant events or changes in circumstances within the lessee's control include:

- Constructing leasehold improvements that are expected to have significant value when the option becomes exercisable;
- Making significant modifications or customizations to the underlying asset;
- Making a business decision that is directly relevant to the ability to exercise an option such as extending the lease of a complementary asset; and
- Subleasing the underlying asset for a period beyond the exercise date of the option.

Day 2: Remeasurements (Excluding Modifications)

Remeasurement Event	Accounting Applicable to All Remeasurement Events	Update the Discount Rate?	Reassess Lease Classification?
A change in the lease term or the assessment of whether the lessee is reasonably certain to exercise a purchase option	▸ Remeasure the lease payments and the consideration in the contract, ▸ Reallocate the consideration to the lease and nonlease components (unless the practical expedient not to separate is elected), and ▸ Remeasure the lease liability and recognize the remeasurement amount as an adjustment to the ROU asset. ▸ However, if the carrying amount of the ROU asset is reduced to zero, the remaining amount is recognized in profit or loss.	Yes, unless the discount rate already reflects a lessee's extension, termination or purchase option	Yes
A contingency upon which some or all of the variable lease payments in the lease are based is resolved such that those payments become fixed		No	No
A change in the amount probable of being owed to the lessor under a residual value guarantee		No	No

Day 2: Modifications Accounting

<table>
<tr><th>Type of Modification</th><th>General Accounting</th><th>Additional Guidance</th></tr>
<tr><td>Grants the lessee an additional right-of-use not included in the original contract and the lease payments are not commensurate with standalone price</td><td rowspan="4">▸ Remeasure the lease payments and the consideration in the contract,
▸ Reallocate the remaining consideration to the lease and nonlease components (unless the practical expedient to not separate is elected),
▸ Update the discount rate for the lease,
▸ Remeasure the lease liability, and
▸ Reassess lease classification and update the subsequent accounting for the lease accordingly.</td><td rowspan="3">▸ Recognize the remeasurement amount of the lease liability as an adjustment to the right-of-use asset.
▸ However, if the carrying amount of the right-of-use asset is reduced to zero, the remaining amount is generally recognized in profit or loss.</td></tr>
<tr><td>Extends or reduces the term of an existing lease, other than through exercise of an option in the original contract</td></tr>
<tr><td>Changes the consideration in the contract only</td></tr>
<tr><td>Fully or partially terminates an existing lease (for example, reduces the assets subject to the lease)</td><td>▸ Decrease carrying amount of ROU asset on a basis proportionate to full or partial termination. Any difference between the reduction in lease liability and proportionate reduction in ROU asset is recognized as a gain or loss at the modification’s effective date.
▸ ASC 842 provides two acceptable methods for determining the proportional reduction in the ROU asset (see illustration in Example 6.9).</td></tr>
</table>

Day 2: Right-of-Use Asset Impairment Considerations

- A lessee determines whether an ROU asset is impaired and recognizes any impairment loss by applying ASC 360-10-35 on impairment or disposal of long-lived assets.
- Under ASC 360-10-35, an asset group is tested for impairment when events or changes in circumstances indicate that the asset group may not be recoverable.
- Impairment assessment is performed at the asset group level, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities
- An entity may choose to include or not include <u>operating</u> lease payments and liabilities in its estimate of future undiscounted cash flows and carrying amount of the asset group, but it must be consistent.
  - **Remember: If operating lease ROU asset is impaired, recognition in the income statement post-impairment no longer is on a straight-line basis (but still recognized as a single lease cost)**
- Abandonment & sublease of an asset considerations
  - **Reassess lease term?**
  - **Indicator of impairment?**
  - **ROU asset its own asset group for purposes of testing for impairment?**
  - **Update estimate of remaining useful life of ROU asset and other PP&E?**

Day 2: Right-of-Use Asset Impairment Considerations (Cont.)

Lease liabilities - performing Step 1 (recoverability test) and Step 2 (fair value of asset group)

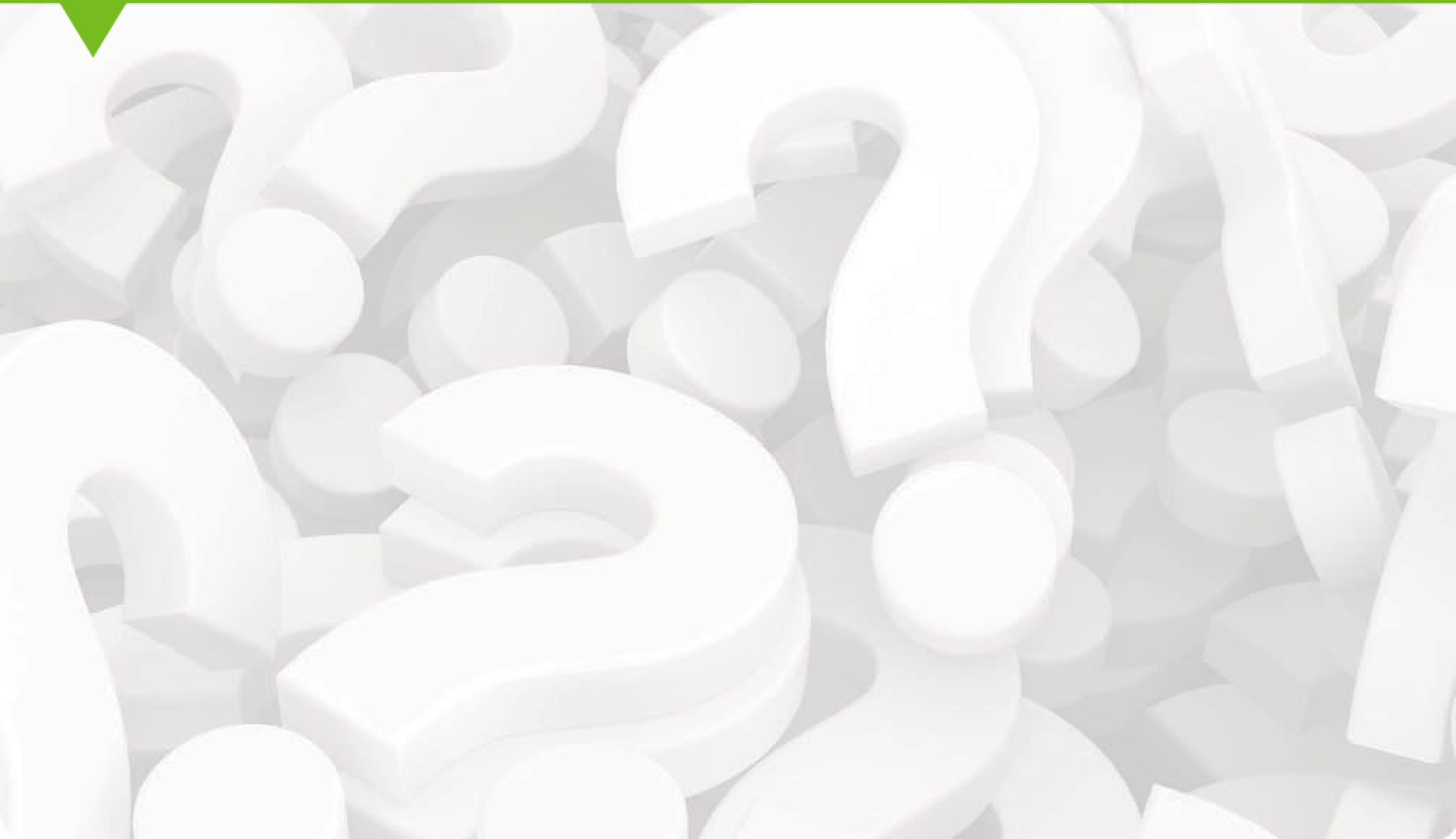
- Finance leases – Always exclude.
- Operating leases – Potential approaches (apply consistently):

	Approach A	**Approach B**	**Approach C**
Step 1 - carrying amount of asset group	Exclude operating lease liability	Include operating lease liability	Include operating lease liability
Step 1 - undiscounted cash flows	Exclude lease payments	Include lease payments - But exclude interest accretion	Include lease payments - And include interest accretion
Step 2 – fair value (DCF approach)[a, b]	Same approach as Step 1 above	Same approach as Step 1, but include total lease payments	Same approach as Step 1 above

a. Use market participant assumptions (Step 2) rather than entity specific assumptions (Step 1)

b. In allocating the impairment loss to the long-lived assets (i.e., pro rata allocation and FV limitation), consider the ROU asset without the lease liability.

Questions?



Understanding and Accounting for Bitcoin and Other Cryptocurrencies

Speaker

Chris Mast, CPA, CCIFP
Senior Manager, Assurance & Business Advisory Services
614.947.5303
cmast@gbq.com

Disclaimer

The content of this presentation is provided as general information only and should not be taken as investment advice. All discussion content shall not be construed as a recommendation to buy or sell any security or financial product, or to participate in any particular trading or investment strategy.

Current Value – As of 11/12/22

Bitcoin to United States Dollar

16,840.40 ↑5,049.97% +16,513.40 MAX

Nov 12, 7:15:00 PM UTC · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

Content Overview

This presentation will be an overview of:

- A brief history of money
- The advent of Bitcoin
- Bitcoin and its use of blockchain
- Accounting guidance

Why Should I Care?

- New form of ledger
- Payment acceptance
- Enhancing traditional Treasury activities
- Inflation hedge

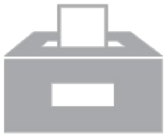
Potential applications

Automotive

Consumers could use the blockchain to manage fractional ownership in autonomous cars.

Financial services

Faster, cheaper settlements could shave billions of dollars from transaction costs while improving transparency.



Voting

Using a blockchain code, constituents could cast votes via smartphone, tablet or computer, **resulting in immediately verifiable results.**

Healthcare

Patients' encrypted health information could be shared with multiple providers without the risk of privacy breaches.

Why Should I Care?

Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average (CUUR0000SA0R)

DOWNLOAD

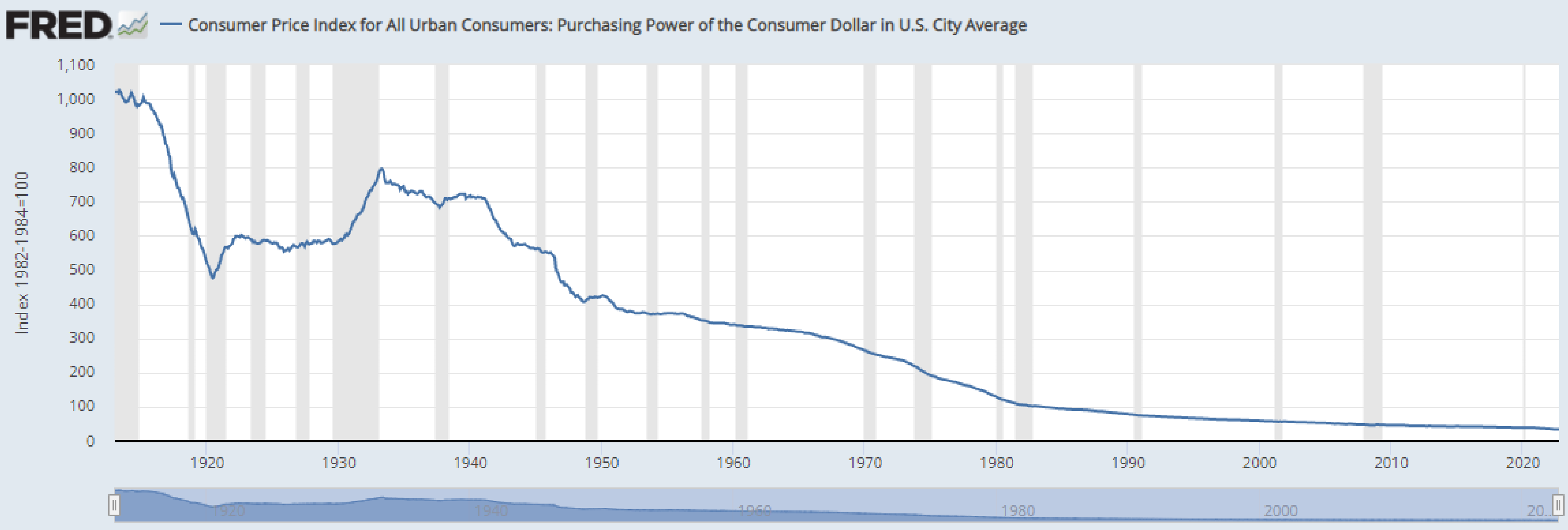
Observation:
Oct 2022: 33.6 (+ more)
Updated: 7:37 AM CST

Units:
Index 1982-1984=100,
Not Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max 1913-01-01 to 2022-10-01

EDIT GRAPH



Shaded areas indicate U.S. recessions. Source: U.S. Bureau of Labor Statistics fred.stlouisfed.org

GBQ

Why Should I Care?

M1 for the United States (MANMM101USM189S)

DOWNLOAD

Observation:
Jul 2022:
20,514,700,000,000.00000 (+ more)
Updated: Sep 14, 2022

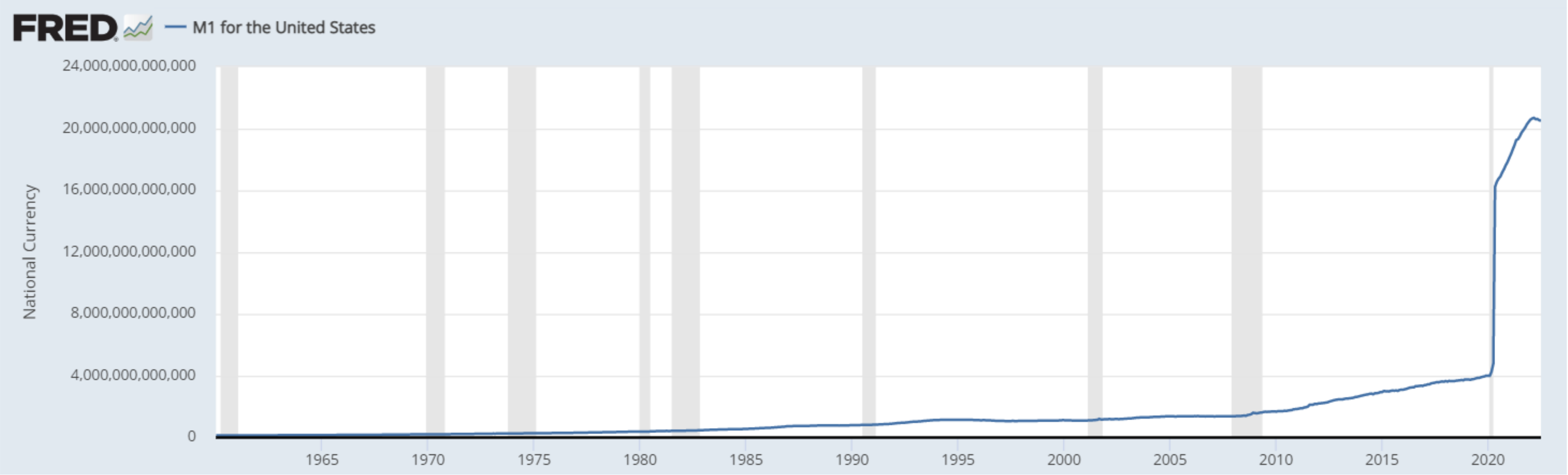
Units:
National Currency, Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max

1960-01-01 to 2022-07-01

EDIT GRAPH



A Brief History of Money

Barter System

4 ISSUES WITH BARTER SYSTEM

1. LACK OF DOUBLE COINCIDENCE OF WANTS

Double Coincidence of Wants means what one person wants to sell and buy must coincide with what some other person wants to buy and sell. It's difficult to have a constant supply of other traders who want to trade with another for the same goods.

2. LACK OF COMMON MEASURE OF VALUE

There is no fair or accurate measurement of the value of one traded item relative to the other. For example: not everyone thinks 1 cow is worth 10 chickens.

3. STORING & TRANSPORTING ISSUES

There is no fair or accurate measurement of the value of one traded item relative to the other. For example: not everyone thinks 1 cow is worth 10 chickens.

4. INDIVISIBILITY OF GOODS

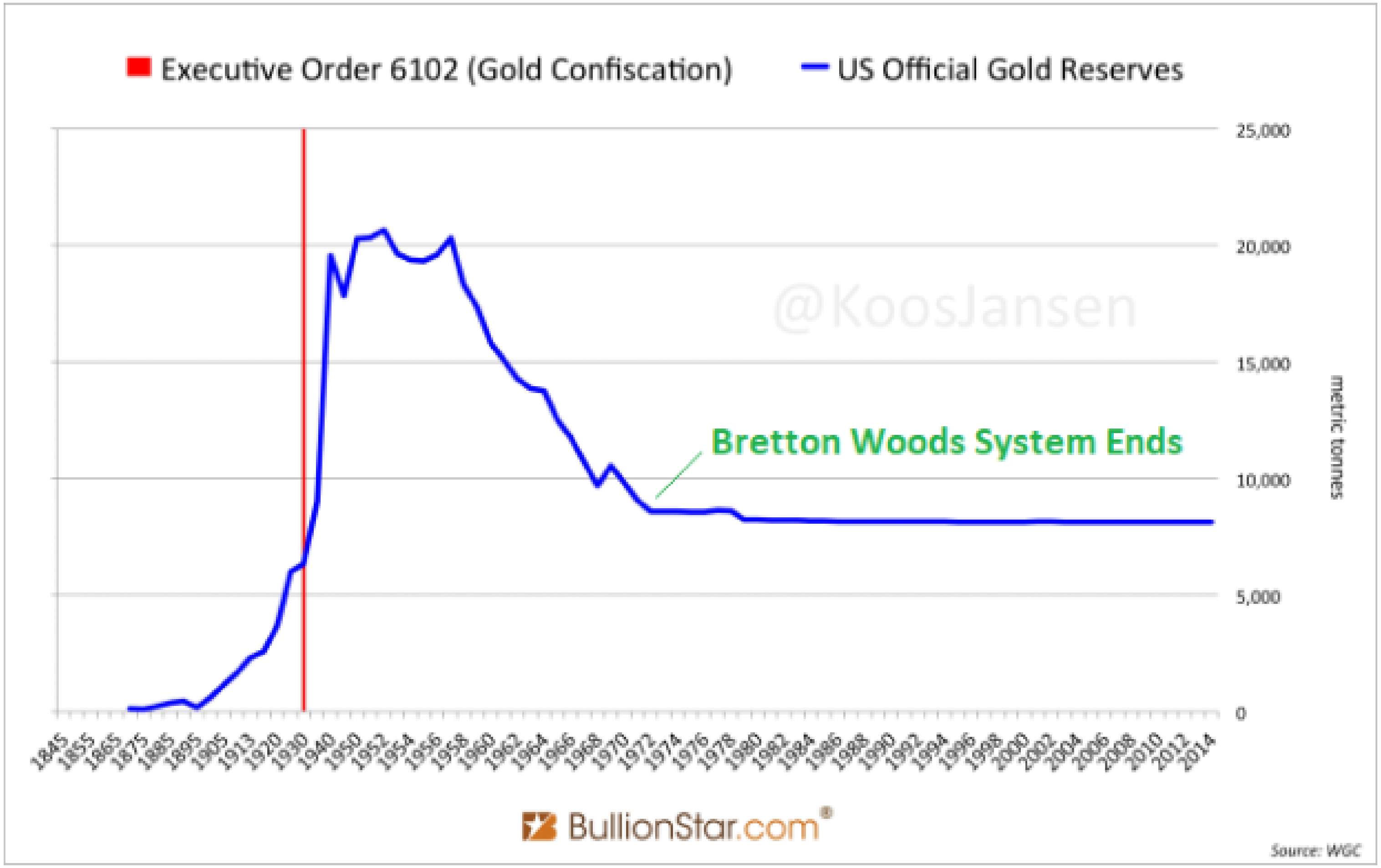
If a trader wants to sell his goat and get in exchange silk equal to the value of half of his goat, he cannot do so without killing his goat.

The Gold Standard System (1879-1944)

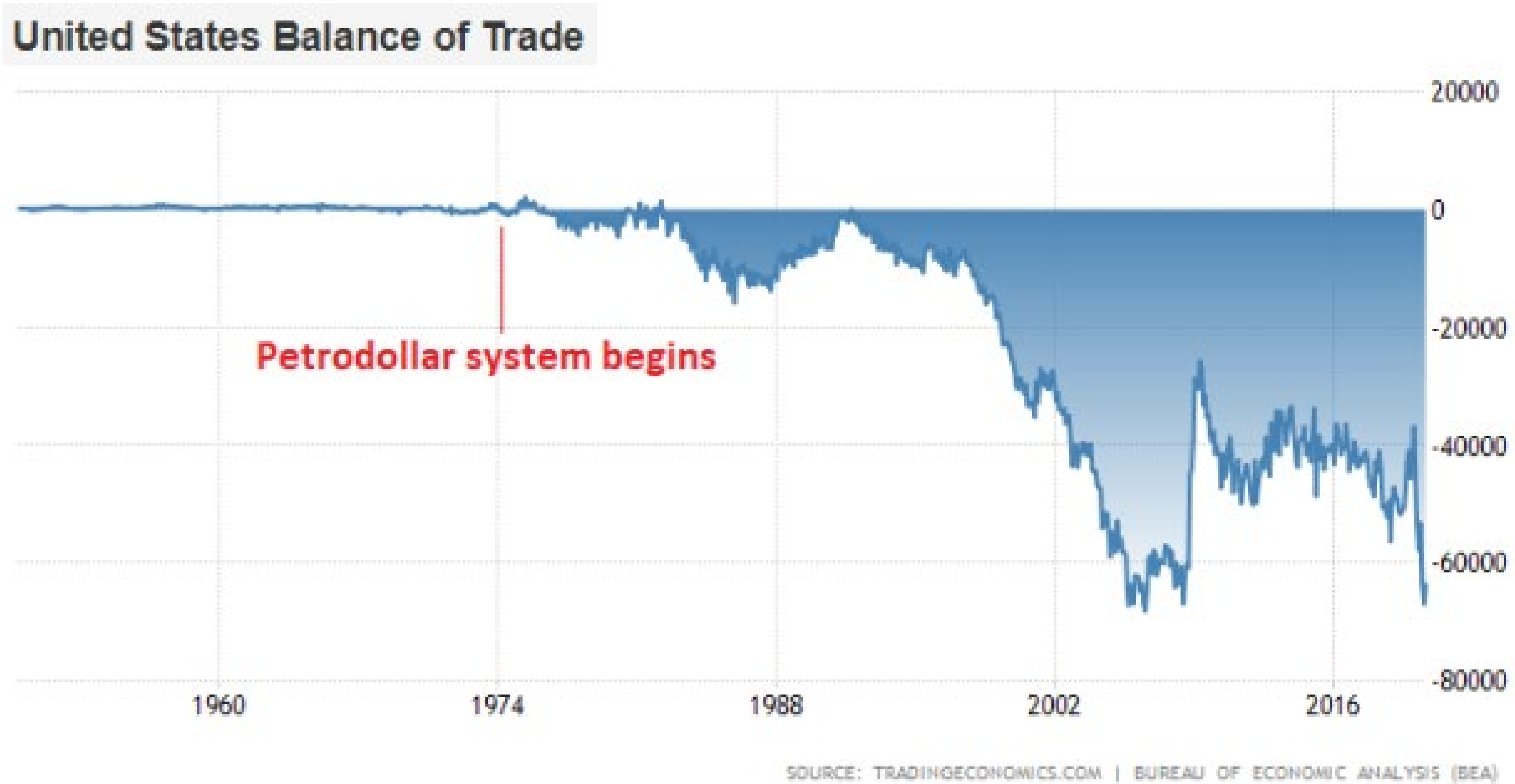
The Bretton Woods System (1944 - 1971)

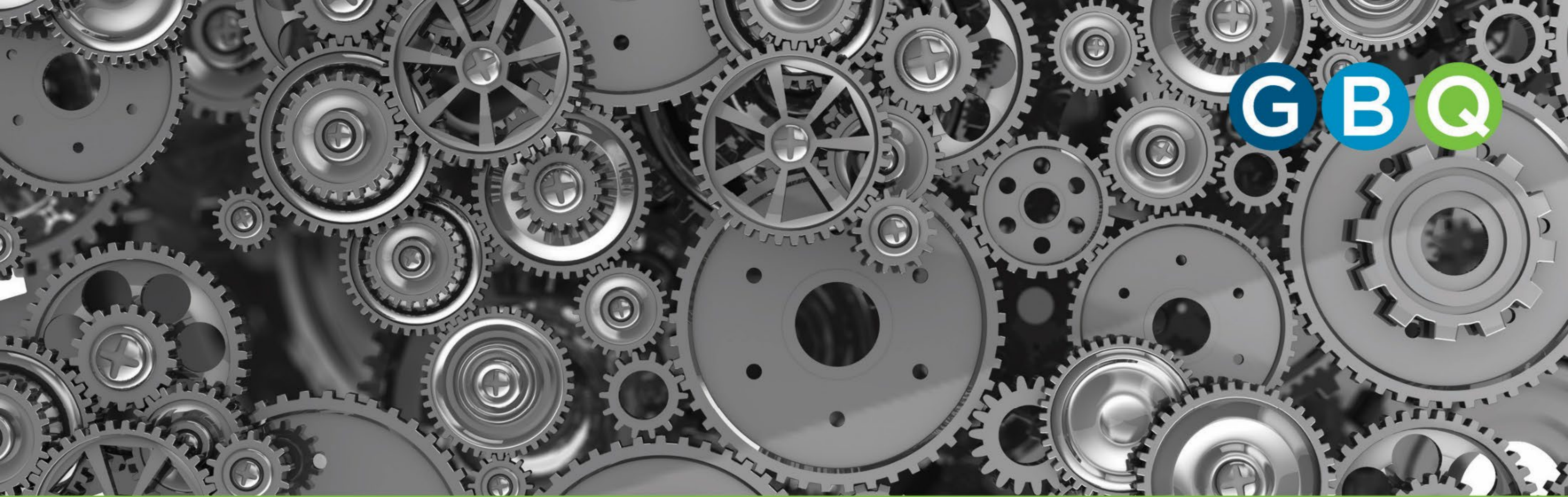
Fiat / Petrodollar System (1974 - present)

This chart shows US gold reserves as measured in metric tonnes:



Fiat / Petrodollar System (1974 - present)





The Advent of Bitcoin

Financial Crisis of 2008

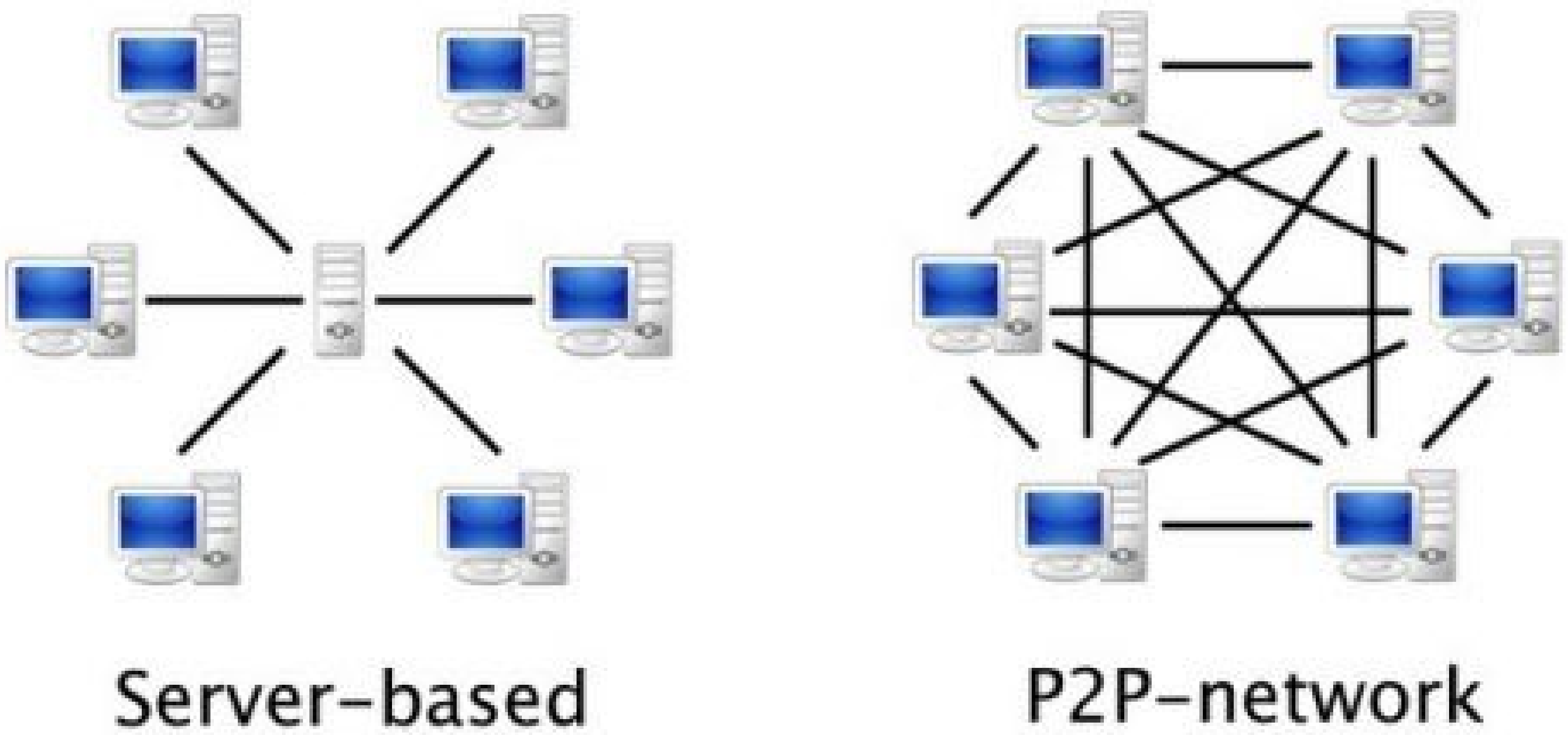
Bitcoin Whitepaper

Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto
satoshin@gmx.com
www.bitcoin.org

Abstract. A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

Server-based vs. P2P Network



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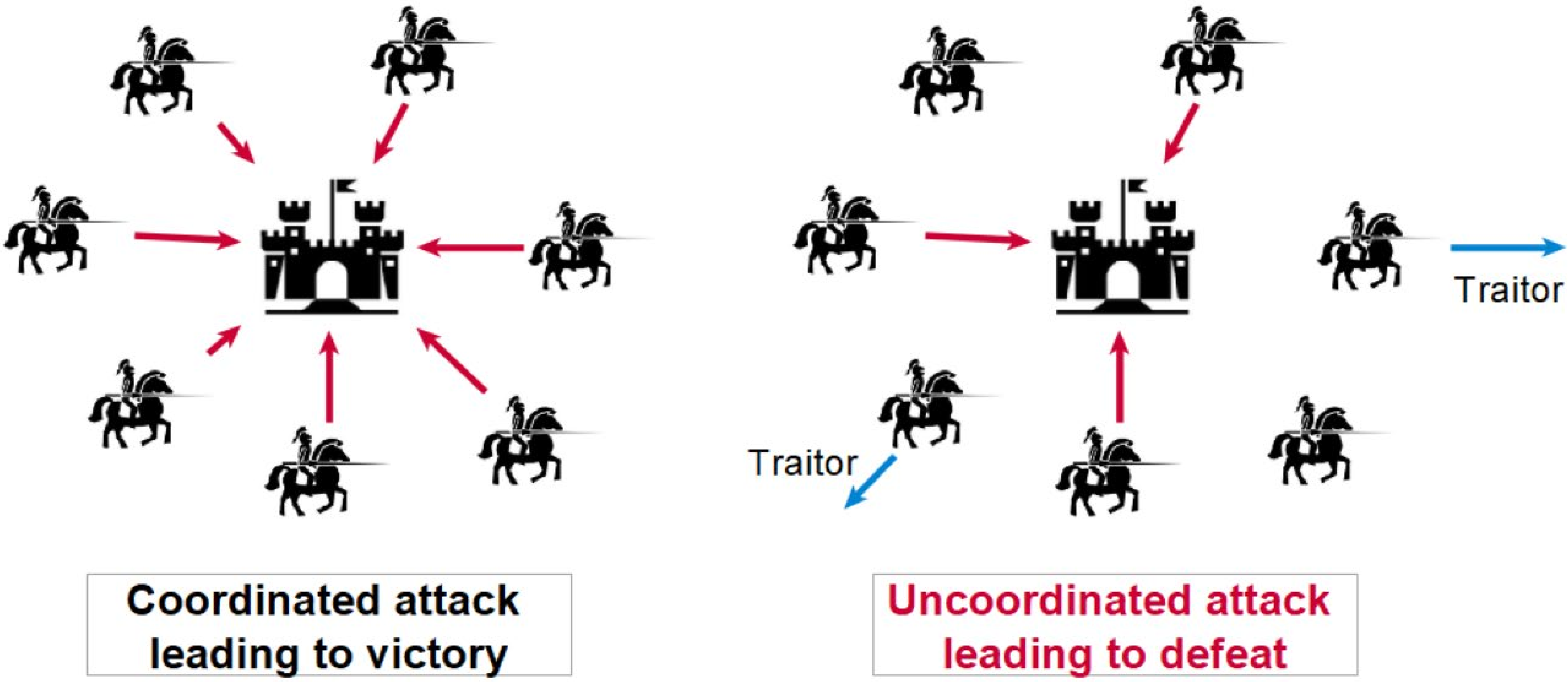
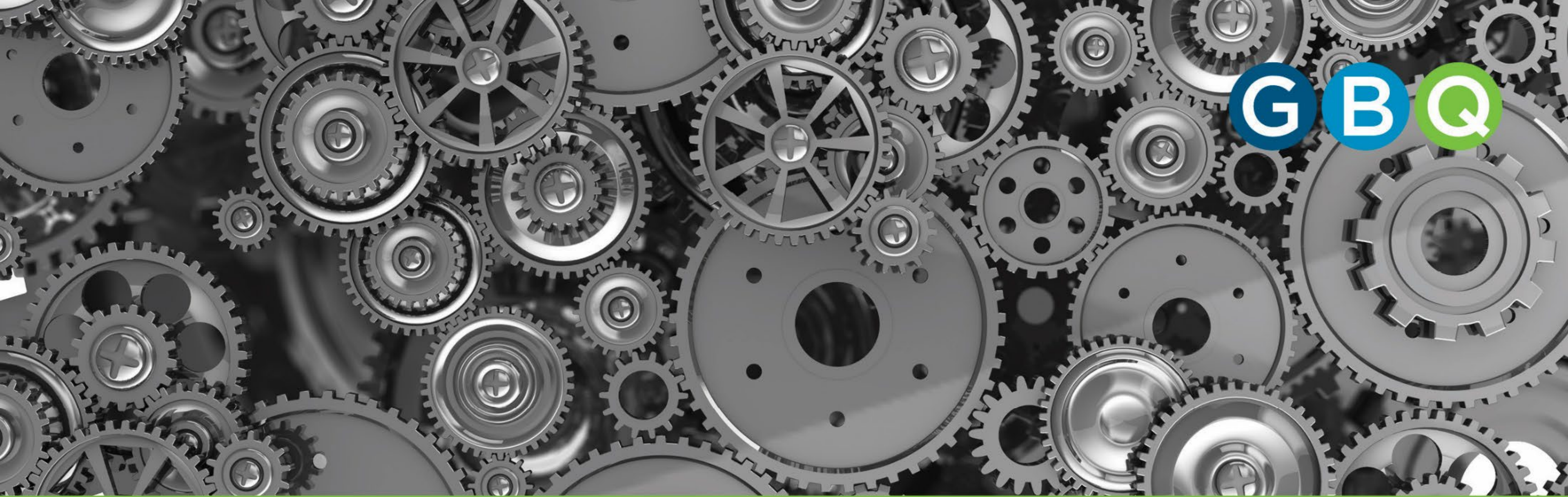
Double Spend – “Byzantine Generals’ Problem”





Bitcoin and its Use of Blockchain

Bitcoin Whitepaper

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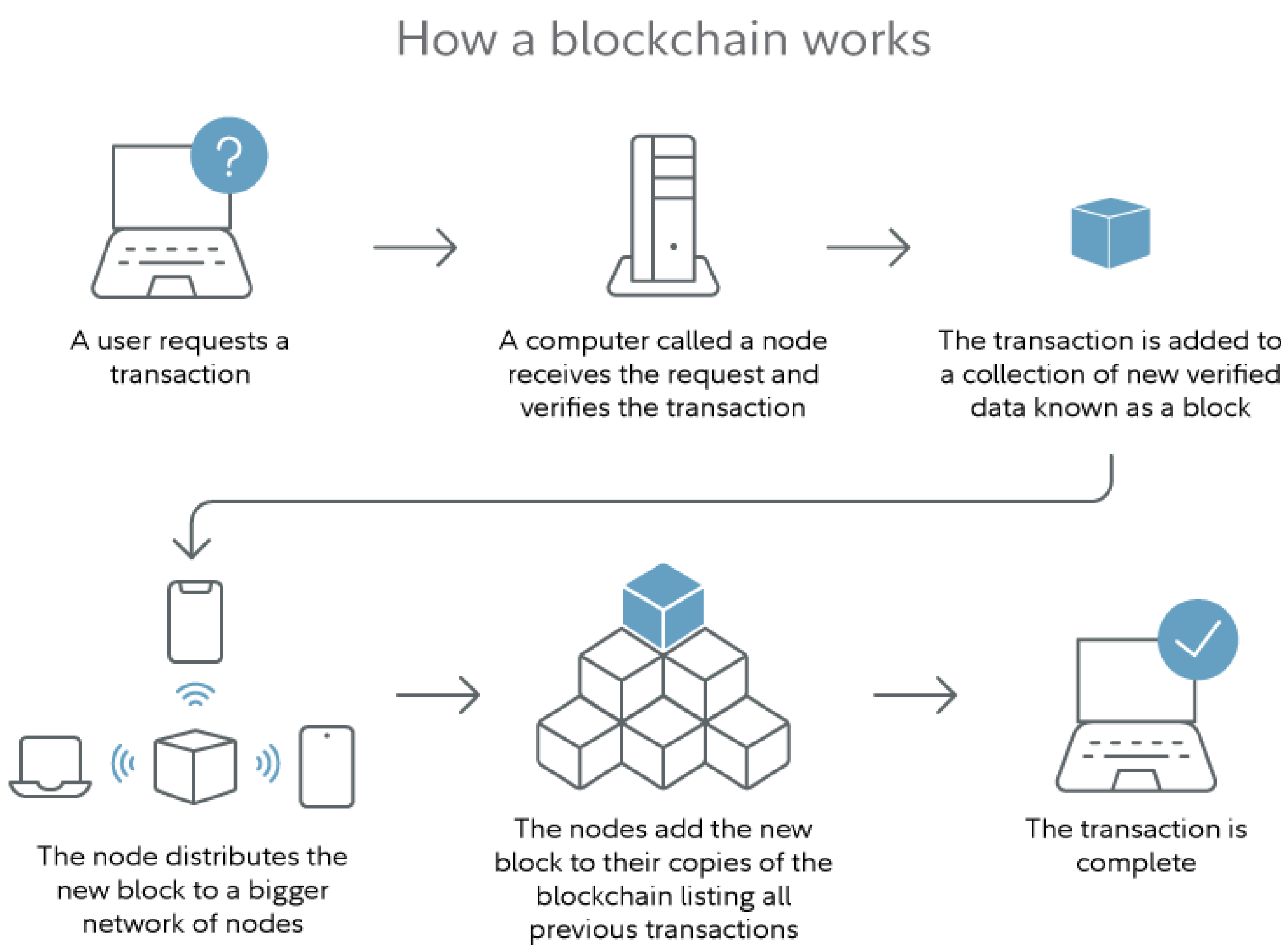
Summary of a Blockchain Transaction



Nodes

GLOBAL BITCOIN NODES DISTRIBUTION

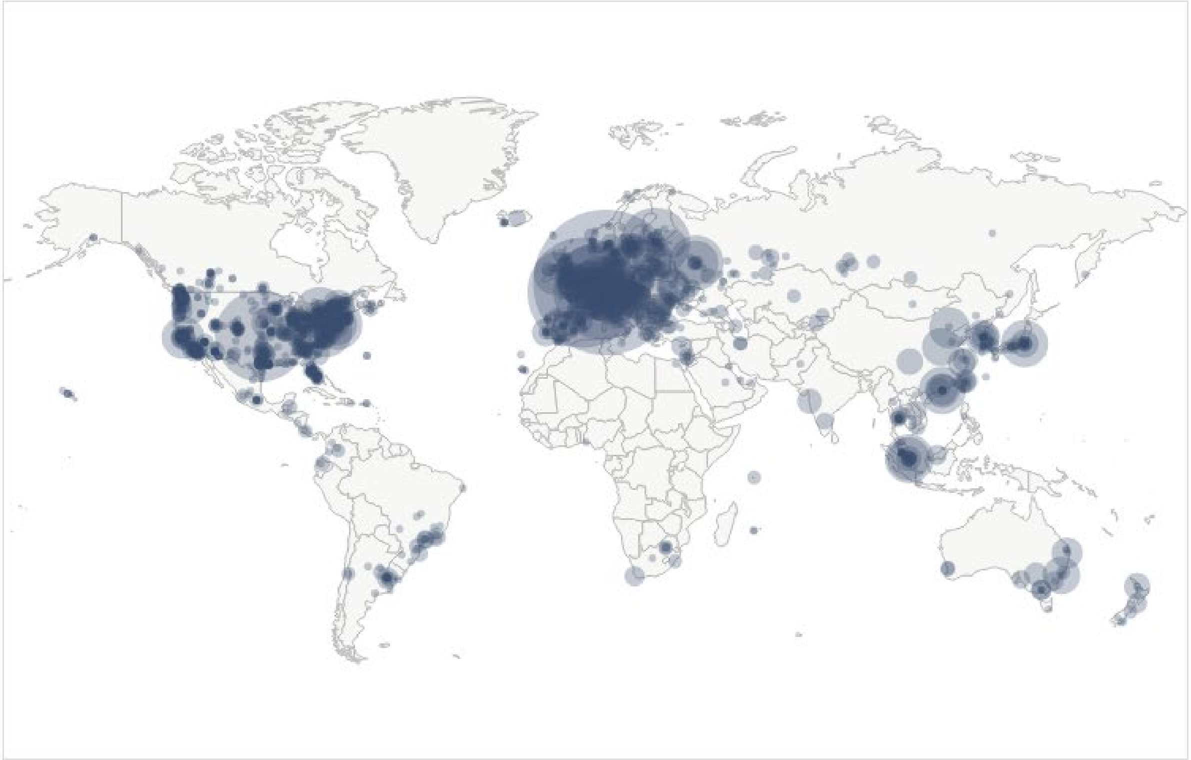
Reachable nodes as of Thu Jul 15 2021 14:22:36 GMT-0400 (Eastern Daylight Time).

12970 NODES

24-hour charts »

Top 10 countries with their respective number of reachable nodes are as follow.

RANK	COUNTRY	NODES
1	n/a	5615 (43.29%)
2	United States	1819 (14.02%)
3	Germany	1659 (12.79%)
4	France	551 (4.25%)
5	Netherlands	414 (3.19%)
6	Canada	303 (2.34%)
7	United Kingdom	245 (1.89%)
8	Russian Federation	207 (1.60%)
9	Finland	170 (1.31%)
10	Switzerland	159 (1.23%)



Map shows concentration of reachable Bitcoin nodes found in countries around the world.

Blockchain Transaction - Step 1

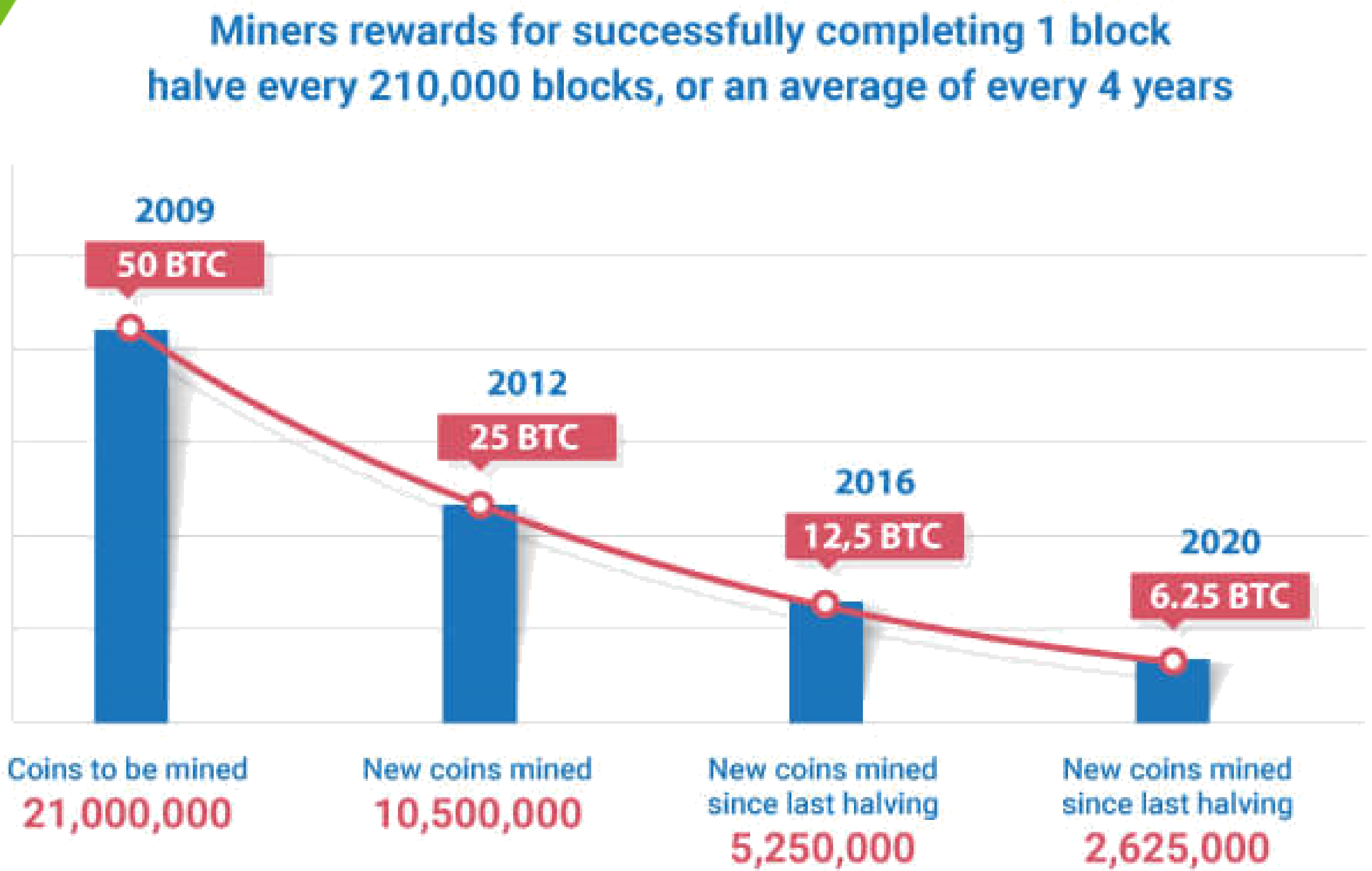
User signs off on a transaction from their wallet application, attempting to send bitcoin from them to someone else

Blockchain Transaction - Step 2

Transaction is broadcasted by the wallet application and waits in a pool of unconfirmed transactions until a miner picks it up

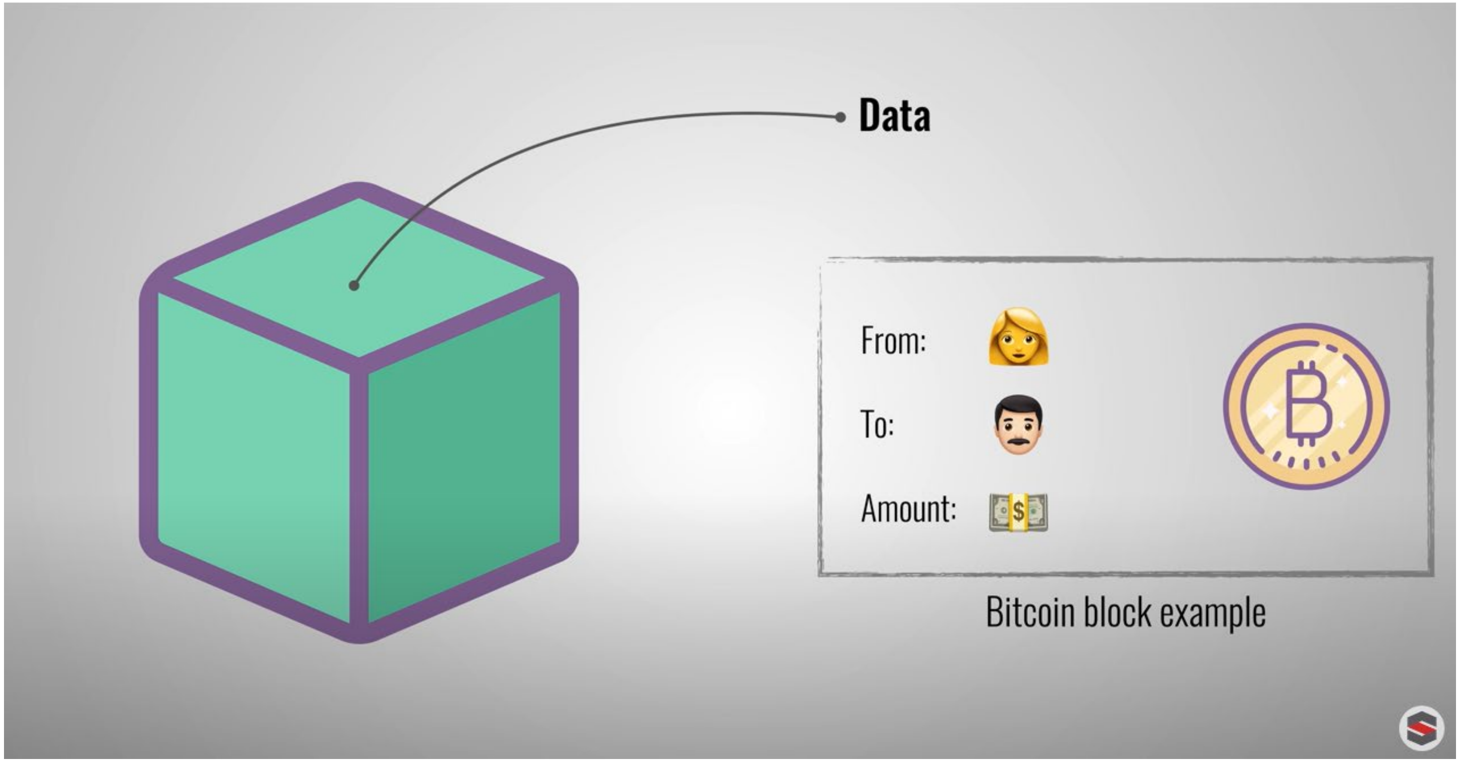
What is a Miner?

Mining Reward



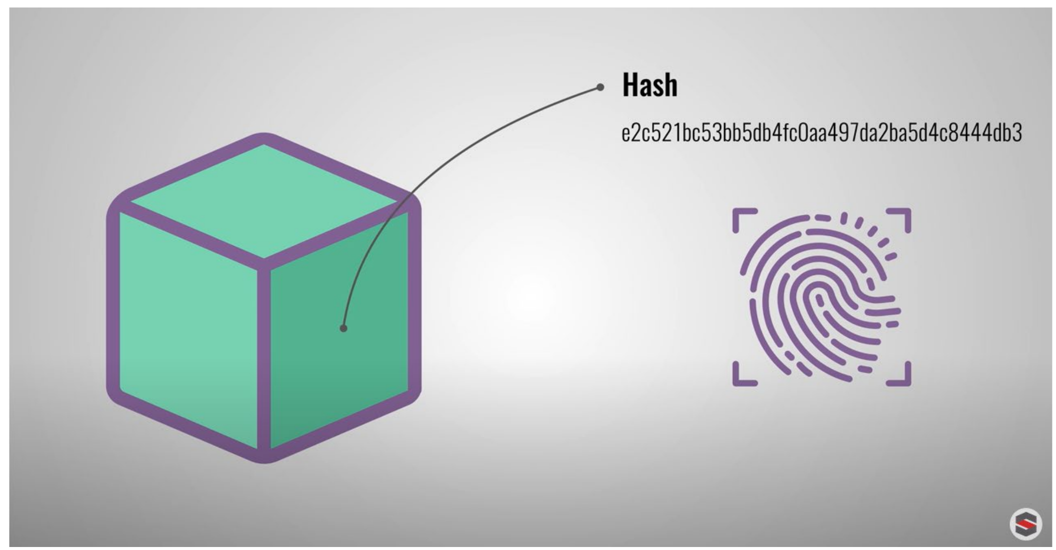
Blockchain Transaction - Step 3

Miners select transactions from the pool and form them into a block. Every miner constructs their own block of transactions. Multiple miners can select the same transactions in their block.



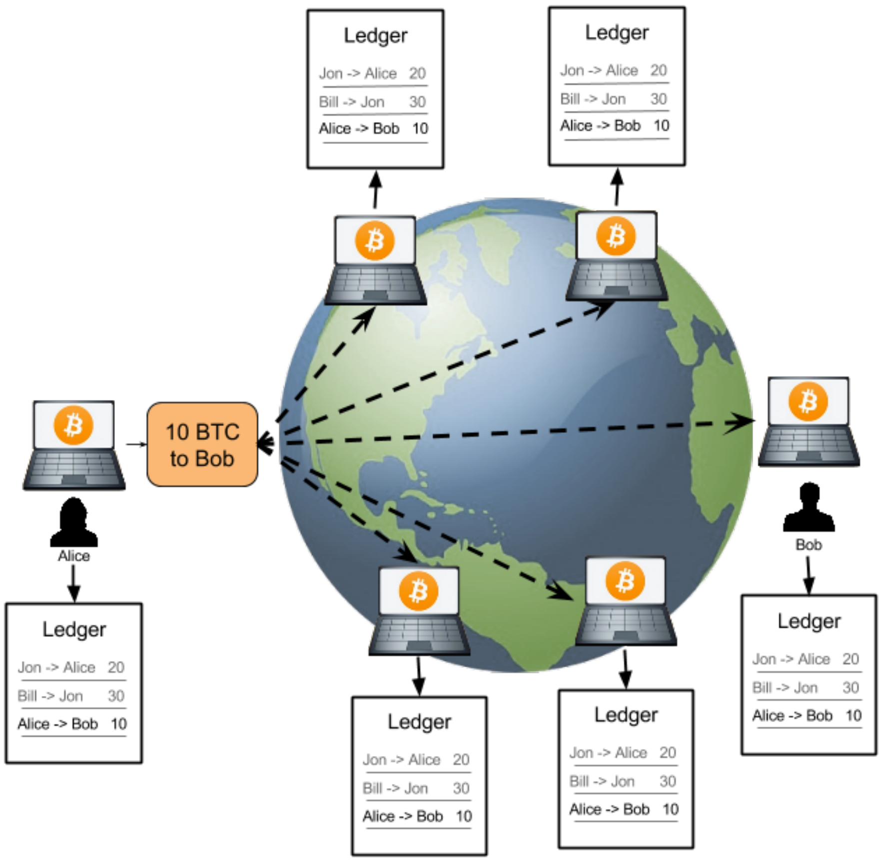
Blockchain Transaction - Step 4

To add their block of transactions to the blockchain, miners need a signature. The signature is created by solving a complex mathematical problem that is unique to each block. This takes a lot of computational power (proof of work).



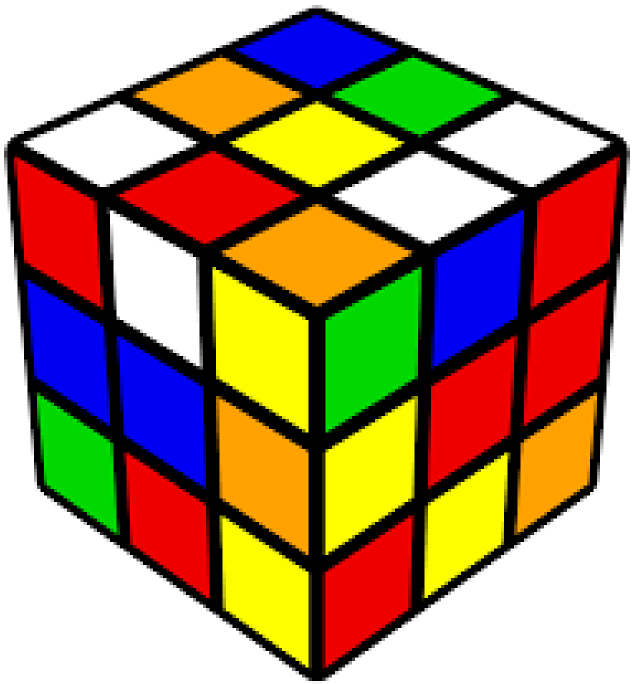
Blockchain Transaction - Step 5

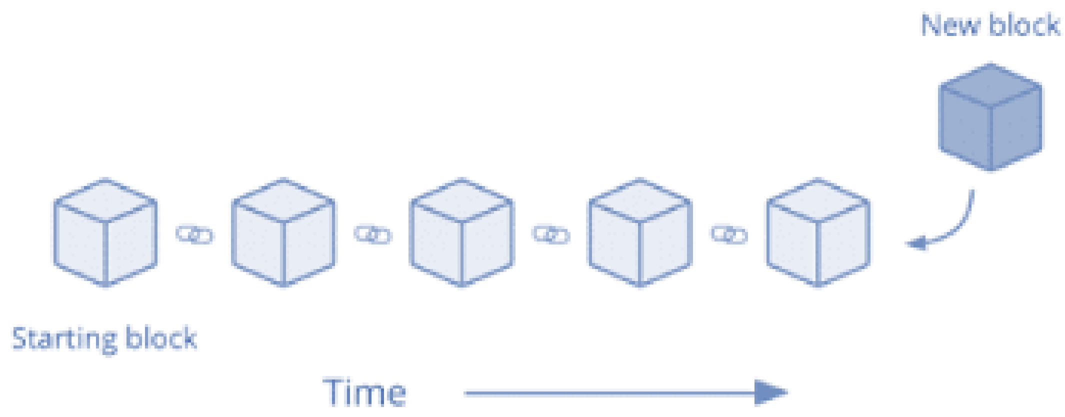
The miner that finds an eligible signature for its block first, broadcasts the block and its signature to all other miners.



Blockchain Transaction - Step 6

Other miners verify the signature's legitimacy (hard to solve, easy to verify). If it is valid, the block is added to the blockchain and is distributed to all other nodes on the network.





Bitcoin Whitepaper

Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto
satoshin@gmx.com
www.bitcoin.org

Abstract. A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

Cost of a 51% Attack

PoW 51% Attack Cost

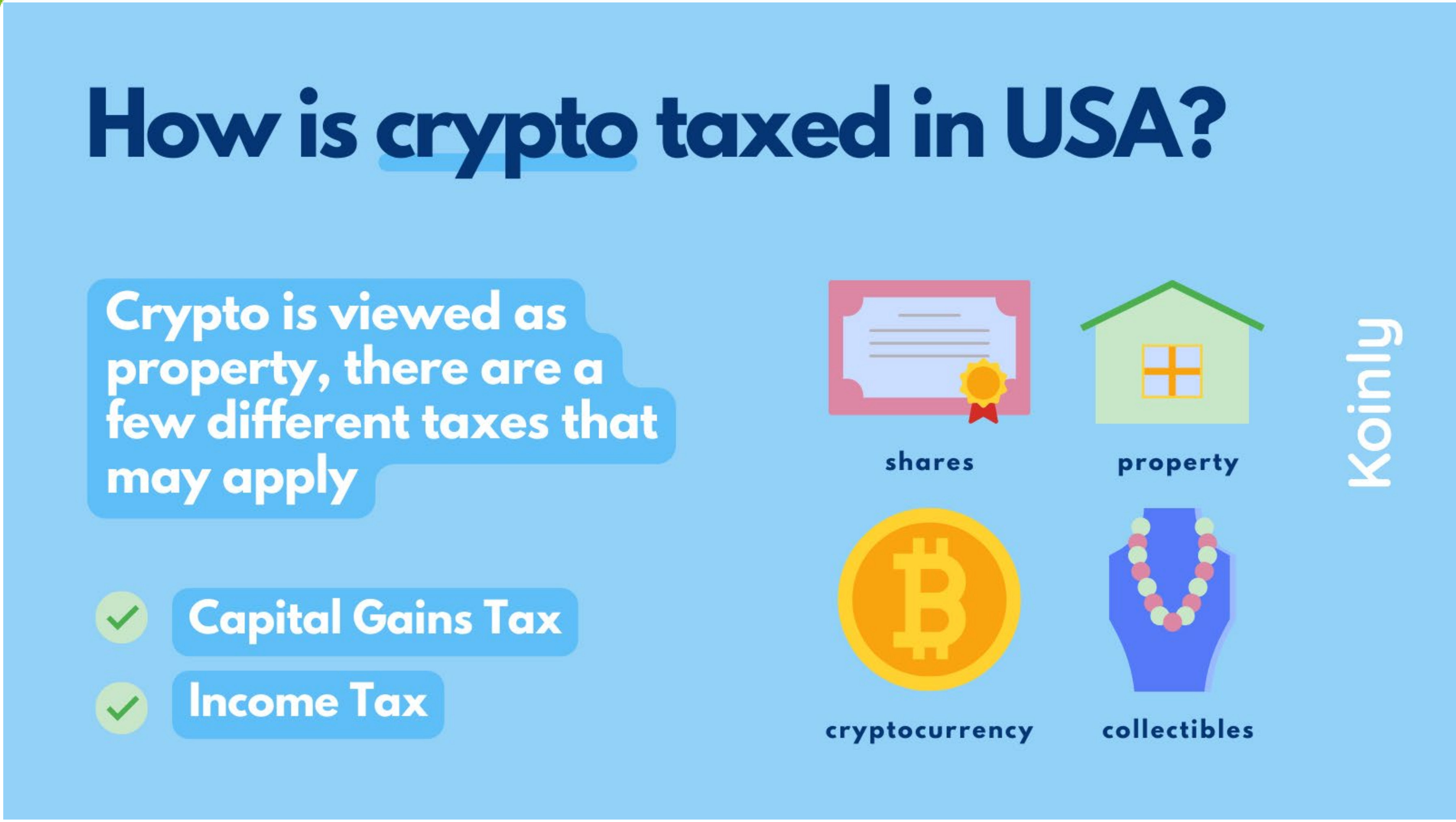
This is a collection of coins and the theoretical cost of a 51% attack on each network.

Learn More

Name	Symbol	Market Cap	Algorithm	Hash Rate	1h Attack Cost	NiceHash-able
Bitcoin	BTC	$401.87 B	SHA-256	285,060 PH/s	$\boxed{\$937,230}$	0%
Litecoin	LTC	$4.01 B	Scrypt	537 TH/s	*$70,126*	8%
EthereumClassic	ETC	$3.62 B	Etchash	145 TH/s	*$17,754*	6%
BitcoinCash	BCH	$2.28 B	SHA-256	1,624 PH/s	*$5,338*	12%
BitcoinSV	BSV	$933.66 M	SHA-256	598 PH/s	*$1,967*	33%

Accounting Guidance

Accounting – Taxes



Accounting – Taxes

INCOME TAX	CAPITAL GAINS TAX	TAX FREE
Mining crypto	Selling crypto	Buying crypto
Earning interest	Trading or exchanging crypto	Gifting crypto to friends and family (up to $15,000)
Receiving an Airdrop	Trading stablecoins	Donating crypto (over $500 needs to be reported)
Receiving a new coin from a fork	Participating in an ICO / IEO	Transferring crypto between your own wallets
Signup or referral bonus	Paying for something online	
Getting paid in crypto	Margin trading	
Gambling with crypto	Futures, contracts, options trading with crypto	

Accounting – What is Proper Under GAAP?

AICPA

Report
August 22, 2018

Center for Plain English Accounting

AICPA's National A&A Resource Center

Accounting for Bitcoin and Other Cryptocurrencies

By: Russ Madray and Mike Austin

Cryptocurrency is a new type of payment method that is distinctly different from fiat currencies, such as the U.S. dollar. Fiat currency has no intrinsic value and has worth only because a government maintains its value, or because parties engaging in exchanges agree on its value. A "cryptocurrency" is digital, or virtual currency, and is designed to work as a medium of exchange. It uses cryptography to secure and verify transactions as well as to control the creation of new units of a particular cryptocurrency.

Accounting - What is Proper Under GAAP?

Accounting for Cryptocurrency Transactions

With a growing number of companies accepting Bitcoins (e.g., PwC, EY, Amazon, Target, Overstock.com, CVS, Subway, Home Depot, and K-Mart), questions arise as to the proper accounting for these transactions. If a company accepts Bitcoins as a method of payment, what should the accounting look like? What is the entity receiving? Unfortunately, U.S. GAAP does not currently provide guidance on accounting for cryptocurrencies.

Accounting - Cash and Cash Equivalents?

First and foremost, despite being referred to as a currency, cryptocurrency would not be considered cash for financial reporting purposes. The Accounting Standards Codification (ASC) Master Glossary indicates that cash "includes not only currency on hand but demand deposits with banks or other financial institutions." Cryptocurrencies can be used as a medium of exchange if both parties agree to the exchange; however, they are not backed by a sovereign government and do not represent legal tender. Similarly, cryptocurrencies do not meet the definition of foreign currency for the same reasons. Further, cryptocurrencies are not cash equivalents because they are not readily convertible to known amounts of cash and they have more than an insignificant risk of change in value.

Accounting - Financial Assets?

Some have suggested that cryptocurrencies are financial instruments, or, more specifically, financial assets. However, cryptocurrencies are not financial assets because they are not "cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either receive cash or another financial instrument from a second entity; or exchange other financial instruments on potentially favorable terms with the second entity."

Accounting - "Inventory"

In some cases, cryptocurrencies are purchased or mined and held for sale in the ordinary course of business in a manner similar to that of commodities brokers. As such, an argument may be made that cryptocurrencies have some of the characteristics of inventory. However, the ASC Master Glossary defines inventory as "the aggregate of those items of tangible personal property that have any of the following characteristics: (a) held for sale in the ordinary course of business; (b) in process of production for such sale; (c) to be currently consumed in the production of goods or services to be available for sale." Since cryptocurrencies are not tangible assets, they do not meet the definition of inventory.

Accounting - Intangible Asset?

Ultimately, the best fit for cryptocurrencies under current U.S. GAAP is to account for them as intangible assets. The ASC Master Glossary defines intangible assets as "assets (not including financial assets) that lack physical substance." Cryptocurrencies are not financial assets, as explained above, and they lack physical substance. As a result, accounting for cryptocurrencies as intangible assets requires that they be initially recorded at cost, subject to impairment. Since cryptocurrencies have no prescribed life, they would be classified as indefinite-lived intangible assets. Accordingly, the cryptocurrency must be tested for impairment at least annually and more frequently if events or changes in circumstances indicate that it is more likely than not that it is impaired (e.g., a decline below cost in a quoted price on an exchange may be an event indicating it is more likely than not that a cryptocurrency is impaired).

CPEA Observation: The intangible asset model will capture only declines in value of the cryptocurrency, not increases.

Accounting Disclosure - Microstrategy 10K

From Microstrategy 10K
“During the years ended December 31, 2021 and 2020, respectively, the Company incurred $830.6 million and $70.7 million of impairment losses on its bitcoin. As of December 31, 2021, the carrying value of the Company’s approximately 124,391 bitcoins was $2.850 billion, which reflects cumulative impairments of $901.3 million. The carrying value represents the lowest fair value (based on Level 1 inputs in the fair value hierarchy) of the bitcoins at any time since their acquisition. Therefore, these fair value measurements were made during the period from their acquisition through December 31, 2021 or 2020, respectively, and not as of December 31, 2021 or 2020, respectively. The Company did not sell any of its bitcoins during the years ended December 31, 2021 and 2020.

Cost of Bitcoin Held at End of Year (in thousands)		**$3.8 Billion**
Impairment charges (in thousands)		**$ .9 Billion**
Carry value on the balance sheet as of December 31, 2021	**$2.9 Billion**	
Market Value of Bitcoin Held at End of Year Using Ending Market Price (in thousands)	**$5.7 Billion**	
Unrecognized Fair value gain	**$2.8 Billion**	

Accounting Disclosure – Tesla 10K

In the first quarter of 2021, we invested an aggregate $1.50 billion in bitcoin. We believe in the long-term potential of digital assets both as an investment and also as a liquid alternative to cash. Digital assets are considered indefinite-lived intangible assets under applicable accounting rules. Accordingly, any decrease in their fair values below our carrying values for such assets at any time subsequent to their acquisition will require us to recognize impairment charges, whereas we may make no upward revisions for any market price increases until a sale. In the year ended December 31, 2021, we recorded approximately $101 million of impairment losses resulting from changes to the carrying value of our bitcoin and gains of $128 million on certain sales of bitcoin by us.

Accounting – Changes Coming Soon?

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Accounting for and Disclosure of Crypto Assets
Tentative Board Decisions to Date
As of October 12, 2022

The Tentative Board Decisions to date is provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.

Topic	Decisions Reached	Meeting Date
Measurement	*Accounting for and Disclosure of Crypto Assets*. The Board discussed how entities that hold crypto assets within the scope of this project should measure those assets. The Board decided to require an entity to: a. Measure crypto assets at fair value, using the guidance in Topic 820, Fair Value Measurement, b. Recognize increases and decreases in fair value in comprehensive income each reporting period, c. Recognize certain costs incurred to acquire crypto assets, such as commissions, as an expense (unless the entity follows specialized industry measurement guidance that requires otherwise). The Board also considered: a. Various measurement alternatives for crypto assets with inactive markets and decided not to pursue those alternatives. b. Whether to provide implementation guidance relative to the application of fair value measurement of crypto assets and decided not to provide additional measurement guidance as part of this project. c. Whether there should be a difference for private companies for the measurement of crypto assets and decided that the measurement and recognition requirements should be the same for all entities. The Board will consider presentation, disclosure, and transition at a future meeting.	October 12, 2022

Common Misconceptions

Common Misconceptions

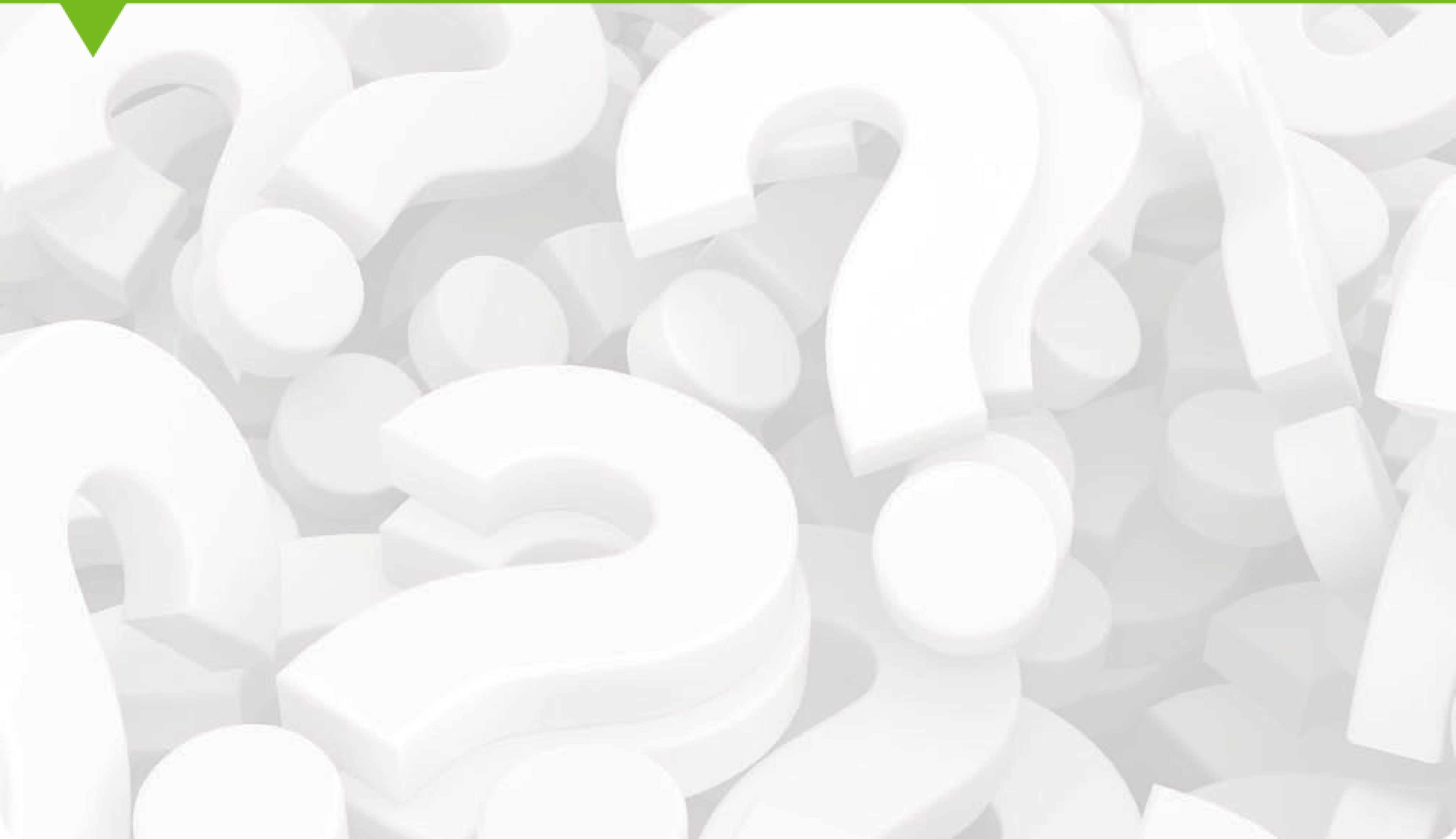
- Bitcoin is a bubble
- Bitcoin's intrinsic value is zero
- Bitcoin isn't scalable
- Bitcoin wastes energy
- Bitcoin is too volatile
- Governments will ban Bitcoin

Resources

- https://www.lynalden.com/misconceptions-about-bitcoin/
- https://endthefud.org/
- https://casebitcoin.com/

Current Events – What Happened to FTX

Questions?



Lunch Break

We will resume at 1:15 PM

ASC 326, Current Expected Credit Losses (CECL)

Speaker

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Assurance Manager
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TWalsh@gbq.com

Why CECL?

- Leading up to the financial crisis, FS users were making estimates of expected credit losses using forward-looking information, often before accounting losses were recognized.
- Highlighted that the information needs of users differ from what GAAP required.
- Concerns that the current incurred loss model resulted in loss provisions that were "too little, too late" in predicting expected losses classes of financial assets.
- FASB responded to users' concerns through the approval of ASC 2016-13, Financial Instruments – Credit Losses (Topic 326).
- Since then, the FASB has come out with several other ASUs that amend and provide updates on the original guidance published in 2016, along with several delays in adopting the new standard

Effective Dates (early adoption permitted after 12/15/18):

SEC Filers	All Other Entities
FYs beginning after 12/15/19 (and interim periods within)	FYs beginning after 12/15/22 (and interim periods within)

ASU 2016-13, Credit Losses on Financial Instruments

- The Current Expected Credit Loss ("CECL") Model creates three significant shifts from the current incurred loss model
  - FORWARD LOOKING ANALYSIS, which requires the utilization of future information, and supportable forecasts to estimate provisions for financial asset losses
  - REMOVES "PROBABLE" THRESHOLD
    - "Probable", defined by US GAAP as "likely to occur"
    - In its place, entities are required to evaluate the amount expected to be collected on financial assets as a whole, evaluating current economic conditions
  - LOSS HORIZON CHANGES from the current 12 to 18 month horizon to the expected lifetime of the financial asset. This is broadly expected to expand the horizon used for estimating the provisions for asset losses and is generally expected to result in the need for an increase in the provision levels for non-impaired assets.

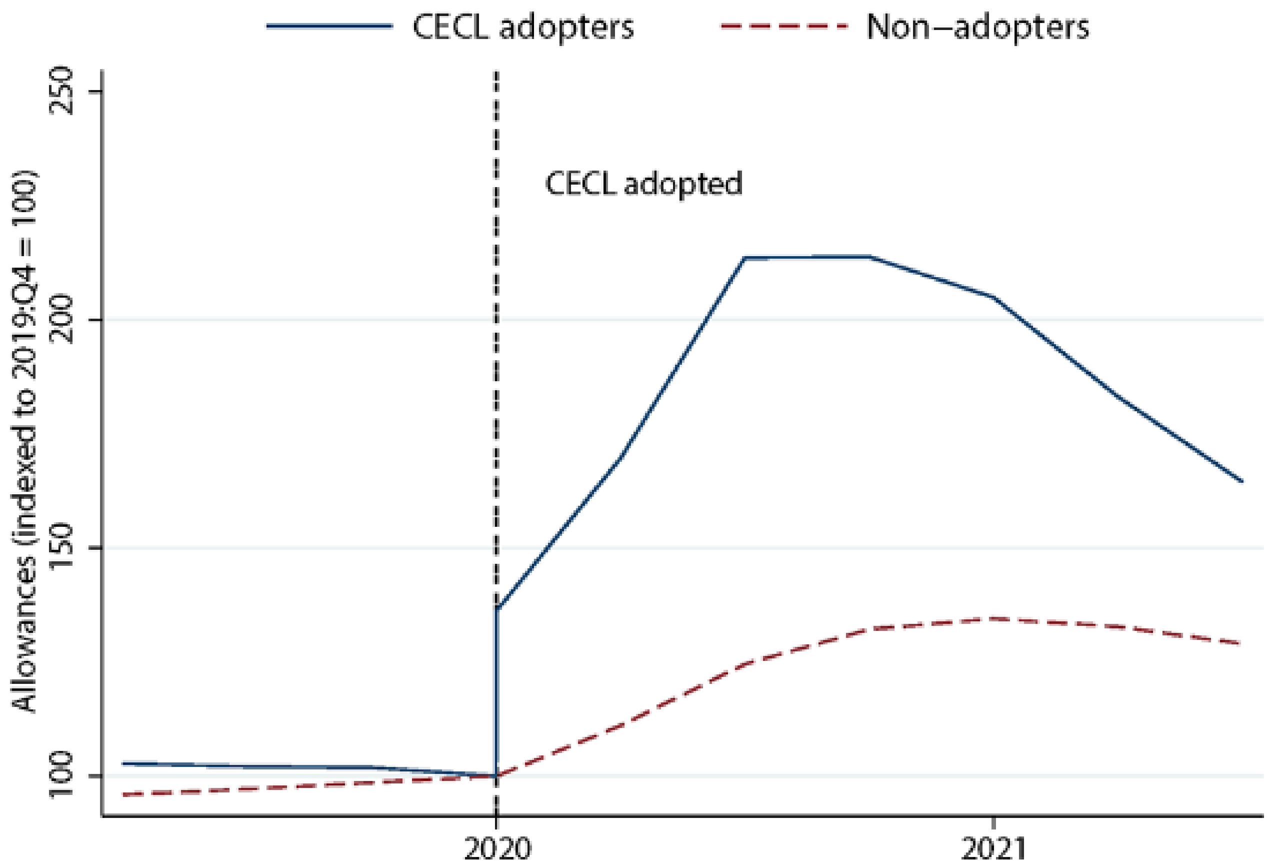
What is in Scope?

- Financial assets measured at amortized cost:
  - Trade receivables
  - Loans
  - Loan Commitments (exception: unconditionally cancellable commitments)
  - Reinsurance receivables
  - Debt securities
  - Financial Guarantees

What’s Not?

- Financial assets where FMV option elected
- Equity securities
- Equity method investments
- Derivatives
- Loans made to participants by defined contribution employee benefit plans
- Policy loan receivables of an insurance entity
- Related party loans and receivables between entities under common control

The Impact



Note: The adoption of CECL results in a jump in allowances (of CECL adopters) on January 1, 2020.

Sources: FR Y-9C filing firms and Call Report firms with filings not consolidated within included filings.

Source: The Federal Reserve

The Impact

	Allowance 12/31/19	CECL Adoption Impact	COVID-19 Impact	Allowance 3/31/20	Increase since 12/31/19
JPMorgan Chase & Co.	$14.3B	$4.3B	$6.8B	$25.4B	$11.1B or 77%
Bank of America	$10.2B	$3.3B	$3.6B	$17.1B	$6.9B or 67%
citi	$14.2B	$4.2B	$4.2B	$22.7B	$8.4B or 59%
Wells Fargo	$10.5B	($1.3B)	$3.0B	$12.2B	$1.7B or 17%
Goldman Sachs	$1.8B	$679M	$722M	$3.2B	$1.4B or 78%
Capital One	$7.3B	$3.3B	$3.6B	$14.3B	$7.0B or 95%
ally	$1.3B	$1.3B	$636M	$3.2B	$2.0B or 157%
Huntington	$887M	$393M	$323M	$1.6B	$716M or 81%
Average impact		$2.0B or 39%	$2.9B or 29%		$4.9B or 79%

Source: GAAP Dynamics

The Impact

U.S. bank profits jump in 2021 as firms shed credit loss reserves, FDIC says

By Pete Schroeder

U.S. Federal Deposit Insurance Corporation Chairman Martin Gruenberg (L) and Comptroller of the Currency Thomas Curry testify about Wall Street reform before a Senate Banking Committee hearing on Capitol Hill in Washington September 9, 2014. REUTERS/Jonathan Ernst

"Banks reported $279.1 billion in profits in 2021, up $132 billion compared to 2020, the FDIC said. The jump was mainly due to economic growth and **banks rapidly shrinking their credit loss provision expenses, which dropped $163.3 billion** in 2021, it added."

Source: Reuters


CECL

Common Valuation Techniques for CECL

- Model Methodologies:
  - Loss-Rate Methods
    - Weighted Average Remaining Maturity (WARM) Method
    - Static Pool Analysis
    - Vintage Analysis
  - Migration Methods
    - Roll Rate/Transition Matrix
    - State Transition
  - Expected Loss Methods
    - Probability of Default
    - Discounted Cash Flows

Common Valuation Techniques for CECL (continued)

- Estimation Techniques:
  - Simple/Weighted Averages
  - OLS Regression
  - Logistic Regression
  - Cox Proportional/Hazards Regression
  - Monte Carlo Simulations

Qualitative and Environmental Factors

- In addition to quantitative modeling, the use of Qualitative and Environmental (Q&E) factors will be important in the establishment of loss reserves on financial assets.
  - Possible Q&E Factor considerations
    - Macroeconomic Trends
    - Industry-specific trends
    - Changes in credit policies and collections policies
    - Changes in the volume and severity of past due financial assets
    - Changes in values of underlying collateral (if asset-dependent financial asset)
    - Existence and effect of concentrations
    - Other external factors, such as competition and legal/regulatory requirements

Other Information to Consider

- Credit losses should be evaluated on a pooled basis based on similar risk characteristics.

- Financial Assets without similar risk characteristics should be evaluated individually.

- Issuance of ASU 2022-02 modified the current accounting over Troubled Debt Restructurings (TDRs) by eliminating the accounting guidance over this category of assets.
    - Rather, entities are required to evaluate whether the modification represents a new loan or a continuation of an existing loan.

Other Information to Consider – Debt Securities

- HTM Debt Securities
  - Calculate the allowance based on chosen methods described prior, similar to other financial assets
  - Different treatments may be required across different investment products based on inherent risk of the investment type

- AFS Debt Securities
  - Required to be evaluated individually for impairment when FMV is less than carrying amount and one of the following*:*
    - Entity intends to sell the security
    - More likely than not will be required to sell the security; or
    - Does not expect to recover the amortized cost basis of the investment

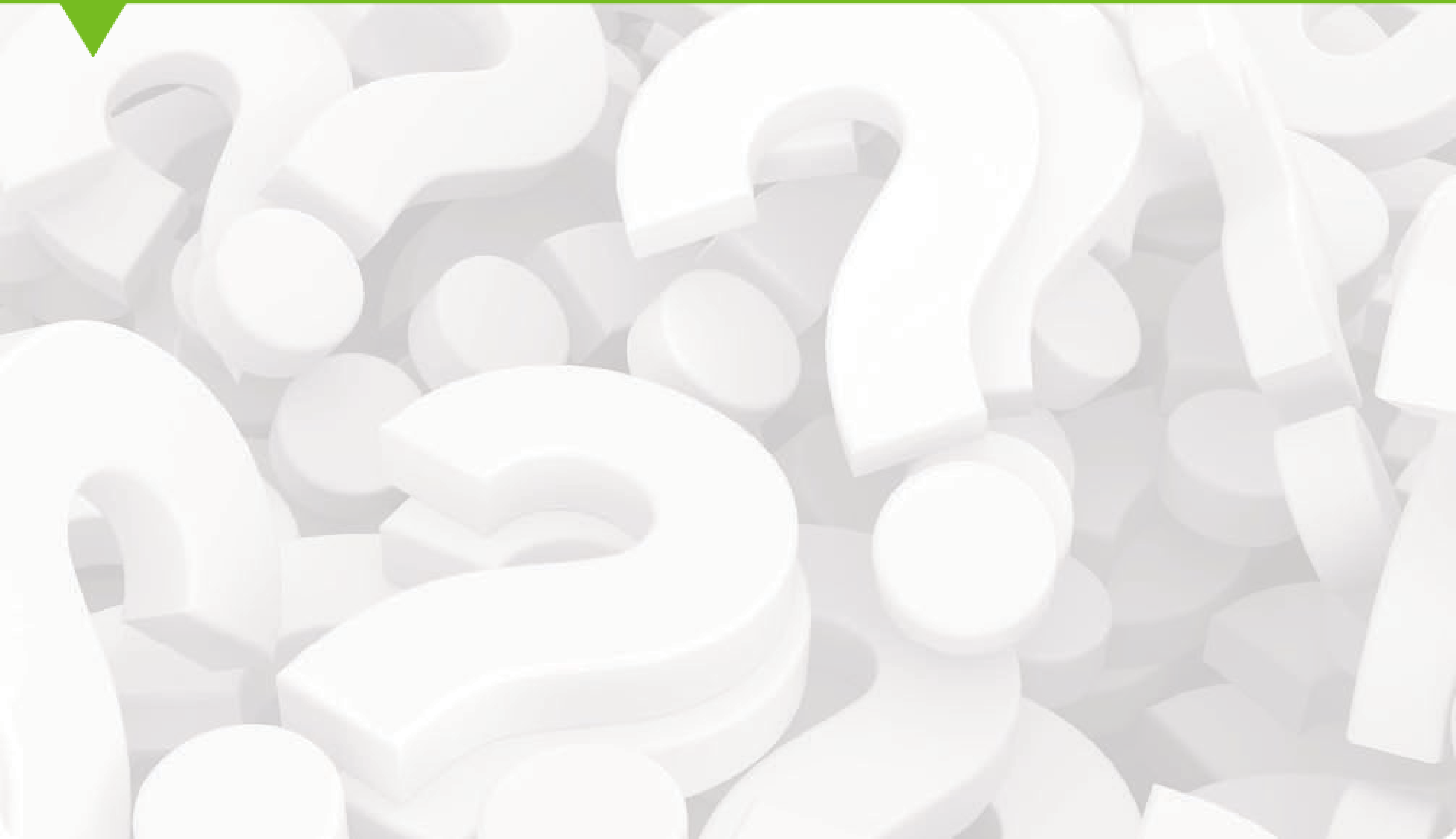
CECL – Disclosures

- Disclosures should enable users understand:
    - Credit risk in the portfolio and how management monitors the credit quality
    - Managements estimate of expected credit losses
    - Changes in the estimate of credit losses during the period
- Carries forward many existing disclosures
- New quantitative disclosure - Vintage disclosures (Public Business Entities only)
    - Disaggregation of the credit-quality indicators, for all classes of financing receivables and major security type and net investment in leases, that are disclosed under current GAAP, by year of the asset's origination
    - ASU 2022-02 added current period gross write-off by vintage to required disclosures.

Key Points for Successful Adoption

- Clean, compile, and sort your data to be used in developing your CECL model
- If possible, run your model parallel to current incurred loss model to evaluate the impacts on your provision and related expenses
- Establish documented policies over your CECL models – include in your policy the choice of method, inputs used, and assumptions incorporated
- Document, document, DOCUMENT! Inclusion of sufficient and appropriate documentation over the assumptions used, and rationale behind those assumptions, is critical to establishing a sound CECL model.

Questions?



The Importance of ESG Factors and What Accountants Need to Know

Speakers

Jeff Harden, CPA
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What are clients asking about ESG?

- What is ESG?
- Why do I need to be concerned?
- Why am I being asked about this?

What is ESG?

- A framework that helps stakeholders understand how an organization manages sustainability issues, risks and opportunities.

- Non-financial business performance and results

ESG Universe

- **Environmental**
  - Refers to an organization’s environmental impact(s) and risk management practices.
- **Social**
  - Refers to an organization’s relationships with its stakeholders (employees, customers, vendors, etc)
- **Governance**
  - Refers to how a company is led and managed

Difference in Sustainability and ESG?

SUSTAINABILITY	ESG
Umbrella term: a catch all for any company's efforts to **<u>do better and be accountable</u>** to others and their environment	**Spotlights Sustainability's three pillars: Environmental, Social & Governance**
Promotion of values that encourage consumption standards	Offers a way to **<u>quantify and evaluate</u>** how a company has advanced with sustainability
Community involvement or volunteering	**<u>Collection of data and measurement</u>** of metrics crucial to business managers and investors
Focuses on Corporate Social Responsibility (CSR)	

ESG Universe

E	S		G	
Environment	**Social Capital**	**Human Capital**	**Business Model & Innovation**	**Leadership & Governance**
GHG Emissions	Human Rights & Community	Labor Practices	Product Design & Lifecycle Management	Business Ethics
Air Quality	Customer Privacy	Employee Health & Safety	Business Model Resilience	Competitive Behavior
Energy Management	Data Security	Employee Engagement, Diversity & Inclusion	Supply Chain Management	Legal & Regulatory Environment Management
Water & Wastewater Management	Access & Affordability		Materials Sourcing & Efficiency	Critical Incident Risk Management
Waste & Hazardous Materials Management	Product Quality & Safety		Physical Impacts of Climate Change	Systemic Risk Management
Ecological Impacts	Customer Welfare			
	Selling Practices & Product Labeling			

ESG Risks to Business

E	S		G	
Environment	**Social Capital**	**Human Capital**	**Business Model & Innovation**	**Leadership & Governance**
Energy use	Data security (customers and employees)	Human rights	Single source supplier risk	Fraud
Water pollution	Community reputation	Forced labor	Supply market proximity	Bribery
Loss of biodiversity	Poor quality (product or service)	Child labor	Digital transformation challenges	Poor management of employees
Deforestation	Unethical selling practices	Discrimination	Pandemic disruptions	Lack of oversight by board of directors/owners
Lack of environmental management and reporting system		Lack of enforced health and safety protocols	Extortion	Lack of ESG integration into corporate policies
		Workplace conditions		

Why is ESG important now?

- Aligning **corporate cultures** with daily operations
- Connecting sustainability and **enterprise value**
- Aligning **Supply Chain requirements** for sustainability
- Stakeholders want to know **who, what and why** about you (employees, customers, vendors, investors, etc)
- ESG is coming up in conversations related to the new **Intel** operations

ESG Reporting

Private Companies – Why Should We Care?

- "Trickle-down" effects
- Supply chain and scope 3 disclosures
- Liquidity events, including IPO, SPAC merger or target of a public company via merger
- Access to markets and capital on favorable terms
- Local regulations (California, etc.) and ability to do business

ESG Reporting - Background

- Across large, diversified and multi-national organizations, there is an increasing drive to provide ESG reporting.
- While companies are beginning to provide voluntary reporting on such areas, the regulatory environment is evolving with the obligation for there to be limited assurance reports issued as early as 2024, particularly within the European Union.
- We are also seeing larger U.S.-based conglomerates requiring companies within their supply chains to maintain and oversee formal ESG programs.

Example Reporting Excerpt - Unilever (UK)

- **Source: 2021 Annual Report (Form 20-F)**

Streamlined Energy and Carbon Reporting (SECR)

In line with the requirements set out in the UK Government's guidance on Streamlined Energy and Carbon Reporting, the table below represents Unilever's energy use and associated GHG emissions from electricity and fuel in the UK (1 October to 30 September), calculated with reference to the Greenhouse Gas Protocol. The scope of this data includes eight manufacturing sites and 11 non-manufacturing sites based in the UK. In 2021, the UK accounted for 7% of our global total Scope 1 and 2 emissions as well as 5% of our global energy use, outlined in the table below. See page 51 for more on energy efficiency measures.

UK operations	2021	2020	2019
Biogas (kWh)	**10,025,000**	9,420,000	17,045,000
Natural gas (kWh)	**226,110,000**	231,832,000	238,081,000
LPG (kWh)	**1,411,000**	1,464,000	866,000
Fuel oils (kWh)	**0**	59,000	580,000
Coal (kWh)	**0**	0	0
Electricity (kWh)	**171,897,000**	190,790,000	195,797,000
Heat and steam (kWh)	**192,738,000**	201,709,000	212,483,000
Total UK energy (kWh)[(a)]	**364,635,000**	392,499,000	408,280,000
Total global energy (kWh)	**7,002,482,000**	7,037,674,000	7,181,904,000
Total UK Scope 1 emissions (tonnes CO_2)[(b)]	**45,740**	46,918	48,178
UK Scope 1 emissions (kg CO_2) per tonne of production	**56.9**	49.1	55.6
Total UK Scope 2 emissions (tonnes CO_2)[(b)(c)]	**0**	527	702
UK Scope 2 emissions (kg CO_2) per tonne of production	**0**	0.6	0.8

(a) Fleet and associated diesel use excluded as it is not material. Transportation is operated by a third party and accounted for under Scope 3.

(b) We report our emissions with reference to the latest Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol). Our only material GHG from energy is CO_2, reported as required by the GHG Protocol. Other gases are immaterial. Energy use data is taken from meter reads and energy invoices from each site and then converted to kWh using standard conversion factors as published by the IPCC.

(c) Carbon emission factors for grid electricity calculated according to the 'market-based method'. Total Scope 2 emissions reported as zero in 2021 as we now use 100% renewable grid electricity across all our sites in the UK & Ireland.

ESG Reporting - US Regulatory Environment

- The SEC has proposed new climate-related disclosure requirements for public companies. In March 2022, with the "issuer rule," the SEC proposed rule amendments that would require public companies to provide certain climate-related financial data, and greenhouse gas emissions insights, in public disclosure filings.

- As part of the "issuer rule", companies would have to disclose emissions they are directly responsible for, as well as emissions from their supply chains and products.

- Plenty of questions exist regarding the SEC's proposed rule:
  - Timeline
  - Materiality defined
  - Quarterly vs. Annual disclosures
  - "Scope 3" disclosure requirements
  - Etc.

SEC ESG Rule Proposal (March 2022)

- Additional requirements:
  - The impact to financial statement line items of climate-related events, such as severe weather events, and
  - Risks related to the transition to a low carbon economy, such as regulatory, market or competitive changes.

- Applicable for Scopes 1 and 2 emissions, or those from direct operations and those created indirectly through energy purchases

- Disclosure of Scope 3 emissions required if that information is deemed material, or if a company has set emissions goals that include Scope 3 emissions

- Required for FY 2023, and for smaller companies for FY 2024.

Emissions Reporting – "Scope"

- **Carbon emissions are generally classified in the context of three categories (referred to as "scopes")**
  - Scope 1 – Direct emissions from the reporting entity itself (company-owned and controlled resources)
  - Scope 2 – Indirect emissions from owned resources (energy consumed by companies)
  - Scope 3 – Downstream and upstream emissions associated with a company's value chain

Example US Reporting Excerpt - Etsy

Greenhouse Gas ("GHG") Emissions Summary (tCO_2e)

GHG Emissions by Scope	2019	2020	2021
Scope 1	371†	294†	350†
Scope 2 - Market	652†	4†	0†
Scope 2 - Location	1,859†	914†	420†
Scope 3	155,967	438,731	548,900
Scope 3 GHG Emissions by Activity Source			
Category 1: Purchased Goods & Services			
Purchased Goods & Services (excluding Computing)		76,451†	97,302†
Cloud Computing - GCP (Etsy Only)			13,623†
Other Computing		488†	466†
Category 3: Fuel & Energy Related Activities			
Fuel & Energy Related Activities Not Included in Scope 1 or Scope 2			2,711
Category 5: Waste Generated in Operations			
Waste	13	3	3
Water	6	9	4
Category 6: Business Travel			
Air Travel	1,217†	153†	67†
Other Business Travel		10	9
Category 7: Employee Commuting			
Commuting	510	111	83
Remote Workers		672	1,066
Category 8: Upstream Leased Assets			
Cloud Computing - GCP (Etsy Only)	29†	0†	
Category 9: Downstream Transportation & Distribution			
Shipping	154,078†	303,218†	363,361†
Packaging		53,489†	63,645†
Category 11: Use of Sold Products			
End User Energy Use		4,127†	6,560†

Scope 3 – Purchased Goods & Services

- Supplier-specific method – collecting data from goods or services suppliers
- Hybrid method – combination of supplier-specific activity data (where available) and secondary data to fill the gaps
  - Collecting Scope 1 and 2 data directly from suppliers
  - Calculating upstream emissions from supplier activity data on materials consumed, fuel, electricity, transportation, etc. and applying emission factors
- Average-data method – applying emission factors to relevant goods or services purchased
- Spend-based method – applying emission factors to the economic value of goods and services purchased

Will Scope 3 Get 'Scoped Out'?

- As illustrated, Scope 3 disclosures can be complex and difficult to compile
- Proponents argue such disclosures are necessary as Scope 3 generally represent the majority of an entity's CHG emissions
- Opponents argue substantial compliance costs will be imposed on suppliers and vendor, many of which are small non-pubic companies, when public companies demand that they provide information on Scope 3 emissions
- The SEC is proposing a phase-in period, along with an additional one for scope 3, and a safe harbor from liability for Scope 3 disclosures made in good faith
- Like tax legislation, regulations and guidance will potentially evolve over time

ESG Frameworks

ESG Frameworks

Global Reporting Initiative (GRI)

- Create an accountability framework for companies to show stakeholders how they align with the Ceres Principles for responsible environmental conduct.
- Influencers: United Nations Environment Program (UNEP), US EPA and General Motors.

Taskforce on Climate-related Financial Disclosures (TCFD)

- Voluntary disclosure program gives companies a consistent way to report on their climate-related financial risks to investors, lenders, insurers and others.
- Established by the G20 in 2015 (assistance of Financial Stability Board)

GBQ

GRI Example - Vornado

GRI 200-400: TOPIC-SPECIFIC DISCLOSURES

GRI TOPICS	DISCLOSURE	DESCRIPTION	RESPONSE
ECONOMIC			
GRI 201: Economic Performance 2016	201-2	Financial implications and other risks and opportunities due to climate change	Vornado's approach to assessing financial implications, other risks and opportunities due to climate change is stated in TCFD Scenario analysis, pp. 8-9 of this report, Stakeholder Engagement, p. 28, and SASB Disclosure on climate change adaptation, p. 49 of this report.
ENVIRONMENTAL			
GRI 302: Energy 2016	302-1	Energy consumption within the organization	2021 Results, p. 14 of this report. We utilized the Thermal Energy Conversion factors from ENERGY STAR Portfolio Manager Technical Reference Guide published by EPA. Our total energy reported with in the organization is 41,544 GJ of chilled water, 636,599 GJ of district steam, 1,119,151 GJ of electricity, and 575,548 GJ of fuels. The total energy with in the organization is 2,372,842 GJ. The majority of Vornado's heating consumption is from district steam sources, which are reported on p. 14. Vornado does not sell electricity, heating, cooling or steam. All fuel consumption reported is non-renewable.
	302-2	Energy consumption outside of the organization	2021 Results, p. 14 of this report. We utilized the Thermal Energy Conversion factors from ENERGY STAR Portfolio Manager Technical Reference Guide published by EPA. Total energy outside the organization is 482,123 GJ.
	302-3	Building energy intensity	2021 Results, p. 13 of this report. Our denominator is the square footage as outlined in the boundaries found in the endnotes of this report. Building energy intensity reported includes all energy reported in 302-1 & 302-2 reported amounts. We utilized the latest available emission factors for each energy type and Global Warming Potential factors from the Fifth Assessment Report (SAR) published by Intergovernmental Panel on Climate Change and EPA ENERGY STAR Portfolio Manager GHG Technical Reference to calculate our GHG inventory. No significant recalculations occurred. Consolidation approach as defined in the reporting boundary endnoted in this report. Biogenic emissions of CO2 that occur in the life cycle of biomass other than from combustion or biodegradation are not applicable.
GRI 303: Water and Effluents 2018	303-1	Interactions with water as a shared resource	2021 Progress & Results, pp. 12-13 of this report. All water listed is municipal water supply. No other sources of consumed water are of material quantities. Water converted from source unit of measure to cubic meters. BMS & Green Cleaning, p. 23; SASB Disclosure on Water Management, p. 47 of this report.
	303-2	Management of water discharge-related impacts	TCFD Scenario analysis, p. 9 of this report, Health & Wellness p. 21, and SASB Disclosure on Water Management, p. 47 of this report.
	303-3	Water withdrawal	2021 Results, p. 13, SASB Disclosure on Water Management, p. 47 of this report. All water listed is municipal water supply converted from source unit of measure to cubic meters or 1,959.80 megaliters. No other sources of consumed water are of material quantities. Water listed is municipal and is considered fresh water. Our baseline water stress is 275.87 megaliters.
GRI 305: Emissions 2016	305-1	Scope 1 GHG emissions	2021 & base year 2019 Results, p. 14 of this report. Gases included are CO2, CH4, and N2O. We utilized the latest available emission factors for each energy type and Global Warming Potential factors from the Fifth Assessment Report (SAR) published by Intergovernmental Panel on Climate Change and EPA ENERGY STAR Portfolio Manager GHG Technical Reference to calculate our GHG inventory. No significant recalculations occurred. Consolidation approach as defined in the reporting boundary endnoted in this report. All GHG emission Scopes have base years of 2019, which is aligned with our SBTi commitment, as well as our Vision 2030 Cabon Neutrality plan. Biogenic emissions of CO2 that occur in the life cycle of biomass other than from combustion or biodegradation are not applicable.
	305-2	Scope 2 GHG emissions	2021 & base year 2019 Results, p. 14 of this report. Gases included are CO2, CH4, and N2O. We utilized the latest available emission factors for each energy type and Global Warming Potential factors from the Fifth Assessment Report (SAR) published by Intergovernmental Panel on Climate Change and the eGRID 2020 to calculate our GHG inventory. No significant recalculations occurred. Consolidation approach as defined in the reporting boundary endnoted in this report. All GHG emission Scopes have base years of 2019, which is aligned with our SBTi commitment, as well as our Vision 2030 Cabon Neutrality plan.
	305-3	Scope 3 GHG emissions	2021 & base year 2019 Results, p. 14 of this report. Gases included are CO2, CH4, and N2O. We utilized the latest available emission factors for each energy type and Global Warming Potential factors from the Fifth Assessment Report (SAR) published by Intergovernmental Panel on Climate Change, EPA ENERGY STAR Portfolio Manager GHG Technical Reference guide, and the eGRID 2020 to calculate our GHG inventory. No significant recalculations occurred. Consolidation approach as defined in the reporting boundary endnoted in this report. All GHG emission Scopes have base years of 2019, which is aligned with our Vision 2030 Carbon Neutrality plan. Biogenic emissions of CO2 that occur in the life cycle of biomass other than from combustion or biodegradation are not applicable.
	305-4	GHG emissions intensity	2021 Progress & Results, p. 13 of this report. Our numerator includes Scope 1, 2 & 3 emissions, and our denominator is the square footage as outlined in the boundaries found in the endnotes of this report.
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	Waste disposal method has been directly confirmed by the organization through annual onsite visits to facilities. Information is provided by waste disposal contractor on a monthly basis. Responsible Recycling, p. 20; Supply Chain, p. 24; Stakeholder Engagement, p. 28
	306-2	Waste by type and disposal method	Waste disposal method has been directly confirmed by the organization through annual onsite visits to facilities. Information is provided by waste disposal contractor on a monthly basis. In 2021 we generated 10681 metric tons of waste across our portfolio with 6578 metric tons non-hazardous waste recycled, 34 tons of hazardous waste recycled, an additional 3978 metric tons incinerated at a waste-to-energy facility, and only 91 metric tons sent to landfill. We were able to divert 694 metric tons of compost. Waste metrics throughout the rest of this report are based on U.S. tons. Environmental Results 2021, p. 13; Responsible Recycling, p. 20; Supply Chain, p. 24
	306-3	Waste generated	
	306-4	Waste diverted from disposal	
	306-5	Waste directed to disposal	

ESG Frameworks

Sustainability Accounting Standards Board (SASB)

- Develop standards that situated "sustainability fundamentals" alongside "financial fundamentals‟
- Industry-based Standards (SMEs and Regulatory Alignment)
- Materially based on risk for specific Sector/Service
- 77 industries / 700+ Questions / Accounting Metrics

ESG Frameworks

SASB (US sustainability standard-setter)

		Consumer Goods	Consumer Goods	Consumer Goods	Consumer Goods	Consumer Goods	Consumer Goods	Consumer Goods
		Apparel, Accessories & Footwear	Appliance Manufacturing	Building Products & Furnishings	E-Commerce	Household & Personal Products	Multiline and Specialty Retailers & Distributors	Toys & Sporting Goods
Environment	GHG Emissions							
	Air Quality							
	Energy Management			■	■		■	
	Water & Wastewater Management					■		
	Waste & Hazardous Materials Management							
	Ecological Impacts							
Social Capital	Human Rights & Community Relations							
	Customer Privacy				■			
	Data Security				■		■	
	Access & Affordability							
	Product Quality & Safety	■	■	■		■		■
	Customer Welfare							
	Selling Practices & Product Labeling							
Human Capital	Labor Practices						■	
	Employee Health & Safety							
	Employee Engagement, Diversity & Inclusion				■		■	
Business Model & Innovation	Product Design & Lifecycle Management		■	■	■	■	■	
	Business Model Resilience							
	Supply Chain Management	■		■		■		■
	Materials Sourcing & Efficiency	■						
	Physical Impacts of Climate Change							
Leadership & Governance	Business Ethics							
	Competitive Behavior							
	Management of the Legal & Regulatory Environment							
	Critical Incident Risk Management							
	Systemic Risk Management							

SASB Example - Etsy

Data Privacy and Advertising Standards

CG-EC-220a.2 **Description of the policies and practices relating to behavioral advertising and user privacy**.

- We care deeply about privacy and we're committed to being upfront about our privacy practices, including how we treat personal information. Etsy's Privacy Policy provides a detailed explanation of our privacy practices. Etsy's Transparency Report also includes details of our Privacy Principles.
- Among other things, our Privacy Policy covers the user information that Etsy collects or receives, the choices and control that a user has in relation to this data including based on type and sensitivity by region and worldwide, the purpose for which Etsy uses such information (including first and third party advertising purposes), our policies relating to our usage and sharing within Etsy, its affiliates and third party partners, disclosures about third party partner privacy policy and options, and user controls for sharing and controlling such information with third parties.

Employee Recruitment, Inclusion and Performance

CG-EC-330a.1	Employee engagement as a percentage (Etsy)	76%	81%	75%
	Employee engagement as a percentage (Reverb)		75%	75%

Employee engagement as a percentage and discussion of methodology.

- In May 2021, Etsy conducted an engagement survey of all global employees. Of all employees surveyed across Etsy and Reverb, 90% submitted a response, and 75% of Etsy respondents and 75% of Reverb respondents reported favorable employee engagement. The survey was conducted through the Culture Amp platform and consisted of 61 questions - 56 rating questions on which employees were asked to indicate their level of agreement with a statement based on a five-point scale from Strongly Agree to Strongly Disagree, two free-text questions to which employees were asked to write out a response, and three multiple choice questions.
- The responses were analyzed against the results from a similar survey conducted in 2020, as well as Culture Amp's New Tech 2021, which consists of survey results from approximately 900 companies that are primarily internet-based or focused on creating new technologies, and that have between 20 and 20,000 employees.

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ESG Corporate Program

ESG Corporate Program

Six Key Elements

1. Material ESG issues
2. Strategic alignment
3. Board oversight
4. Policies and initiatives
5. Metrics and goals
6. Monitoring

Source: Harvard Law School – Corporate Governance

ESG Corporate Program

Limitations on ESG Reporting

- Not all ESG factors are **easily quantifiable**

- Some factors may **not directly translate into earnings growth** or enhanced performance for the Company/Firm

- Current sustainability disclosures can be **skewed towards process and procedures** and not towards actual performance

Source: Harvard Law School – Corporate Governance

ESG Corporate Program

Potential Issues that arise

1. Solely a communications effort
   a. Messaging = Action
   b. Lake of Good and Bad stats

2. Lack of oversight or aligned strategy

3. Compliance-only approach

4. Inconsistencies across business units and/or companies

5. Lack of assessment or monitoring

6. Data integrity
   a. Third-party validation and reporting controls

Source: Harvard Law School – Corporate Governance

Governance Risk - Do What You Say You Do

- All business conduct should be well above the minimum standards required by the law.
- Each employee is responsible for the consequences of his or her actions.
- Each employee must be the guardian of Homecare Providers's ethics.
- Leaders at [redacted] have extra responsibility of setting an example by their personal performance and an attitude that conveys [redacted]'s ethical values.

Incident:

- HIPAA obligated
- Ransomware / ransack breach event
- Protected Health Information (PHI) was exfiltrated

HIPAA Business Risks:

- Compliance
- Regulatory
- Legal

Firm Posture:

- Lack of basic controls
- Non-compliant with HIPAA
- Out of alignment with Corporate Statement of Responsibility

AICPA Standards and Reporting

AICPA Independent Accountant's Report on ESG reports

AT-C Section 210 – Review Engagements (Limited Assurance)

- Analytical procedures on ESG data
- Inquiries on subject matter and practices for recording

AT-C Section 205 – Examinations (Reasonable Assurance)

- Assertion based examination
- Assessing controls around recording information
- Analytical Procedures
- Practitioners Specialist (engineers, etc)

Attestation Engagements on Sustainability Information (Greenhouse Gas Emissions)

Example Report – AT-C Section 210

Deloitte.

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30 Rockefeller Plaza 41st Floor
New York, NY 10012
USA

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Vornado Realty Trust
New York, NY

We have reviewed management of Vornado Realty Trust's (the "Company") assertion that the disclosures in the Global Reporting Initiative (GRI) Index included within the accompanying Environmental, Social & Governance 2021 Report of Vornado Realty Trust as of and for the year ended December 31, 2021 are presented in accordance with the Global Reporting Initiative Sustainability Reporting Standards under its Core option (the "GRI Standards Core option"). The Company's management is responsible for its assertion. Our responsibility is to express a conclusion on management's assertion based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) in AT-C Section 105, *Concepts Common to All Attestation Engagements*, and AT-C Section 210, *Review Engagements*. Those standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to management's assertion in order for it to be fairly stated. The procedures performed in a review vary in nature and timing from, and are substantially less in extent than, an examination, the objective of which is to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. Because of the limited nature of the engagement, the level of assurance obtained in a review is substantially lower than the assurance that would have been obtained had an examination been performed. We believe that the review evidence obtained is sufficient and appropriate to provide a reasonable basis for our conclusion.

We are required to be independent and to meet our other ethical responsibilities in accordance with the *Code of Professional Conduct* issued by the AICPA. We applied the *Statements on Quality Control Standards* established by the AICPA and, accordingly, maintain a comprehensive system of quality control.

The procedures we performed were based on our professional judgment. In performing our review, we performed analytical procedures and inquiries. For a selection of the disclosures in the GRI Index, we performed tests of mathematical accuracy of computations, compared the disclosures to underlying records, or observed the data collection process.

The preparation of the disclosures in the GRI Index included within the Environmental, Social & Governance 2021 Report requires management to interpret the criteria, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect the reported information. Measurement of certain disclosures in the GRI Index includes estimates and assumptions that are subject to substantial inherent measurement uncertainty resulting, for example, from the accuracy and precision of greenhouse gas emission conversion factors, or estimation methodologies used by management. Obtaining sufficient, appropriate review evidence to support our conclusion does not reduce the inherent uncertainty in the disclosures in the GRI Index. The selection by management of different but acceptable measurement methods, input data, or assumptions, may have resulted in materially different amounts or disclosures being reported.

Our review was limited to the disclosures in the GRI Index. All other information presented within the Environmental, Social & Governance 2021 Report including, information relating to forward looking statements, targets, goals, progress against goals, and linked information, were not subject to our review and, accordingly, we do not express a conclusion or any form of assurance on such information.

Based on our review, we are not aware of any material modifications that should be made to management of Vornado Realty Trust's assertion that the disclosures in the Global Reporting Initiative Index included within the accompanying Environmental, Social & Governance 2021 Report of the Company as of and for the year ended December 31, 2021 are presented in accordance with the GRI Standards Core option, in order for it to be fairly stated.

Deloitte & Touche LLP

April 8, 2022

Example Report – AT-C Section 205

Deloitte.

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30 Rockefeller Plaza 41st Floor
New York, NY 10012
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

INDEPENDENT ACCOUNTANT'S REPORT

Board of Trustees
Vornado Realty Trust
New York, NY

We have examined management of Vornado Realty Trust's (the "Company") assertion that the metrics in the Sustainability Accounting Standards Board (SASB) Index included within Appendix A of the accompanying Environmental, Social & Governance 2021 Report (the "SASB Index") of Vornado Realty Trust as of and for the year ended December 31, 2021 are presented in accordance with the Sustainability Accounting Standards Board Real Estate Sustainability Accounting Standard.

The Company's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) in AT-C Section 105, *Concepts Common to All Attestation Engagements*, and AT-C Section 205, *Examination Engagements*. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with the *Code of Professional Conduct* issued by the AICPA. We applied the *Statements on Quality Control Standards* established by the AICPA and, accordingly, maintain a comprehensive system of quality control.

The preparation of the SASB Index requires management to interpret the criteria, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. Measurement of certain metrics includes estimates and assumptions that are subject to substantial inherent measurement uncertainty resulting, for example, from the accuracy and precision of conversion factors or estimation methodologies used by management. Obtaining sufficient, appropriate evidence to support our opinion does not reduce the inherent uncertainty in the metrics. The selection by management of different but acceptable measurement methods, input data, or assumptions may have resulted in materially different amounts or metrics being reported.

Our examination was limited to the SASB Index as of and for the year ended December 31, 2021. All other information presented within the Environmental, Social & Governance 2021 Report, including information relating to forward looking statements, goals, and progress against goals and denoted by an asterisk (*) in Appendix A of the Environmental, Social & Governance 2021 Report was not subject to our examination and, accordingly, we do not express an opinion or any form of assurance on such information.

In our opinion, management's assertion that the metrics in the SASB Index included within Appendix A of the accompanying Environmental, Social & Governance 2021 Report as of and for the year ended December 31, 2021 are presented in accordance with SASB Real Estate Sustainability Accounting Standard is fairly stated, in all material respects.

Deloitte & Touche LLP

April 8, 2022

GBQ

Example ESG Reports

[Vornado Realty Trust – GRI and SASB frameworks]

[RePay Sustainability Report]

[Home Depot 2022 ESG Report]

What does this look like going forward?

Next Year

- Questions from clients / thought leadership
- Lots of buzz in town due to the "Intel effect"

2-10 Years

- Readiness projects for a company setting up ESG reporting
- Private firms impacted most likely impacted by supply chain considerations

Ten+ Years

- Assurance clients (medium to large businesses – nonpublic)

Questions?

Financial Reporting Valuation During Economic Uncertainty

Speaker

Craig Hickey, CFA
Director,
GBQ Capital Advisors
614.947.5315
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GBQ's Valuation Practice

Transaction Support & Opinions:
- Fairness Opinions
- Solvency Opinions
- Shareholder Transactions
- Mergers & Acquisitions

Financial Reporting:
- Purchase Price Allocations
- Goodwill Impairment Testing
- Stock Option Valuations
- Fair Value Measurements

ESOP Consulting & Valuation:
- Feasibility Studies & Pre-ESOP Planning
- Implementation Consulting
- ESOP Valuations
- ESOP Transactions
- ESOP Valuation Reviews

Corporate Planning & Assistance:
- Buy-Sell Agreements
- Issuing Stock/Synthetic Equity
- Corporate Redemptions
- Evaluating Targets
- C-to-S Conversions

Succession & Wealth Planning:
- Date-of-Death Estate Valuations
- Gifting Valuations
- Charitable Donations

Expert Opinion Valuations:
- Shareholder Disputes
- Marital Disputes
- Business Damages

Agenda

- Agenda
  - Current Market Overview
    - Public Equity Markets
    - Economic Indicators
  - Trends in M&A
    - Transaction Volume
    - Key Takeaways
  - Valuation Process
    - Overview
    - Income Approach
    - Market Approach
  - Financial Reporting Considerations
    - Impairment Considerations
    - Other Financial Reporting Considerations

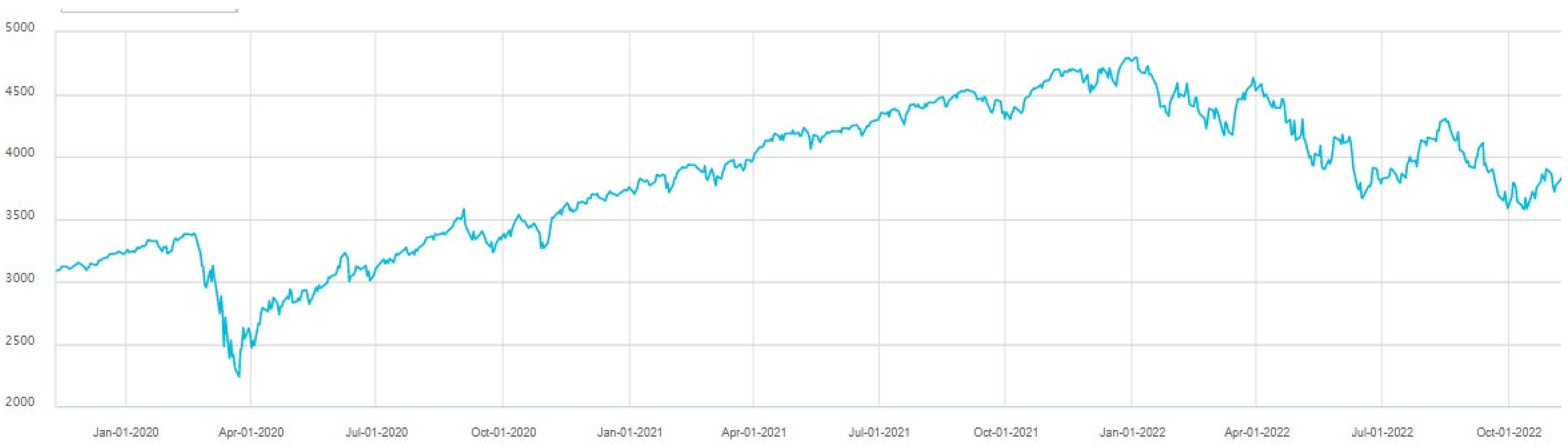
Current Market Overview

- Valuation is a financial exercise, so we first take a deep dive into factors impacting a company's cash flow
- Ukraine, inflation, and the looming potential for a recession are all major factors
- Examples of negative impacts of the current market forces include:
  - Disruption of supply chains
  - Rising input and labor costs
  - Less productive remote workforces
  - Layoffs, furloughs & pay reductions
  - Sharply increased cost of capital
  - Tripping debt covenants
- For many, revenue & profit outlook is uncertain

Current Market Overview

Public Equity Markets

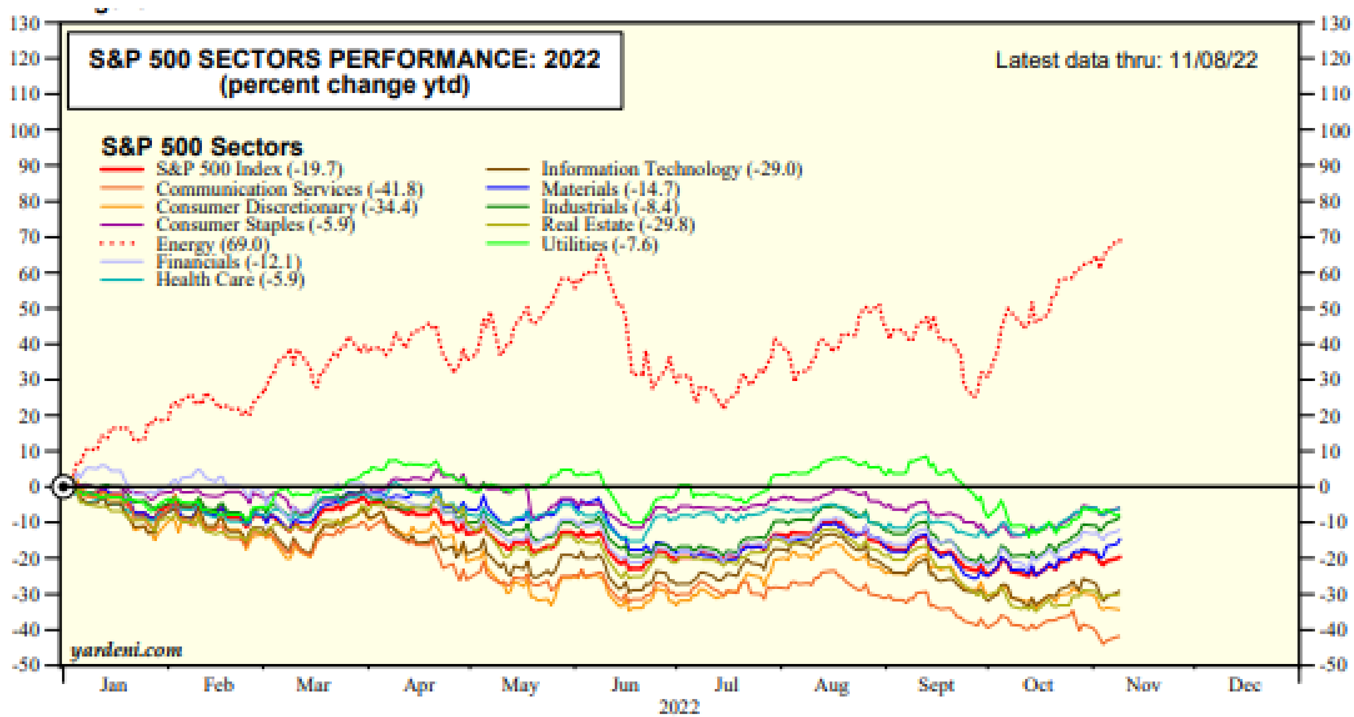
- The plunge in public equities happened at record speed at the beginning of COVID
- Peak to trough saw the S&P 500 decline 34% in about five weeks
- Then began a steady bull market until early 2022, when a convergence of factors negatively impacted the market (e.g., persistent inflation, Ukraine, energy prices, etc.)
- YTD 2022 return on the S&P 500 is approximately -16%



Current Market Overview

Public Equity Markets (cont.)

- While the overall market is down for the year, performance by sector varies dramatically
- Rotation from growth industries and riskier assets to more conservative, value industries



Source: Standard & Poor's.

Current Market Overview

Economic Indicators

- In the most recent meeting, the Federal Open Market Committee (the "FOMC") decided to continue raising the target range for the federal funds rate to 3.75% to 4.00%, the highest level since 2008, to combat inflation.
- The Fed is continuing to shrink its balance sheet by selling Treasury securities and agency mortgage-backed securities.
- The U.S. economy added 261,000 jobs in October, exceeding estimates and led by health care, professional and technical services, and manufacturing, even as the unemployment rate ticked higher to 3.7%
- The number of job vacancies in the United States unexpectedly rose by 437,000 to 10.72 million in September 2022, up from 10.2 million in August and easily beating market expectations of 10.0 million.
- The level of openings remained close to record highs seen at the end of 2021, which could add to inflationary pressure coming from raising wages to attract and keep staff.

Current Market Overview

Economic Indicators

- The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in September on a seasonally adjusted basis after rising 0.1% in August.

- Over the last 12 months, the all items index increased 8.2% before seasonal adjustment. Increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase.

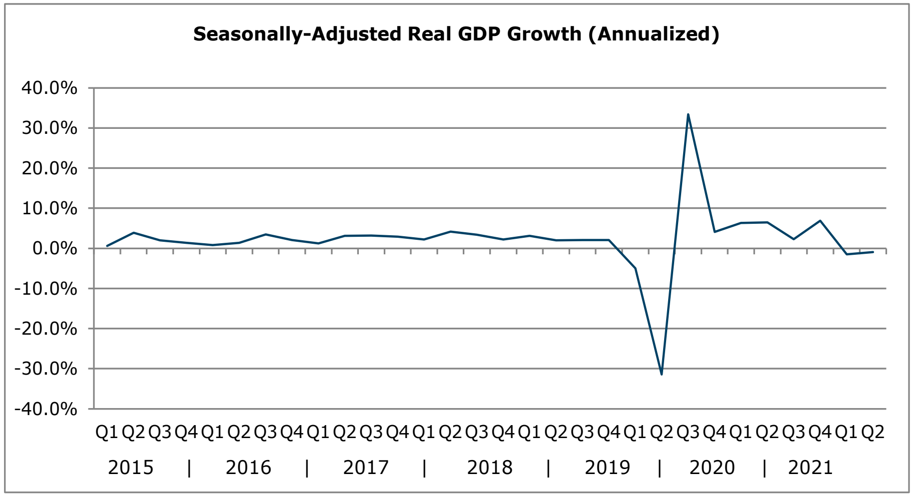
- The index for all items less food and energy rose 0.6% in September, as it did in August.

Current Market Overview

Economic Indicators (cont.)

- According to the "Advance" estimate released by the Bureau of Economic Analysis ("BEA"), real GDP decreased at an annual rate of 0.6% in the second quarter of 2022, following a decline of 1.6% in the first quarter.

- The decrease in real GDP in the second quarter reflected decreases in private inventory investment, residential fixed investment, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by increases in exports and personal consumption expenditures, while imports, which are a subtraction in the calculation of GDP, increased.



Current Market Overview

Economic Indicators (cont.)

- As the pandemic eases and demand for consumer services surges, the CBO projects real GDP will increase by 3.1% in 2022.
- The agency's current economic forecast, which underlies its baseline budget projections, includes projections of real (inflation-adjusted) gross domestic product (GDP; also referred to as output or actual output), inflation, interest rates, and other key variables for the years from 2022 to 2032.

CBO Economic Projections

	Actual	Forecast			Proj. Annual Avg.	
Economic Metric	**2021**	**2022**	**2023**	**2024**	**2025-26**	**2027-32**
Real GDP[1]	5.5%	3.1%	2.2%	1.5%	1.5%	1.7%
Nominal GDP[1]	11.8%	7.4%	4.5%	3.6%	3.6%	3.9%
Consumer Price Index[1]	6.7%	4.7%	2.7%	2.3%	2.3%	2.4%
Unemployment Rate[2]	4.2%	3.7%	3.6%	3.8%	4.1%	4.5%

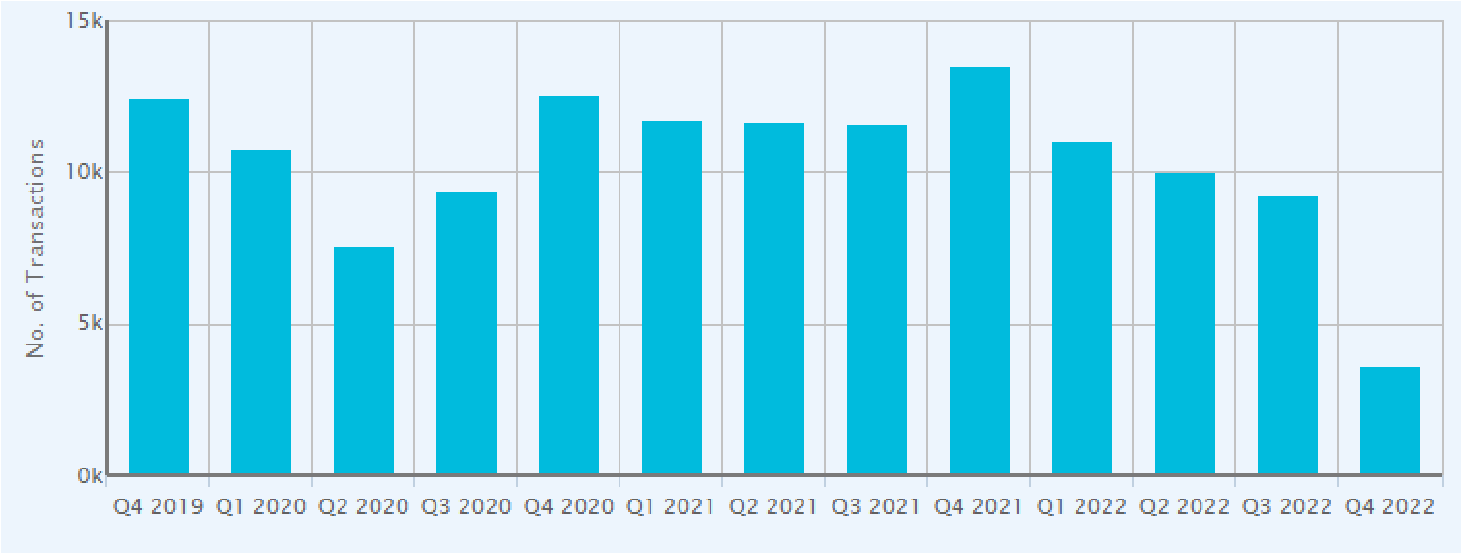
[1] *Represents year-to-year percentage change.*

[2] *Represents calendar-year average percentage.*

Trends in M&A

M&A Transaction Volume by Quarter (Source: S&P Capital IQ)

- COVID resulted in a temporary decline in M&A, following by strong growth.
- Since reaching the peak in Q4 2021, M&A activity has seen a steady decline
- Uncertainty with input and labor costs coupled with declining multiples in public markets has caused some buyers and sellers to pause until there is more certainty or valuations recover



Trends in M&A

Key Takeaways

- Tremendous amount of uncertainty in valuations right now
- Cost of capital has increased significantly, resulting in lower valuations
- We are seeing deals at or past the LOI stage being put on hold while macroeconomic and company-specific developments are monitored.
- Deals moving forward generally involve ESOPs, strategic buyers involving significant synergies and/or are capable of being completed with little or no debt financing
- Why will deals happen in the next 12 months
    - Financial reasons (distress)
    - Companies have something unique to offer and are a great candidate for an acquisition by a PE firm or strategic buyer
    - Baby boomers have had enough.

Valuation Process

How Companies are Valued

Income Approach

- Based on a company’s anticipated future cash flows and an investor’s required rate of return

Market Approach

- Compare the company to publicly traded and/or transacted companies and apply valuation multiples

Asset Approach

- What are the company’s assets and liabilities worth?

Valuation Conclusion

Valuation Process

Discounted Cash Flow Method

- **Premise:** The value of a business can be estimated based on the present value of the future economic benefits it generates

- **Steps in performing the income approach:**

1. Select & Determine Earnings Stream
    - Net cash flow is preferred measure
    - Can be debt-free or net-of-debt
2. Develop Appropriate Required Rate of Return
    - CAPM is most common approach
    - Can be cost of equity or WACC
3. Select & Apply Multi-Period or Single-Period Model
    - Multi-period models (e.g., discounted cash flow) are more flexible

Valuation Process

Developing a Forecast

Considerations to account for when developing a forecast in the current environment:

- Is the company in a sector and industry that is directly impacted by inflation or labor pressures?
- Are there any vendors or suppliers in distress?
- Is the company operating in geographies that are being impacted negatively or is the company's geography limited?
- Quality of the customers?
- Is there any customer concentration or concerns over large non-payments?
- Will the company need to manage cash balances differently or modify its policies around working capital?
- Will capital expenditure policy need to be revisited or will there be a need to defer capital expenditures?

Valuation Process
Market Approach

- **Premise:** The value of a business can be estimated based on comparisons to similar businesses

- **Guideline Public Company Method**
  - Stock market is the best and most accurate source of valuation data; it is the source of rate of return data in income approach
  - Compare fundamentals of subject company and peer group of publicly traded companies
  - Current valuation multiples are extremely volatile… use caution!

- **Guideline Transaction Method**
  - Identical to public company approach, except use transaction multiples from M&A deals as basis for valuation
  - Information about each transaction is typically limited since deals often involve private companies
  - Current company performance may not be the best indicator of long-term performance… look heavily at "sustainable" performance

Impairment Considerations
History

Pre-2001 (APB Opinion 17): Goodwill amortized over 40-year period.

2001-2008 (SFAS 142 & later ASC 350): Goodwill tested for impairment
- Testing at the reporting unit level
- Tested annually, or when a triggering event occurs
- Tested using a 2-step valuation process
- SFAS 141 also implemented, which outlined how intangible assets (including goodwill) should be originated in business combinations

2011-2013: In an effort to reduce costs, a new qualitative approach (i.e., "Step Zero") may be used to test for impairment prior to a quantitative approach (i.e., Step One), with a "more likely than not" standard for moving to Step One.

2014-2016: In another effort to reduce costs, the FASB's Private Company Council introduced an alternative to accounting for goodwill available only for private companies and not-for-profit companies, including:
- Goodwill may be amortized over a period of 10 years or less
- Impairment testing is only performed when there is a triggering event
- Impairment testing can be done at enterprise or reporting unit level

2017-Now: The "Step Two" calculation for goodwill impairment is eliminated

Impairment Considerations

Testing Requirements

	GOODWILL	INDEFINITE-LIVED INTANGIBLES	LONG-LIVED ASSETS (INCLUDING FINITE-LIVED INTANGIBLES)
Relevant Guidance	ASC 350	ASC 350	ASC 360
Testing Requirements	Annually and upon triggering event (for private companies electing accounting alternative, only upon triggering event)	Annually and upon triggering event	Upon triggering event
Level of Testing	Reporting unit (operating segment or component)	Individual asset	Asset group (lowest level of independent cash flow)
Method of Testing	One step on a fair value (e.g., discounted cash flow) basis	One step on a fair value (e.g., discounted cash flow) basis	Two steps – first step on an undiscounted cash flow basis, second step on a fair value basis

- Election of the PCC alternative does not absolve a company from performing an impairment test if a triggering event occurs

Impairment Considerations

Triggering Event

- Determining whether a triggering event has occurred requires an assessment of the totality of events or circumstances such as the following:
  - Macroeconomic conditions such as a deteriorating on in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets.
  - Industry and market considerations include elements such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development.
  - Overall financial performance includes such factors such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.
  - If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

Impairment Considerations

Sequencing

- As businesses consider the financial reporting impacts of the current economic environment and whether assets are impaired, they will need to carefully consider the rules regarding the sequence in which impairment testing is to be performed.

    1) Indefinite-Lived Intangible Assets (ASC 350-30);

       Receivables and inventory under the applicable guidance;

       Equity method investments under ASC 323-10; and

       Investments in equity securities and available-for-sale securities under ASC 321-10 and ASC 326-10, respectively

    2) Long-lived assets, such as property, plant and equipment (PP&E), finite-lived intangible assets and asset groups under ASC 360-10

    3) Goodwill of a reporting unit containing any of the above assets under ASC 350-20

Impairment Considerations

Long-Lived Assets (ASC 360)

- Once indefinite-lived intangible assets have been tested for impairment and any necessary impairment loss has been recognized, an entity should consider whether long-lived assets, including finite-lived intangible assets should be tested for impairment.

- These assets (asset groups) are tested for impairment whenever events or changes in circumstances indicate that an impairment may have occurred (i.e., a triggering event).

- If a triggering event occurs, the carrying amount of the asset (asset group) is tested for recoverability.

- The recoverability test is performed by comparing undiscounted cash flows attributable to the asset (asset group) to the carrying amount of that asset (asset group).

- If the recoverability test indicates that the carrying amount of the asset (asset group) is recoverable, no impairment should be recognized.

- If the recoverability test indicates that the carrying amount of the asset (asset group) is not recoverable, the fair value of the asset (asset group) should be determined and an impairment loss should be recognized if the carrying amount of the asset (asset group) is greater than the fair value of the asset (asset group).

Impairment Considerations

Goodwill (ASC 350-30)

- The Step 1 test is an enterprise valuation, typically performed using valuation methodologies such as:
  - Discounted Cash Flow Method
  - Guideline Public Company Method
  - Guideline Transaction Method

- Impairment exists when carrying value (i.e., book value) exceeds fair value

- The concluded Fair Value should reflect an Exit Price
  - Would the likely exit be in the form of a stock deal or asset deal?
  - The tax benefit of intangible asset amortization should be considered
  - "Market participant" control premiums should be considered

Other Financial Reporting Considerations

Contingent Consideration

- Contingent Consideration
  - As part of the initial purchase price allocation, the Fair Value of any contingent consideration is determined
  - At each reporting date, this Fair Value is re-valued and marked to market
  - If the Fair Value of the contingent consideration is lower than initial measurement, the variance is taken as a gain to the income statement

Other Financial Reporting Considerations

ASC 718 – Stock Based Compensation

- Modification of equity-classified awards

- A company should recognize compensation cost in an amount at least equal to the award's grant-date fair value, unless the company's expectation on the modification date is that the employee will fail to meet the original award's performance or service condition.

- Compensation cost should be recognized if the award ultimately (1) vests under the modified vesting conditions or (2) would have vested under the original vesting conditions.

- If the award was expected to (and does) vest under the original conditions, the company would recognize compensation cost regardless of whether the employee satisfies the modified condition. This is consistent with ASC 718's use of the modified-grant-date model whereby compensation cost is not reversed for awards that vest, even if an employee does not exercise the option or does not realize any value from the exercise of the option.

Other Financial Reporting Considerations

ASC 718 – Stock Based Compensation (cont.)

- Modifications of equity-classified awards that have performance and/or service conditions can be categorized into four types:
- Type I: Probable-to-probable: This type of modification does not change the expectation that the award will ultimately vest. The cumulative amount of compensation cost that should be recognized is the original grant-date fair value of the award plus any incremental fair value resulting from the modification.
- Type II: Probable-to-improbable: This type of modification changes the expectation that the award will ultimately vest. Specifically, a condition that the company anticipates will be satisfied is replaced with a condition that the company expects will not be satisfied. For Type II modifications, no incremental fair value would be recognized unless and until vesting of the award under the modified conditions becomes probable.

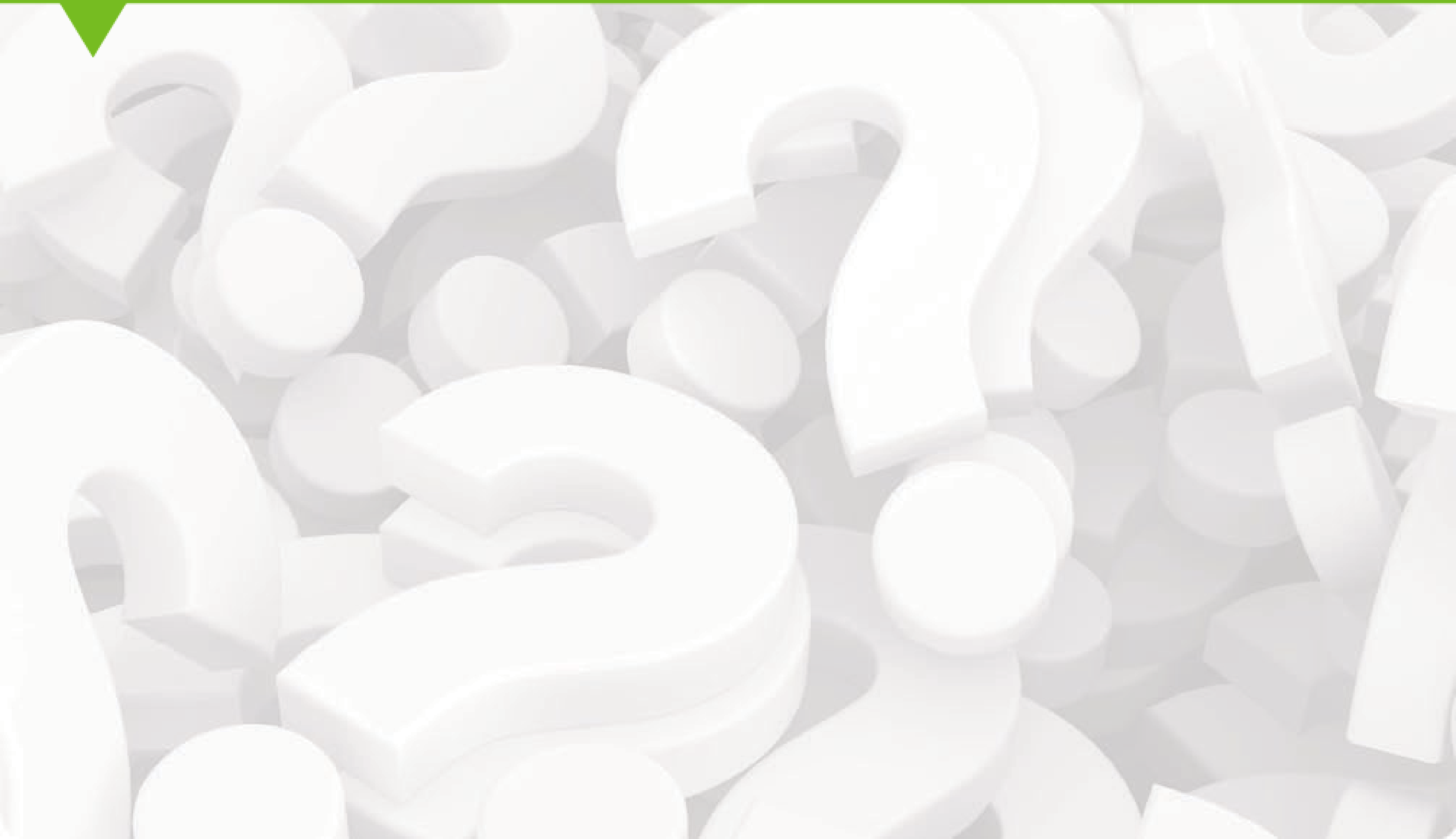
Other Financial Reporting Considerations

ASC 718 – Stock Based Compensation (cont.)

- Type III: Improbable-to-probable: This type of modification changes the expectation that the award will ultimately vest. Specifically, a condition that the company expects will not be satisfied is changed to a condition that the company expects will be satisfied. In this fact pattern, the cumulative compensation cost recognized for the original award should be zero immediately prior to the modification as none of the awards are expected to vest. The incremental fair value is therefore equal to the fair value of the modified award (the value of the modified award compared to its prior zero value). The incremental compensation cost is recognized over the remaining requisite service period, if any.

- Type IV: Improbable-to-improbable: This type of modification does not change the expectation that the award will ultimately not vest. The company would not recognize additional compensation cost on the modification date because it continues to expect that the award will not vest.

Questions?



Break

We will resume at 3:30 PM

Merger, Acquisitions and What Blows Up a Deal

Speaker

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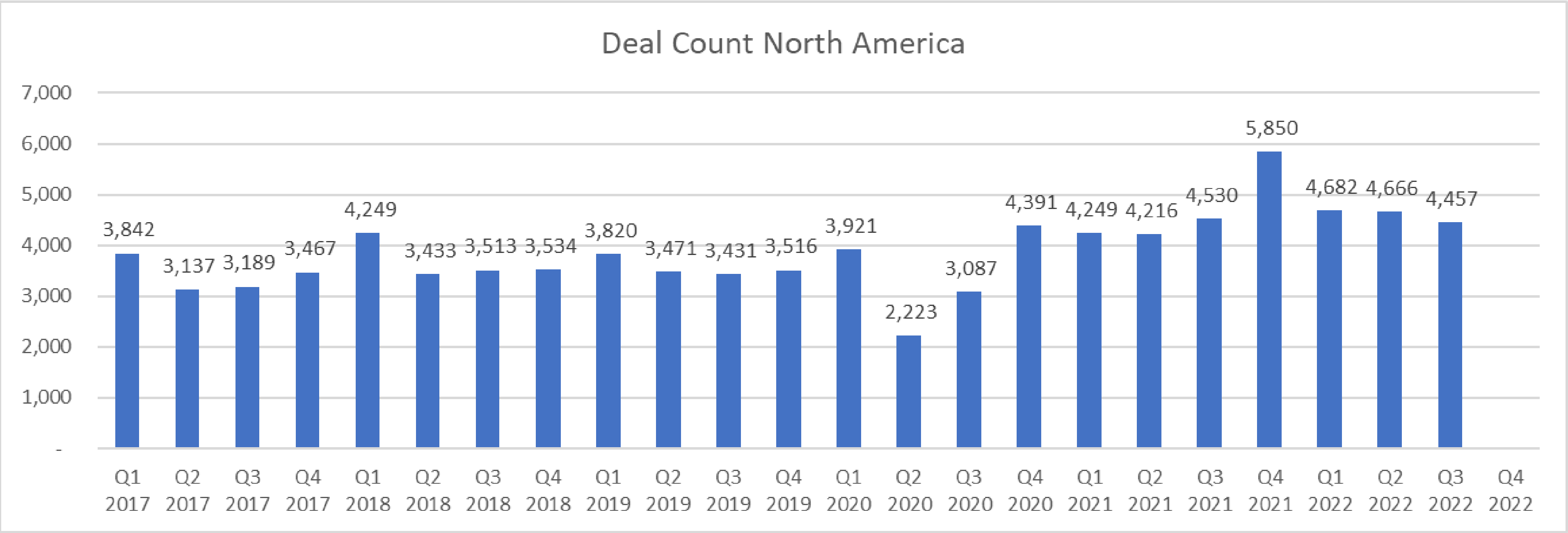
M&A Activity Overview



Source: Pitchbook as of Sept 30, 2022
https://pitchbook.com/news/articles/merger-acquisition-deal-global-trends-q3-2022

M&A Market Forces and Predictions

- Market Forces
  - High Q4 2021 activity was due to threat of capital gains tax law change.
  - Incredible amount of cash held in PE firms that must be spent on acquisitions. Major factor impacting activity.
  - PE model is to buy, grow, sell in 3-6 years. Built in churn.
  - Demographics of business owners – They are getting older.
  - Interest rates.
  - The economy.

- My Predictions
  - Deal activity will cool off slightly over next 2 years but continue to be above average.
  - If interest rates stay elevated and economy slows PE firms will spend more time shoring up what they already bought instead of growing through acquisitions.
  - However, the amount of PE cash and pressure to do deals is significant and is the major driver of deal activity.

Seller Motivations and Choices

- Seller Motivations
    - Dying
    - Divorce
    - Burnout
    - Retirement
    - Divestiture
    - No longer getting along with partner
    - Need more resources to grow to next level
    - Want to take some chips off the table
    - Having trouble surviving in marketplace

- Seller Choices
    - Individual Buyer, Partner or Management Team
    - Strategic Buyer
    - Private Equity or Family Office
    - ESOP
    - Liquidate
    - File for Bankruptcy

Platform vs Bolt-On

- Platform:

A platform is a company typically with at least $2mil in EBITDA that a Private Equity Group acquires in order to do a roll up within an industry. Their objective is to grow fast, create efficiencies and sell in 5-7 years for a significant profit. They will grow organically and through acquisition. PE firms will pay a substantial premium for a platform to get into the industry and get the process of growing started. The platform requires a very strong management team and a fundamentally sound business model that is scalable.

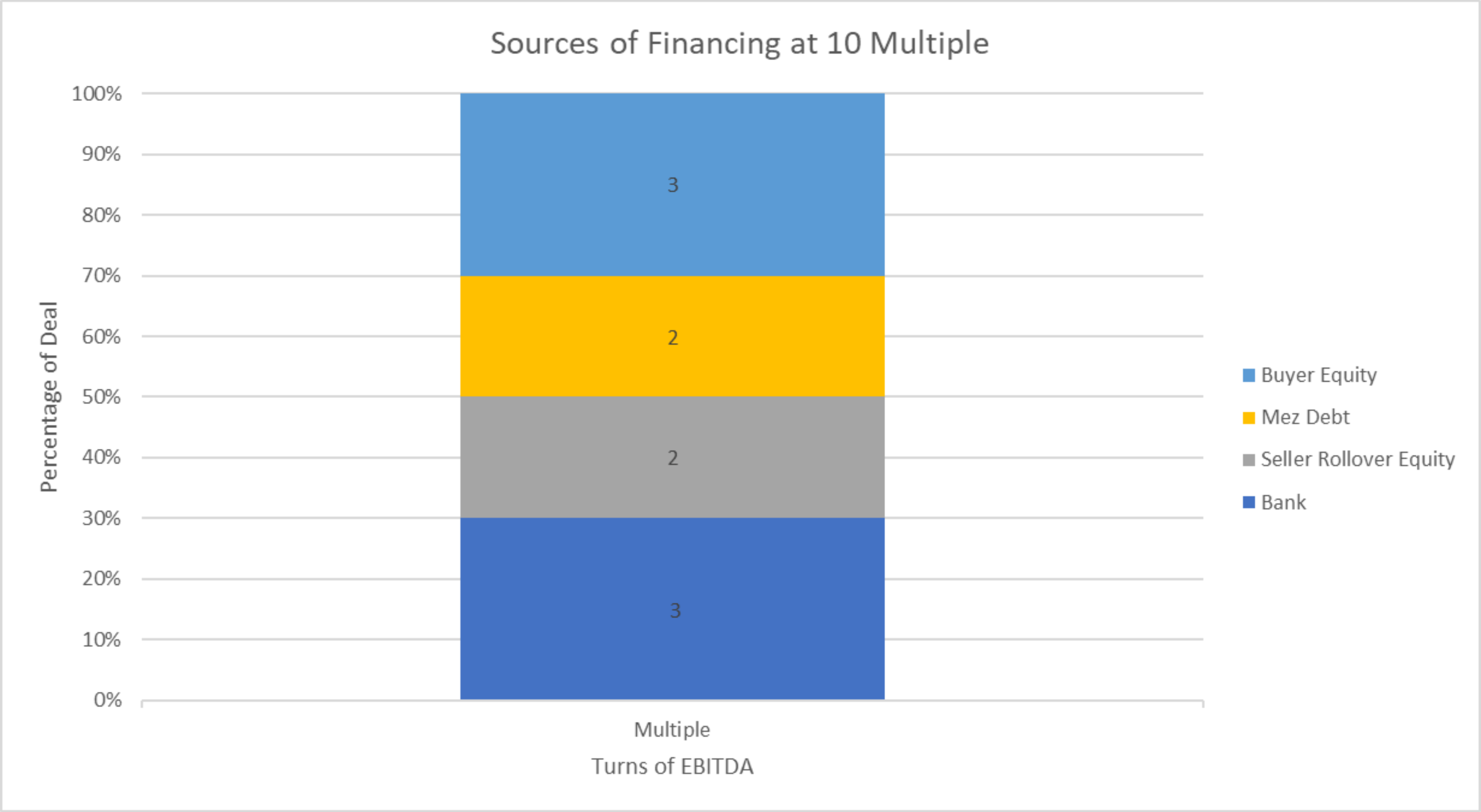
- Bolt-On:

A Bolt-on is typically a smaller company that adds value to the platform in some way. That value comes in the form of specific geographic coverage, specific industry served, specific product lines, proprietary software, attractive client base or industry knowledge. Bolt-ons typically sell for lower multiples compared to platforms.

Selling Price – Multiple of EBITDA

- It Depends
  - Size of Business (Revenue and EBITDA)
  - Industry
  - The Buyer and their valuation methodology
  - Motivation of Buyer
- In General
  - The smaller the EBITDA the lower the multiple
  - Higher multiples for high growth industries
  - PE firms pay higher multiples, followed by strategics, family offices, individuals and ESOPS
  - Platforms go for higher multiples than bolt-ons
- Ballpark
  - $0 - $1m EBITDA: 0 – 4 multiple
  - $1m – 2m EBITDA: 4 – 6 multiple
  - $2m - $10m EBITDA: 6 – 10 multiple
  - $10m - $100m+ EBITDA: 10 – 15+ multiple
  - Stock Market average P/E: 19.6

Financing



EBITDA: Earnings Before Interest, Taxes, Depreciation, Amortization

M&A Lifecycle – Perfect World

- Perfect World
  - The day business owner starts business he/she is already thinking about who they will sell business to.
  - Owner builds a professional team of advisors (CPA, Attorney, Wealth Advisor, Board) and consults with all on regular basis.
  - Owner builds successful business with strong management team and produces GAAP financials.
  - Owner decides on his/her terms when they want to sell.
  - Owner engages an Investment Banker to run a process to take business out to market.
  - Sell side due diligence is performed to preemptively identify any flaws in the business.
  - A CIM is produced and sent to specific buyers.
  - Buyers meet Seller and submit Letters of Intent (LOI).
  - Seller selects best offer.
  - Buyer performs due diligence.
  - Parties finalize purchase agreement.
  - Close at high multiple, some equity rolled for second bite.

Due Diligence – Quality of Earnings

- Major risk factor in a deal is target's financial statements not accurately reflecting the true performance of the company over the period of time being analyzed.

- Purpose of Quality of Earnings Report:
  - Get historical financial statements to GAAP *by month*
  - Remove non-recurring revenue and expenses *by month*
  - Analyze the core business and identify strengths and weaknesses of the business
  - Report out an adjusted EBITDA for historical periods *by month*
- Benefits:
  - GAAP compliant financials which can be shared with investors and lenders to secure financing
  - NWC components become easier to understand and negotiate
  - Roadmap of non GAAP issues to be address post close
  - Clearer understanding of fundamentals of business
  - Leverage in negotiations

GBQ

Due Diligence – Tax

- Major risk factor on the tax side is a surprise tax bill due post close that the Buyer could be on the hook.

- Where can the tax issues be hiding:
  - Unpaid sales and use tax that state could go after Buyer
  - Seller not filing and paying taxes where they have economic nexus or traveling employees
  - Target not being properly classified for tax purposes – S Corp Elections and disqualification
  - Tax attributes of assets being acquired are not clear
  - Deal not being structured in tax efficient manner – Step up
  - Purchase agreement not being clear who is responsible for what taxes

What Blows Up Deals

- Financials
  - Poor Revenue Recognition Procedures
  - Poor Capitalization of Inventory
  - Balance Sheet Items Valued Incorrectly
  - Net Working Capital Calculation Negotiation
- Business Fundamentals
  - Vendor/Customer Concentration
  - Declining Sales/Margins
  - Weak Management Team
- Taxes
  - Tax Consequences of Stock vs Asset Deal
- Legal:
  - Unsettled or Undisclosed Lawsuits
- People
  - Unreasonable Expectations
  - Poor Advisors or No Advisors
  - Dishonesty
  - Emotions

Blow Up Examples – Revenue Recognition

- Revenue Recognition

Target was in SaaS space. Clients prepaid for services either on a monthly or yearly basis. Target would invoice clients the day before the beginning of the month the services were to be provided. Example: Invoices dated 7/31/2020 for August 2020 services. Clients would typically pay by Aug 5th 2020. Deal was structured to be a cash free – debt free transaction.

Problems:

  - AR: Overstated on 7/31/2020 for all invoices for August services not yet performed.
  - Revenue: July 2020 Revenue overstated for all invoices for August services not yet performed.
  - Deferred Revenue Liability: Understated for cash received.
  - Cash: Cash received on 7/31/2020 for those invoices belongs to Buyer, not Seller. Prorated the rest of Aug 2020.
  - EBITDA overstated by delta from 7/31/2019. 2020 was better than 2019.

Blow Up Examples – Revenue Recognition

- Revenue Recognition

Remodeling business that receives deposits prior to starting jobs. 50% down when job is won, 40% day job is begun, remaining 10% when job is complete. Time frame from job won to completion could take 3+ months. Time frame from once job started to completed was about 2 weeks. Target would create invoice for 100% of job when project was won. Debit AR, credit Revenue. When 50% was received debit cash, credit AR. Same process when 40% deposit made. On 12/31 CPA would reverse any AR balance.

Problems:

- AR: Always overstated.
- Even though CPA reversed AR balance on 12/31 it was only half of what needed to be reversed.
- Revenue: Always overstated.
- Deferred Revenue Liability: Always understated.
- Cash: Cash received for jobs not yet started belongs to Buyer, not Seller.

Blow Up Examples – Inventory Capitalization

- Inventory Capitalization

Manufacturer that did not have a perpetual inventory system, used same standard costing formula over many years to expense inventory to COGS, volatile raw material costs, substantial scrap produced in manufacturing process, poor cycle count and physical inventory process. Labor was expensed as incurred and unit production varied significantly from month to month.

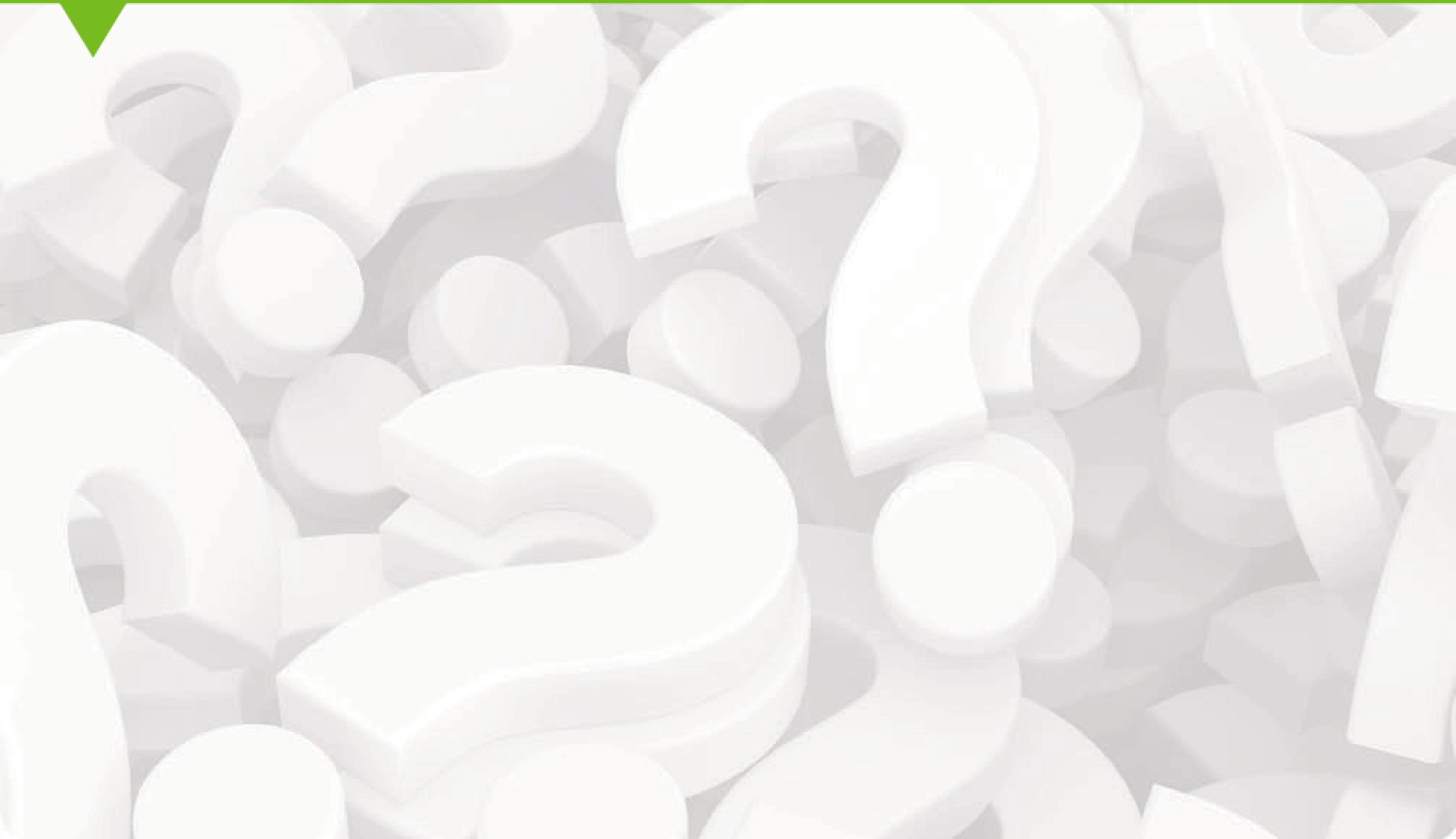
Problems:

- The historical standard cost used to expense inventory was too low and never evaluated. COGS were too low, EBITDA too high.
- Scrap was not captured in costing or reduction of inventory.
- Cycle counts and physical inventories, when done, did not make distinction between finished goods and scrap.
- Inventory was substantially overstated which had to be expensed to P&L for historical periods impacting EBITDA. Inventory on Balance Sheet was adjusted down substantially.

What Does a Potential Acquisition Trigger

- Everything!
    - Financial Review or Audit
    - Tax Preparation
    - Tax Deal Consulting
    - Buy or Sell Side Quality of Earnings Report
    - Business Valuation
    - Accounting Services
    - ESOP Feasibility Study
    - Estate Planning
    - Investment Banking Services (Footprint Capital)
    - Legal Review
    - IT Review
    - HR Review
    - Insurance Review
    - Banking Review
    - Life Coaching
- If you are looking at a potential acquisition or sale of a business, GBQ would be happy to assist or answer any questions.

Questions?



Financial Implications of SALT and Employee Retention Credit Updates

Speakers

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Overview

- Mergers and Acquisitions – SALT Basics
- SALT Specific Tax Considerations
- Due Diligence Activities
- Employment Tax Credit Updates
  - Employee Retention Credit
  - Work Opportunity Tax Credit

Mergers and Acquisitions – SALT Basics

- Deal Structure
  - Asset vs. Stock sale
    - Does the business "survive"?
    - "Quit the business" language in many state statutes may carry unique tax considerations
    - Tax treatment may differ between tax types
- Understanding Business Activities of Target
  - Company Footprint
    - Physical Operations
    - Location of customers
    - In-state activities
      - Sales or service personnel
      - Remote employees
      - Deliveries
      - Other nexus creating activities (software, advertising, etc.)

Mergers and Acquisitions – SALT Basics

- Understanding Business Activities of Target (cont.)
  - Product Offering
    - Tangible property
    - Service (importance of classifying service type)
    - Sourcing of services
    - Mixed transactions
- Tax Due Diligence
  - Opportunity to uncover issues beyond quality of earnings
  - State and local tax may create issues due to some liabilities attaching to new business regardless of deal structure
  - Understand materiality on both buy- and sell-side
  - Additional Considerations
    - Transaction amount
    - Timing for completion
    - Type of business being acquired
    - Willingness of parties to take on risk

SALT-Specific Considerations

- Entity Level Taxes
  - Income/Franchise
  - Gross Receipts
- Employment Taxes
- Indirect Taxes
  - Sales/Use
  - Property Tax
- Tax Incentives
- Quasi "Taxes"
  - Business Licenses/Fees
  - Unclaimed Property

Due-Diligence Activities

- Pre-Due Diligence (Sell Side)
  - Perform state tax review to uncover any issues and create a game plan to clean up liabilities
    - Prospective compliance
    - Voluntary disclosure/Amnesty filings
    - Establish non-filing positions
    - Secure exemption documentation (sales tax)
  - Gather records and documentation regarding filing history
  - Update internal tax policies and procedures
- Pre-Due Diligence (Buy Side)
  - Understand target's industry and unique tax implications that may result
  - Compile initial tax request
  - Define materiality threshold for tax-related issues

Due-Diligence Activities

- During Due Diligence (Sell Side)
  - Provide documentation responsive to request. Many issues can be resolved by providing detailed tax filings and associated backup
  - Review due diligence report and refute findings where possible
    - Taxability of product/service offering
    - Nexus determinations
  - Tax clearance certificates
    - Difficult to obtain!
    - Plan ahead – Time consuming process and may lead to additional inquiry or audit
    - May involve catch up filings
- During Due Diligence (Buy Side)
  - Review tax filings of target and identify gaps
  - Quantify exposure by tax type and year (including estimates for interest and penalty)

Due-Diligence Activities

- Post Due Diligence
  - Determine Next Steps
    - Indemnification/Escrow
    - Purchase price reduction
    - Reps and warranties insurance
  - Cost/Benefit Analysis – Use escrow/reduced purchase price dollars wisely!
    - VDA/Amnesty
    - Prospective compliance
    - Timing of actions – Indemnity, escrow, insurance may be limited in duration
  - Acquisition Tax Filings
    - Transfer taxes
    - Sales tax
    - Short period/final income tax returns

Due-Diligence Activities

- Post Due Diligence (cont.)
  - Integration of new entity
    - Tax account closures/registrations
    - Review organizational structure
    - VDA/Amnesty
    - System integration
      - Tax determinations for new products
      - Reporting functionalities
    - Retention of key employees

Employee Retention Credit (ERC)

Employee Retention Credit

What is it? The ERC is a fully refundable payroll tax credit designed to encourage businesses to retain and compensate employees during periods in which businesses are not fully operational. The ERC applies to qualified wages paid after March 12, 2020 and before October 1, 2021.

How much is the credit? For 2020, the refundable tax credit is 50% of qualified wages up to $10,000. For 2021, the credit is 70% of qualified wages up to $10,000. The maximum credit is $5,000 per employee in 2020 and $7,000 per employee per quarter in 2021.

Who is eligible for the ERC? To claim the ERC in any given calendar quarter, businesses must meet one of the following criteria during that quarter:

- They experienced a significant decline in gross receipts during the calendar quarter compared to 2019

<u>OR</u>

- Their operations were fully or partially suspended as a result of orders from a governmental authority limiting commerce, travel or group meetings due to COVID-19

Employee Retention Credit

- Aggregation rules are complex - more than meets the eye
- Coordination with PPP forgiveness creates real value
- Full or partial shutdown due to government order substantiation is the most discussed topic surrounding the ERC
- The IRS is warning businesses about aggressive third party ERC providers ("ERC mills")
- Financial statement treatment of ERC
- Claiming the ERC does create taxable income in the year the ERC wages were originally deducted – amended returns are required
- Timing of current ERC refund claims at the IRS
- How to contact the IRS regarding an ERC refund claim

Employee Retention Credit

How can we help?

- Determining and documenting eligibility
- Preparing or reviewing quarterly calculations of the ERC
- Preparing or reviewing Form 941-X
- Credit maximization planning in conjunction PPP forgiveness
- General ERC consulting

Work Opportunity Tax Credit (WOTC)

Work Opportunity Tax Credit (WOTC)

- Provides over $1 billion each year in federal tax credits
- Objective is to incentivize employers to hire people who have difficulty or face challenges in gaining employment
- First enacted in 1996
- Recently renewed through the end of 2025
- Targeted groups include: qualified veterans, SNAP recipients, ex-felons, summer youth employees, long-term unemployed recipients, and TANF recipients.
- The maximum tax credit is generally $2,400 per individual, but certain categories are higher.

WOTC Profiles

Are you a good fit for WOTC? – <u>YES!!</u>

Industries

- Restaurants
- Retail
- Call Centers
- Manufacturing
- Healthcare
- Distribution Centers
- Construction

Employees

- Moderate to High Turnover
- Low-skilled Positions
- ~50 Hires Annually
- Geographic Area
- Work at least 120 Hours

Tax Position

- Current or Future Federal Tax Liability
- 20-year Carry Forward

Work Opportunity Tax Credit (WOTC)

Top 5 Reasons Companies Aren't Claiming WOTC

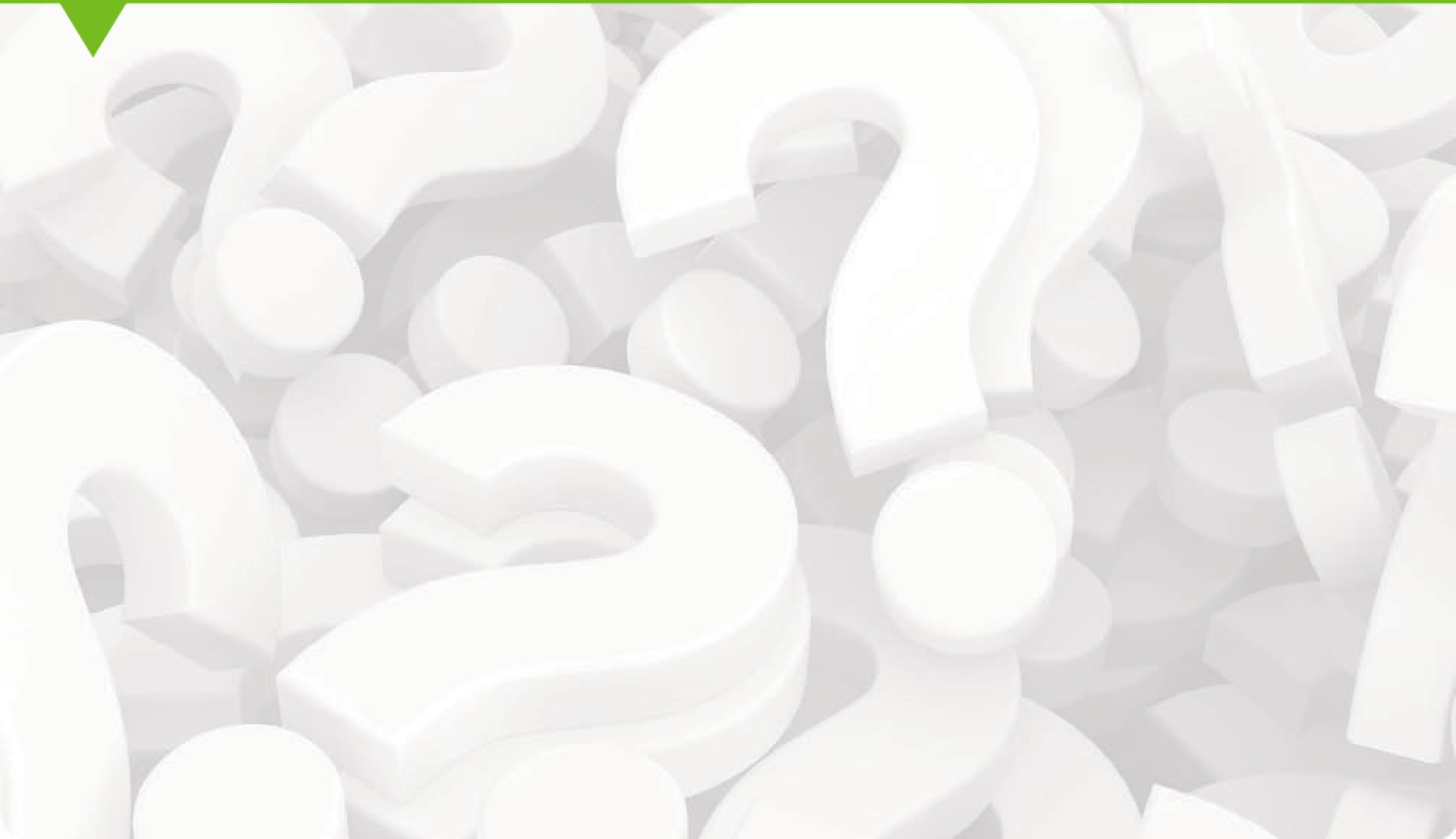
1. **We don't hire people that qualify**
   - *National statistics show that 14% of employees qualify across all industries*
   - *More than 41 million Americans currently receive food stamps*
2. **We don't want to invade our employees' privacy**
   - *Employees typically don't ask questions regarding the forms*
   - *Using an external WOTC provider provides additional privacy*
3. **We can't use the tax credit**
   - *Most entity types can claim it*
4. **It will take forever to receive any benefit**
   - *Unless you are in NV, it shouldn't take long*
5. **We don't want to deal with all of the paperwork**
   - *Only one form is required to be signed by the employee*
   - *Companies that utilize online employee applications make it simple*

Work Opportunity Tax Credit (WOTC)

How can we help?

- Complimentary review of typical hiring pools to size up opportunity
- Implementation of seamless process to screen candidates
- Calculation, submission and certification of WOTC credits to be claimed

Questions?



Forensic Files - Real Stories of Financial Frauds

Speakers

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Agenda

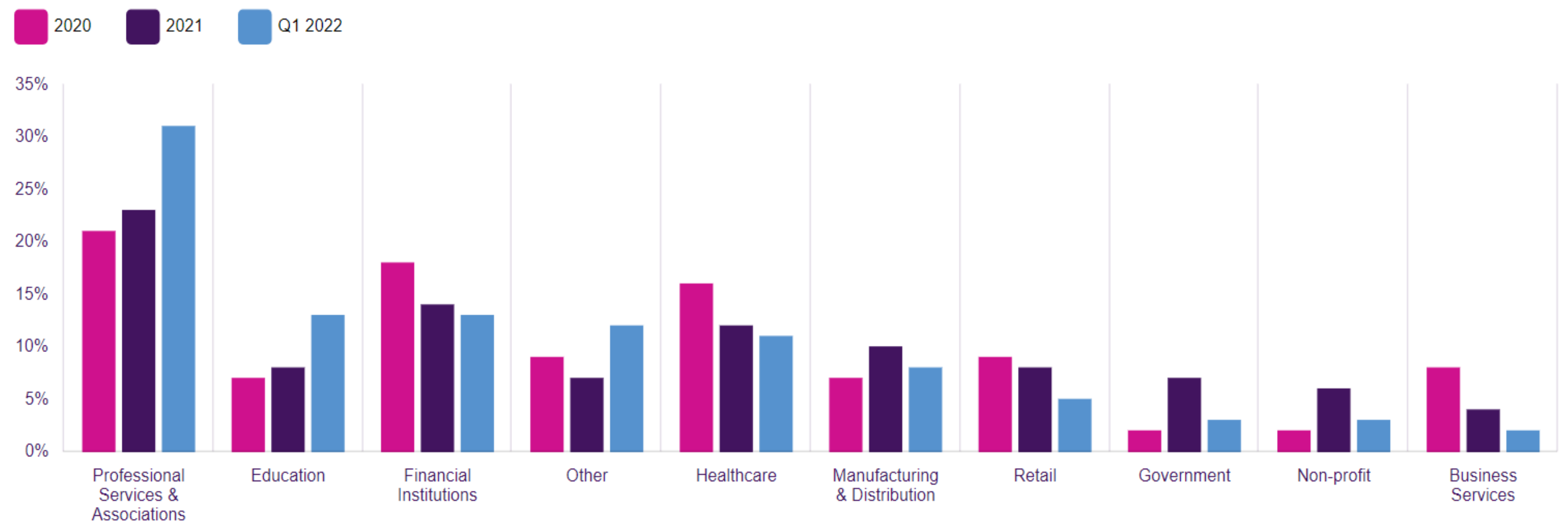
- Cyber-crimes and Business Interruption Losses
- Measuring losses
- Case Example & Takeaways
- Questions?

Current Trends: Cyber Fraud

Business email compromise remains an issue, with a particularly notable rise in professional services firms becoming victim to this attack – this industry class rose to 33% in Q1 of this year. Organizations cannot ignore this trend and should be diligent about training and education in response to the threat.

Business Email Compromise

Percentages by industry.



Phishing Examples

Your Account Statements Is Now Avaliable

Navy Federal Online

To Recipients

Dear Member:

We know you have a busy life and dealing with your finances is just one little part of it.

If you are now receiving e-mail statement notifications instead of paper statements.

Please Logon below to view your statement.

CONTINUE

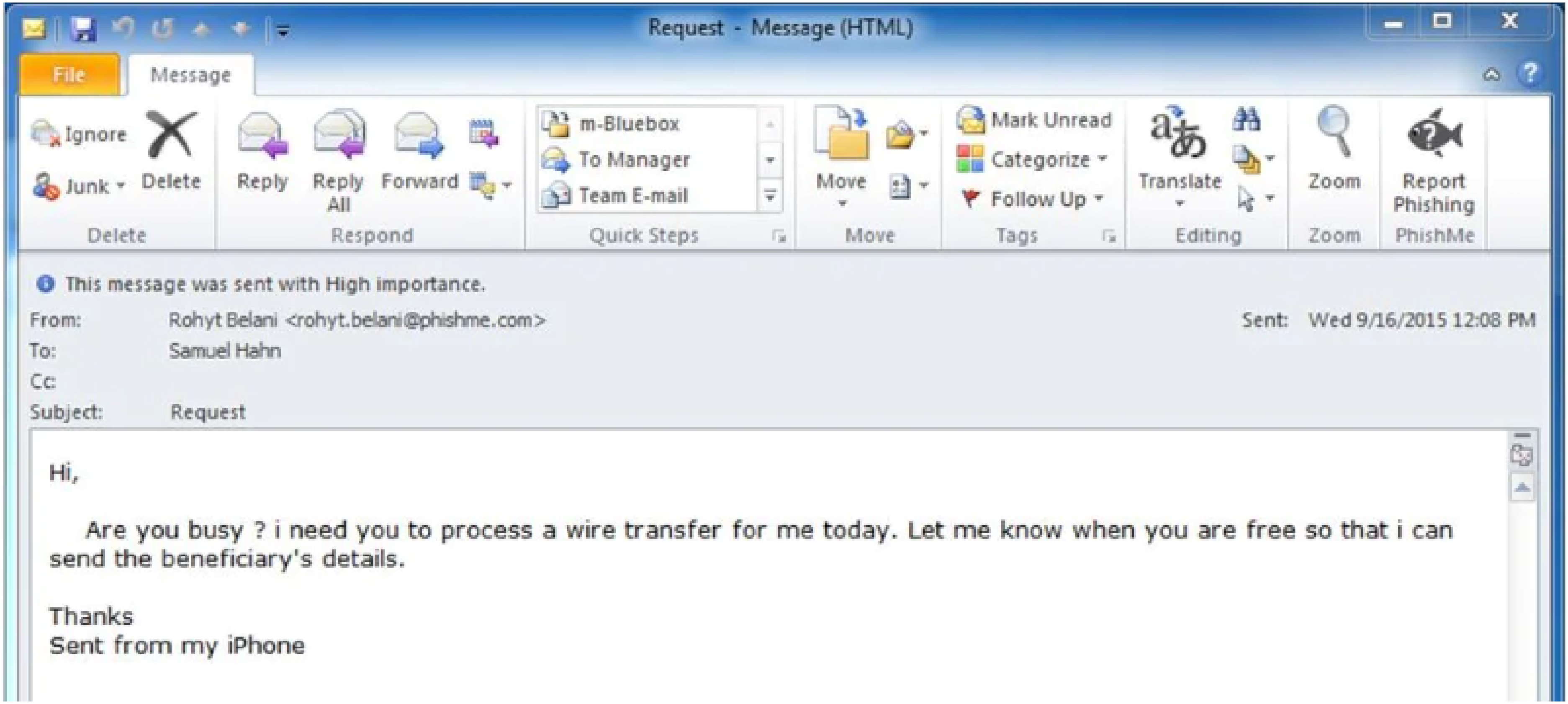
Thank you,
Customers Support Service
Navy Federal Credit Union.

Hyperlink is to "http://rudivervoort.be/SP/", not anything related to "navyfederal.org"

Reply, Reply All or Forward | More

Phishing Example (cont.)

Phishing email example: CEO phishing scam



Ripped from the Headlines

CNA Insurance

INCIDENT REPORT	
Date of incident: March 15, 2021	**Victim:** CNA Insurance
Crime: Cyberattack – ransomware	**Potential suspects:** Evil Corp
Cause: Threat actors breached an employee’s workstation using a fake and malicious browser update delivered via a legitimate website.	**Impact:** $40 million ransom paid
Other notes: The hacker encrypted 15,000 devices, including those used by remote employees. The attack compromised data of about 75, 000 employees, including confidential information such as social security numbers.	

Quanta/Apple

INCIDENT REPORT	
Date of incident: April 2021	**Victim:** Quanta/Apple
Crime: Cyberattack – ransomware	**Confirmed criminal:** REvil
Suspected Cause: Sophisticated **e**ncryption	**Impact:** Release of intellectual property, Apple blueprints
Other notes: The Russian based group, REvil, took responsibility for infiltrating Quanta's networks. REvil demanded $50 million but Quanta refused. Because Quanta is one of Apple's major suppliers, REvil turned it's focus to them and began sharing unreleased blueprints of Apple products. In May 2021 it appeared as REvil called off the attack.	

Business Interruption Policies and Coverage Issues

Business Interruption as a Result of Cyber Attacks

- Business interruption: loss of income that a business suffers after a disaster

- Cyber insurance: provides coverage for losses caused by a cyber related security breach
  - What does it typically cover?
    - Ransom payments
    - Theft of personal or commercially sensitive information
    - Business interruption during network downtime
    - Costs to notify third parties of the breach

Measuring the Loss

General formula = loss of net income plus continuing cost not earned.

Cyberattacks can result in business interruption losses due to:

- Lost sales
  - While the network is being restored, it may not be possible to access data or other IT functions, such as email.
  - Additionally, the security breach can result in a damaged reputation
- Labor inefficiencies
  - Specifically for manufacturing businesses, some tasks that are typically performed automatically may need to be performed manually, causing for production to be slower and to back up
- Overtime
  - Employees may have to work overtime to catch up on delayed projects or production. Re-work may also be required if data is lost.

Fishbowl Solutions v. Hanover

- November 2019 – bad actor gained access to email account of Fishbowl’s Sr. Staff Accountant.
- Created “rules” that interfered with proper incoming emails. Tagging certain key words. Also sent emails out, impersonating her.
- Ultimately ended up with Fishbowl sending money out to the bad actor.
- Hanover insured Fishbowl. Cyber Business Interruption and an Extra Expense Clause.
- Fishbowl argued that this should have been covered by the policy.
- Hanover disagrees, arguing that Fishbowl’s interpretation of the cause contradicts the purposes of the policy.
- Key is that the Cyber Business Interruption language – “An actual loss of business income”

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- Cyber Business Interruption Language:

An actual loss of business income, directly resulting from a data breach, that it discovered during he policy period and which resulted in an actual impairment or denial of service of business operations during the policy period.

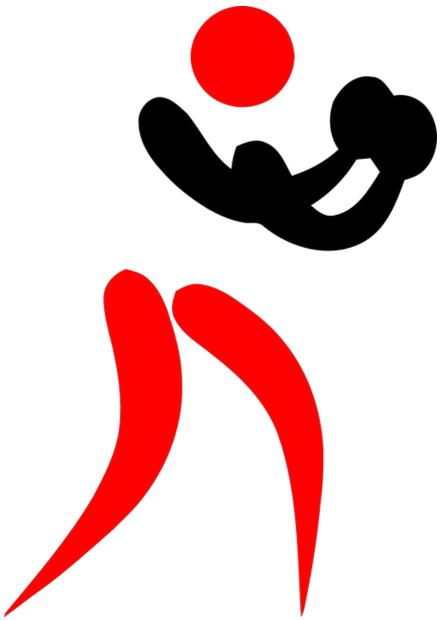
Net income (Net profit of loss before income taxes) that would have been earned or incurred if there had been no impairment or denial of business operations due to a covered data breach

And the Winner Was?

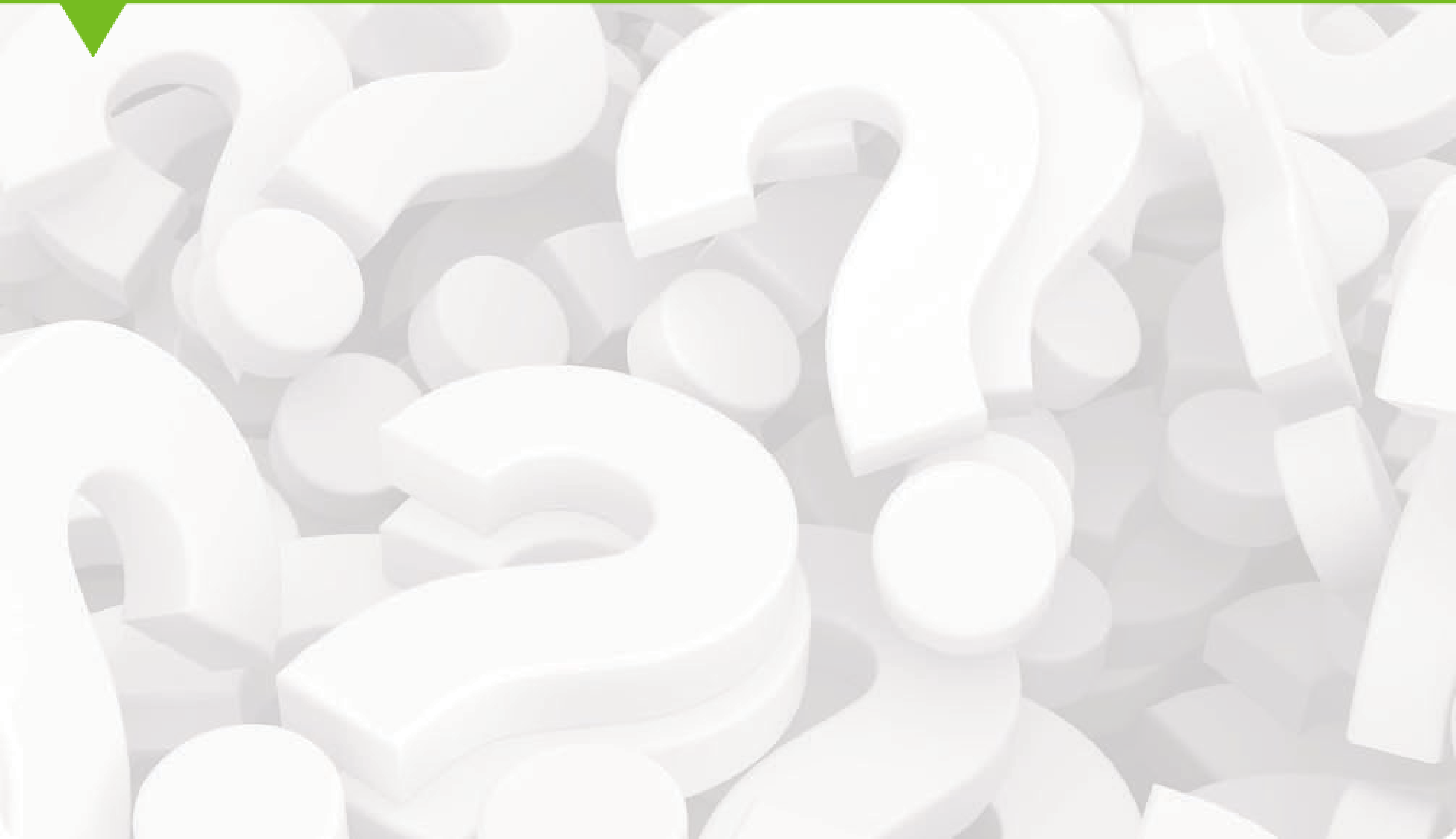
Areas for Dispute

The top three business interruption measurement issues between those making the claims and the calculated measurement are:

1. Sales projections – forensic accounts determine “but for” sales. “But for” the cyber attack, the sales would have been $XX.
2. Period of indemnity – length of time the insurance company is obligated to make payments to cover the losses.
3. Saved Costs – these need to be computed to determine the lost net income.



Questions?



THANK YOU!