



VIRTUAL

2021 Tax and A&A Update

Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- Today's materials will be shared in the chat box
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer nine questions/elements of engagement
 - Two (2) hours of CPE in the field of accounting and one (1) hour of CPE in the field of economics will be granted if you meet these requirements

DISCLAIMER: The presenters, Doug Berman, Robert Gantz, Jill Gilbert, Michael McAllister, Hunter Mink and Nicholas Boyer and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.



Welcome

Ed Monborne, CPA | CEO

POLLING QUESTION #1

To be eligible for CPE, 9 polling questions must be answered.

Today's Team & Agenda

8:10 – 9 a.m.	ASC 842 Lease Accounting	Bob Gantz
9 – 9:15 a.m.	Audit Impact of COVID-19 Funds	Jill Gilbert
9:15 - 9:35 a.m.	Cybersecurity and Impact on Related Controls	Mike McAllister
9:35 - 9:50 a.m.	Evolution of Auditing	Hunter Mink
9:50 - 10:05 a.m.	Break and Raffles Prizes	Doug Berman
10:05 - 11 a.m.	Economic Update	Nick Boyer
11 a.m.	Thank you and Closing Remarks	Doug Berman



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Michael McAllister

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Hunter Mink

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Nick Boyer



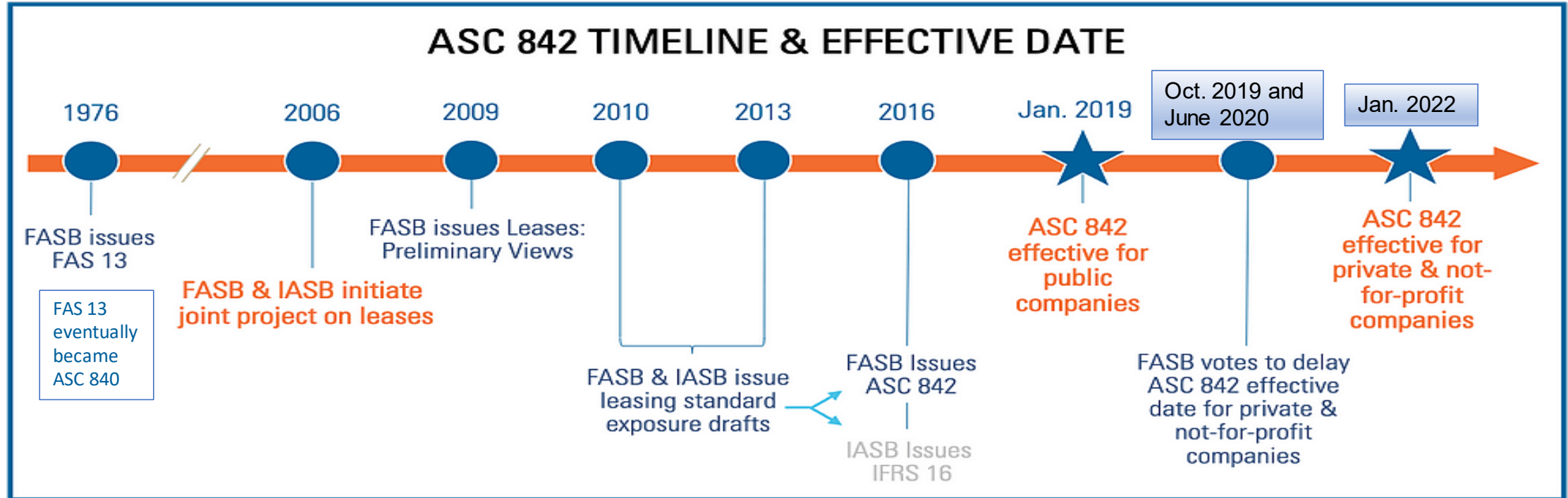
ASC 842: Navigating the New Lease Accounting Standard

Presented by: Robert Gantz, CPA | Partner, Audit Services Group

Agenda

- How we got here and implementation timeline
- Overview of leases and this new standard
- Presentation and disclosures in the financial statements, impact on comparative financial statements and practical expedients upon adoption of ASU 842
- Related-party leases
- RKL's software tool and lease team

Timeline (FASB and IASB)



For those following Government Standards, the new leasing standard (GASB 87) was effective for fiscal years beginning after June 15, 2021.

Effective Dates

The following table shows the leasing standard's effective dates:

- As originally issued
- As amended by ASU 2019-10
- As amended by ASU 2020-05

	Public Entities	Public NFP Entities	All Other Entities
As originally issued (ASU 2016-02)	Fiscal years beginning after December 15, 2018, and interim periods therein	Fiscal years beginning after December 15, 2018, and interim periods therein	Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020
As amended by ASU 2019-10	No changes	No changes	Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021
As amended by ASU 2020-05	No changes	Fiscal years beginning after December 15, 2019, and interim periods therein	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

What is This New Standard About?

- The Financial Accounting Standards Board (FASB) felt that the previous leasing guidance did not meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions.
- Most specifically, lessee's operating leases were not recognized on the balance sheet and better transparency to off balance sheet transactions was requested by users of financial statements.
- The standard's main impact is to lessee accounting, but it also applies to lessor accounting with minimal changes from the existing standard. Therefore, the remainder of the presentation will focus on lessee accounting and its impact.

ASC 842 Big Changes: Lessees

Topic	Guidance	Impact
Definition of a lease	A contract that conveys a right to control an identified asset	Greater emphasis on the concept of control in determining whether a lease exists
Lease classification	Removal of bright lines for classification of leases as financing or operating by lessees	Greater use of judgment in determining lease classification
Balance sheet presentation	Recognition of a right-of-use asset and related lease liability for all leases for lessees	Currently, only capital leases require balance sheet recognition for lessees
Income statement presentation	For lessees, the recognition, measurement, and presentation of expenses and cash flows should not change significantly	Right-of-use (ROU) asset representing operating lease will now be subject to impairment testing for lessees

POLLING QUESTION #2

To be eligible for CPE, 9 polling questions must be answered.

Lease Overview

- Core principle: Recognize assets and liabilities for leases with a lease term > 12 months
- Accounting depends on expected consumption of economic benefits embedded in underlying asset
- ASC 840 (old standard) had two leases: Capital and Operating
 - Capital leases were recorded as an asset/liability and operating leases were not, but instead expensed as incurred
- ASC 842 has two leases: Finance and Operating
 - Finance leases will just replace capital leases, but operating leases will also now be booked as an asset/liability
 - Only real difference between finance and operating leases will be the impact on the income statement

Does this Apply to All Leases – Is There Relief for Existing Leases?

- The standard applies to all leases, including subleases, except the following assets:
 - Leases of intangible assets
 - Leases to explore intangible assets
 - Leases of biological assets
 - Leases of inventory
 - Leases of assets under construction
- Will this apply to all applicable leases existing at the beginning of the effective date?
 - Yes, no grandfathering of existing operating leases
- Are there exclusions for short-term leases?
 - Upon making an election, lease terms of 12 months or less at lease commencement that do not include an option for the lessee to purchase the underlying asset that is reasonably certain to be exercised will continue to be expensed as incurred

Lease Definition

- The definition of a lease under ASC 842 is “a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.”
- An entity must determine whether a contract is or includes a lease at contract inception. Just because a contract isn't labeled as a lease doesn't mean it isn't a lease. Also, an embedded lease must be separated out and recorded under ASC 842.
 - An example of an embedded lease might include a service contract for maintenance of all copier equipment, but the service contract also embeds the cost of the copier equipment in the service contract. The use of the copier equipment would have to be separated out and accounted for as a contract subject to ASC 842.
- For a contract (or part of a contract) to meet the definition of a lease, the following must be true:
 - The contract includes an identified asset.
 - The contract conveys to the lessee the right to control the identified asset over the period of use (or for at least a portion of the period of use).

Lease Definition *(continued)*

- For the contract to convey the right to control the identified asset, both of the following must be true:
 - The customer has the exclusive right to use the identified asset or otherwise has the right to obtain substantially all of the economic benefits from using the identified asset over the period of use in accordance with the contract terms.
 - The customer has the right to direct the use of the identified asset over the period of use.
- For the customer to have the right to direct the use of the identified asset over the period of use, one of the following must be true:
 - The contract provides the customer with the right to direct how and for what purpose the asset is used over the period of use.
 - The relevant decisions about how and for what purpose the asset is used over the period of use are predetermined (e.g., by the contractual terms) and either:
 - The customer has the right to operate the asset (or to direct others to operate the asset in a manner that it determines) over the period of use without the supplier having the right to change those operating instructions, **or**
 - The customer designed the asset (or specific aspects of the asset) in a way that predetermines how and for what purpose the asset will be used over the period of use.

Lessee Classification: Finance or Operating

- Looks similar to existing ASC 840, but without “bright line” tests
- Classification criteria:
 - Ownership of the underlying asset transfers to the lessee by the end of the lease term.
 - An option exists under which the lessee may purchase the underlying asset and exercise of that option is reasonably certain.
 - The lease term makes up a major part of the underlying asset’s remaining economic life.
 - The sum of the present value of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equal or exceed substantially all of the underlying asset’s fair value.
 - The underlying asset’s specialized nature is expected to result in it not having an alternative use to the lessor at the end of the lease term.

If one or more of these lease classification criteria are met at lease commencement, the lessee should classify the lease as a finance lease. If none of these lease classification criteria are met, the lessee should classify the lease as an operating lease. One reasonable approach under the implementation guidance to use for the thresholds, major part and substantially all, are the current bright lines of 75% of remaining economic life and 90% of the underlying asset’s fair value.

Lease Term

- The **lease term** begins at the commencement date and is based on the non-cancellable period for which a lessee has the right to use an underlying asset, which should include any rent-free periods.
 - In addition, whether an option to extend or terminate a lease, or to purchase the underlying asset, should be reflected in the lease term depends on which party (or parties) has the right to exercise the option, and the likelihood that the option will be exercised.
- **Commencement date** is the date the lessor makes the underlying asset available to the lessee for its use. This is the date on which a number of important determinations and measurements are made related to the accounting for a lease (e.g., lease term, lease classification, lease payments).
 - It is also the date on which the lease liability and ROU asset are recognized for a lease unless the short-term lease accounting policy has been elected.

Lease Payments

- Lease payments are used by lessees for both classification and measurement purposes and include:
 - Fixed payments, including variable payments that are in-substance fixed payments
 - Variable lease payments that depend on an index or rate are included in lease payments and measured initially by reference to the index or rate at the commencement date (examples: CPI or an interest rate)
 - Variable lease payments that vary after the commencement date based on something other than an index or rate are not included in the initial lease payments and expensed as incurred.
 - For example, lease payments that vary based on the sales of a retail location are variable lease payments that are not included in lease payments for classification and measurement purposes.
 - Payments that vary solely based on the passage of time (e.g., escalating rents) are not considered variable lease payments.
 - The exercise price of an option to purchase the underlying asset if the lessee is **reasonably certain** to exercise that option.
 - Payments for penalties for terminating the lease.
 - Fees paid by the lessee to the owners of a special-purpose entity for structuring the transaction.
 - Amounts probable of being owed by the lessee under residual value guarantees.

Identify Lease/Non-lease Components and Non-component Payments

- A **lease component** is the right to use an underlying asset that meets the definition of a lease.
- A **non-lease component** transfers a good or service to the lessee that is separate from the right to use the underlying asset.
 - Example: Maintenance services related to the underlying asset (including common area maintenance services involved in real estate leases).
- **Non-components** do not provide an additional good or service to the lessee, and therefore, cannot be part of the lease.
 - Example: Reimbursements for the lessor's real estate taxes and building insurance.
- When a contract includes both lease and non-lease components, the lessee either:
 - Treats each separate lease component apart from the non-lease components **OR**
 - Elects an accounting policy by class of underlying asset to treat each separate lease component together with the non-lease component(s) related to it as one lease.
 - Non-components are expensed as incurred.

POLLING QUESTION #3

To be eligible for CPE, 9 polling questions must be answered.

Discount Rate

- The lessee uses a discount rate for present value purposes when determining the initial carrying amount of a lease liability. Here are the three discount rates in ASC 842 for lessees and when each should or may be used:
 - **Rate implicit in the lease:** The rate implicit in the lease should be used by the lessee if it is readily determinable. Given that determining the rate implicit in the lease requires knowing lessor-specific information, this rate is not readily determinable by lessees in most cases.
 - **Incremental borrowing rate:** The incremental borrowing rate should be used by the lessee if the rate implicit in the lease is not readily determinable. The lessee's incremental borrowing rate for this purpose is the interest rate the lessee would be charged for a loan that:
 - (a) is collateralized (i.e., secured by the lessee's aggregate collateral),
 - (b) has a term similar to the lease term,
 - (c) is for an amount equal to the lease payments and
 - (d) occurs in a similar economic environment.In addition, the hypothetical loan on which the incremental borrowing rate is based should reflect payment terms that are consistent with those of the lease (e.g., monthly principal and interest payments).
 - **Risk-free rate:** Lessees that are not public business entities may elect an accounting policy to use the risk-free rate for a period comparable to the lease term. In the U.S., the risk-free rate is the rate of a zero coupon U.S. Treasury instrument for the same period of time as the lease term. If the lessee elects to use the risk-free rate as the discount rate, it must use that rate in accounting for all of its leases. There is a proposed ASU that would allow use of the risk-free rate on a class by class of assets.

Differences in Finance and Operating Leases

- The initial recording of the leases are the same. Both leases get recorded on the balance sheet with a ROU asset and a corresponding liability. The liability is initially recorded at the present value of the remaining lease payments with a corresponding ROU asset.
- The difference comes in with future accounting for the lease liability and corresponding ROU through the income statement over the term of the lease.
 - For a finance lease, you would record like you do now for capital leases.
 - As lease payments are made, the payment is broken down between principle and interest using the effective interest rate method.
 - The ROU asset is amortized to expense generally on a straight line basis.
 - For an operating lease you would record as one number, a single straight line rent expense and the components of the rent expense are the corresponding interest expense using the effective interest rate method, plus the “backed into plug” to get to a straight line rent expense is amortization of the ROU.
 - What that ultimately means is the ROU amortization is not a straight line amortization.

Lease Accounting Example

- Fact pattern:
 - 10-year lease
 - Payments are \$50,000 per year, with initial payment made at lease commencement date
 - Lessee incurs initial direct costs of \$15,000
 - Lessee's implicit interest rate is 5.87%
- Initial journal entry to record the lease is the same for both finance and operating
 - Right-of-Use asset 407,017
 - Lease liability 342,017
 - Cash (year 1 payment) 50,000
 - Cash (initial direct costs) 15,000

Lease Accounting Example *(continued)*

- Year 1 income statement impact by journal entry
 - Finance lease
 - Interest expense 20,076
 - Lease liability 29,924
 - Cash 50,000
 - Amortization expense 40,702
 - Right-of-Use asset 40,702
 - The liability amount would come from a loan amortization and the asset amortization expense would be calculated by dividing the asset cost by 10 years
 - Operating lease
 - Lease expense 51,500 (\$515,000/10 years and consists of 10 payments of \$50,000 plus \$15,000 initial direct cost)
 - Lease liability 29,924
 - Cash 50,000
 - Right-of-Use asset 31,424

Lease Accounting Example *(continued)*

- Comparison of lease expenses
 - \$51,500 – operating lease
 - \$60,778 – finance lease (interest of \$20,076 plus amortization of \$40,702)
- Finance lease results in heavier expense in the earlier years, but less expense in the later years as the interest expense decreases over time when the liability is paid down.
- In both leases, the balance sheet liability stays the same, but the ROU asset is different because the writing down of the ROU asset is different.

Financial Statement Presentation

- Balance sheet
 - ROU assets should be shown separately from other assets, but can be shown on the same line with PP&E as though they are owned assets, but must be disclosed which lines on the statement include the ROU assets; same with liabilities
 - Lease liabilities separately from other liabilities
 - Separate above between finance and operating
 - Can disclose everything in the footnotes instead of on the balance sheet
- Income statement
 - Finance lease: Interest expense included with all other interest expense and amortization of ROU asset with all other depreciation and amortization (operating)
 - Operating lease: Rent expense is included in operating expense
- Cash flow statement
 - Finance lease: Principal paid is a financing activity and interest expense is operating activity
 - Operating lease: Operating activity

Financial Statement Disclosures

- Consist of both expanded quantitative and qualitative disclosures
- For those familiar with existing GAAP disclosures on operating leases, it's as straight forward as providing a brief explanation of the lease arrangements and disclosing total rent expense for the year as well as the next five years of future payments
- Objective of the expanded disclosures is to allow users of the financial statements to better assess timing of payments, amount of payments and overall cash flows

POLLING QUESTION #4

To be eligible for CPE, 9 polling questions must be answered.

Adoption of ASC 842 and Comparative Financial Statement Years Presented

- Most private company financial statements are shown comparative (12/31/22 compared to 12/31/21).
- Original ASC 842 guidance requires 12/31/21 to be restated comparatively to adopt ASC 842, even though the standard isn't effective until starting 1/1/22 for a 12/31/22 year end.
- ASC 842 now provides for a Modified Retrospective Approach.
 - Essentially allows you to adopt ASC 842 and only record the standard starting 1/1/22 for a 12/31/22 year end, and the comparative year of 12/31/21 would not have to be restated.
 - This modified approach then would not have an “apples to apples” comparison in the financial statements, including footnotes, between the years presented. We believe most companies will adopt this approach.
- Companies are going to have to revisit any financial covenants they currently have, especially those covenants that are driven by the balance sheet.
 - Examples: debt to equity, debt service and possibly even EBITDA

Practical Expedients Upon Adoption

- What is a practical expedient?
 - An accounting policy election permitted by FASB that allows new accounting standards, particularly for private companies, to be adopted more simply and provide a better cost/benefit option when adopted
- What practical expedients are available for adoption of ASC 842?
 - No reassessment for existing embedded leases
 - No reassessment for lease classification
 - No reassessment of accounting for initial direct costs
 - Can use hindsight in determining lease term when considering options, termination and impairment

Related-Party Leases

- ASC 842 indicates that a related-party lease should be classified and accounted for based on its legally enforceable terms and conditions.
 - In other words, the classification and accounting for a lease with a related-party lessor should be the same as the classification and accounting would have been if that lease were with an unrelated lessor.
- When understanding the legally enforceable terms and conditions of a lease, the lessee should consider whether there are any *implicit* legally enforceable terms and conditions.
 - Example #1: If a lessee leases construction equipment on a month-to-month basis from a related party and that equipment is going to be used throughout the period of construction of a building that is expected to take two years to complete, consideration should be given to whether there are implicit legally enforceable terms and conditions that would cause the lease term to be evaluated as two years instead of one month.
 - Example #2: If a lessee leases a manufacturing facility from a related party for five years with no option to renew, and incurs significant costs related to leasehold improvements that will retain significant value over their useful life of 20 years, consideration should be given to whether there are implicit legally enforceable terms and conditions that would cause the lease term to be evaluated as 20 years instead of five years.
- Common related-party leases are a lease of an operating facility.

RKL Software Tool and Lease Team

What has RKL done to prepare to help our clients implement ASC 842 or GASB 87 or IFRS 16?

- RKL believes that with all the complications of adopting the standard, that use of a tool specifically dedicated for calculating and accumulating lease information is critical and most efficient.
- We know Excel and amortization schedules can be utilized in some basic lease situations, but we believe the opportunity for errors and missing critical data is more prevalent using Excel and amortization schedules.
- RKL's lease team has reviewed several software tools on the market, and is now licensing a cloud based software solution called LeaseQuery and is certified as a Managed Service Provider (MSP) with LeaseQuery.
 - This tool will allow us to most efficiently assist our clients with adoption of the standard and all the future accounting needed for the proper recording of leases and any ongoing modifications to leases.
 - This software tool is also available for purchase by our clients directly through LeaseQuery. We believe a client purchase of this tool might be most applicable when a company has +20 separate lease arrangements and wants to manage all their lease accounting internally. Client purchase of this software tool for their internal use will cost annually several thousand dollars.
- RKL is available to consult on the adoption of the standard. Please contact your RKL advisor to start the conversation.



Thank You for Joining Us

Whatever your next move, we're here to help.

Robert Gantz, CPA

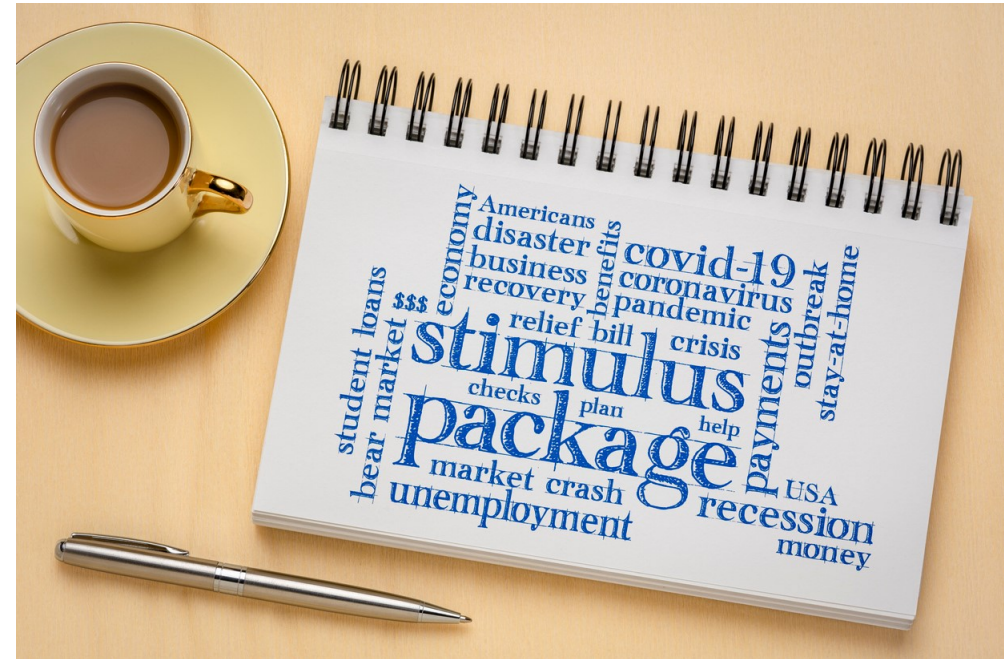
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Audit Impact of COVID Funds

Presented by: Jill Gilbert, CPA | Partner, Audit Services Group

The Pandemic - Influx of Federal Funds



| Today's Discussion

- Different types of COVID funding.
- Determine how COVID-19 funding impacts your single audits.

Significant Legislation

- March 2020 - Coronavirus Preparedness and Response Supplemental Appropriations Act
- March 2020 - Families First Coronavirus Response Act
- March 2020 - Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- December 2020 - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- March 2021 - American Rescue Plan Act (ARP)

Significant Programs - Subject to Single Audit

- Coronavirus State and Local Fiscal Recovery Fund
- Education Stabilization Fund (ESF)
- Provider Relief Fund (PRF)
- Coronavirus Relief Fund (CRF)



Other Programs - Subject to Single Audit

- Emergency Rental Assistance Program
- Shuttered Venue Operators Grant

Other Programs - Not Subject to Single Audit

- Paycheck Protection Loan Program
- Employee Retention Credit

What is a Single Audit?

- An organization with federal expenditures in excess of \$750,000 is required by law to have a single audit performed.
- This includes an audit of both the financial statements and the federal awards.
- The single audit reviews how you managed the grant and ensures you followed the rules for dollars associated with the grant or award.



Single Audit versus Program Audit

- An entity receiving funding under **more than one federal program** should have a full single audit; financial statements should be prepared and audited.
- Can choose to prepare the financial statements using a special-purpose framework, like cash, instead of GAAP.
- An entity receiving funding under **only one federal program** could have a program-specific audit.

OMB Compliance Supplement

- The 2021 Compliance Supplement is effective for audits of fiscal years beginning after June 30, 2020.

Coronavirus State and Local Fiscal Recovery Fund (CSLFRF)

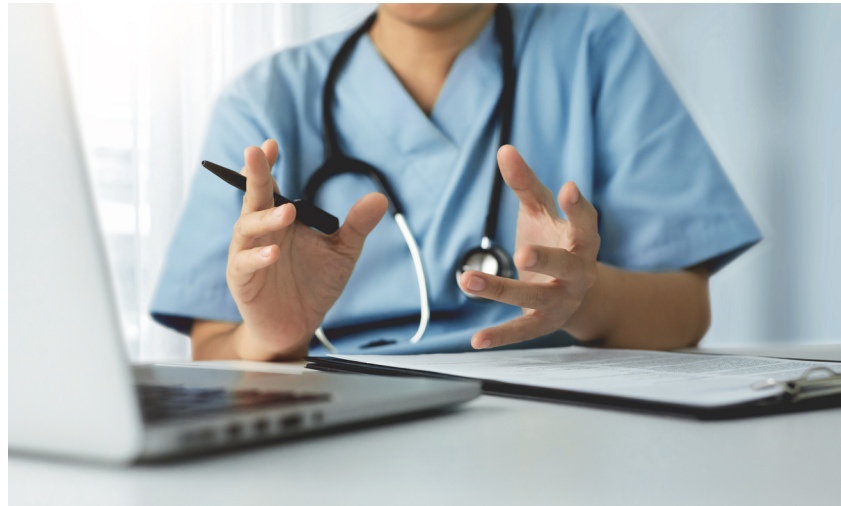
- Funded by the American Rescue Plan (ARP)
- States and local governments are direct recipients
- Not-for-profits may receive funding from state and local governments

Education Stabilization Fund (ESF)

- Funding provided to prevent, prepare for, and respond to coronavirus
- K-12 (ESSER)
- Colleges (HEERF)

Provider Relief Fund (PRF)

- Provides relief funds to hospitals and other healthcare providers
- Funding supports healthcare-related expenses or lost revenue attributable to COVID-19



PRF Challenges

- Delayed and changing guidance, including calculation of lost revenue.
- Confusion over GAAP reporting versus SEFA reporting.
- The “period” approach to portal reporting.
- Requires expenses or lost revenue that occur in period before and after the award existed and spanning more than one fiscal year of the entity.

PRF Audit Challenges

- How the “reporting entity” for portal purposes will relate to the scope of the single audit, especially for more complex entities with multiple subsidiaries.
- Auditing the reporting, including lost revenue.
- In-relation to reporting issues due to out-of-period amounts.
- Continued uncertainty about for-profit audit guidance.

Coronavirus Relief Fund (CRF)

- Provides direct payment to state and certain eligible local governments for:
 - Necessary expenditures incurred due to the public health emergency with respect to COVID-19
 - Costs not accounted for in most recently adopted budget as of March 27, 2020
 - Cost incurred during March 1, 2020 to December 30, 2020

Six-Month Single Audit Extension

Fiscal Year End	Normal Due Date	Extended Due Date
09/30/2020	06/30/2021	12/31/2021
12/31/2020	09/30/2021	03/31/2022
03/31/2021	12/31/2021	06/30/2022
06/30/2021	03/31/2022	09/30/2022

| Your Auditor's Concerns

- Revenue recognition
- Subsequent events
- Disclosures
- Going concern
- Remote work and internal controls

Remote Work and Internal Controls

- Potential quality issues
 - Breakdown in staff supervision
 - Increased workload
- Use of technology to accomplish objectives
 - Change in approval/ review processes
 - Changes to IT systems
- Need for enhanced communication
 - Be clear about your expectations for the audit

Stay Tuned...

- Changes will occur
- Rules will be revised
- Guidance will be amended
- Deadlines may be extended

Next steps: Stay informed and contact your advisor or RKL to understand potential changes and revisions that could impact your financial statements.



Thank You for Joining Us

Whatever your next move, we're here to help.

Jill Gilbert, CPA

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POLLING QUESTION #5

To be eligible for CPE, 9 polling questions must be answered.



| Cybersecurity and Impact on Related Controls

Presented by: Michael McAllister, CPA.CITP, CISA | Practice Leader, IS Assurance and Advisory Services

IT Risk – Understanding the Entity and It's Environment

Clarified Statements on Auditing Standards (AU-C Section 315.19)

- Classes of transactions
- Manner in which transactions are initiated, authorized, recorded, processed and corrected
- Supporting accounting records
- How the information system captures non-transactional events significant to financial statements



IT Risk / Common Questions

Common questions:

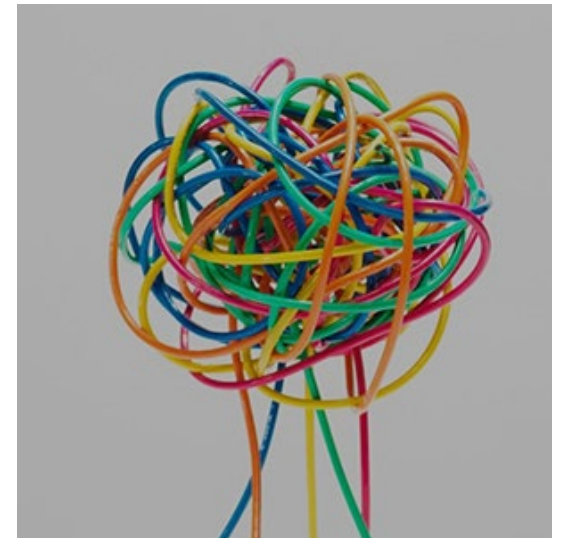
- We are not planning to place reliance on IT controls for the financial audit – why do we need to do this?
- How can an IT issue or concern noted during our planning impact our financial audit, since it doesn't have a direct impact on the financial statements?
- As we are performing a financial statement audit, why would we need to be concerned with more than the general ledger application?
- What applications do I need to scope into the financial statement audit?



IT Risk / Complexity Matters

Complexity Considerations:

- Application customization
- Infrastructure
- Interfaces
- Batch / job scheduling
- Number of in-scope applications
- Transaction origin
- Recent system conversion
- Recent security breach



POLLING QUESTION #6

To be eligible for CPE, 9 polling questions must be answered.

Malware / Ransomware

Ransomware is a form of malicious software that infiltrates a computer or network and limits / restricts access to critical data by encrypting files until a ransom is paid



Malware / Ransomware

Exploitation of IT Outsourcing Services

- New focus on managed service providers (MSP), as they can hit once and affect many companies

Vulnerable Industries

- Due to the pandemic, attackers are taking advantage of certain industries:
 - Healthcare
 - Government
 - Education

Ransomware-as-a-service

- Ransomware tools are available by attackers to decentralize attacks
- Creators of the tools get a percentage of each attack

What About the Data...

Information is the most valuable asset

Unlike Europe's GDPR regulation, the U.S. does not have any overarching data protection legislation

When there is a data breach, things can get bad very quickly



Data – What You Collect and Where is it Stored?

Different types of data:

- Public information
- Non-public information (sensitive / confidential)

How is the data safeguarded?

- In transit
- When stored



Data – Breach and Your Organization

Costs, fines and reparations

- Legal fees, fines, auditing services, customer repayments, and other financial losses



Thank You for Joining Us

Whatever your next move, we're here to help.

Michael McAllister, CPA.CITP, CISA

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POLLING QUESTION #7

To be eligible for CPE, 9 polling questions must be answered.



| Evolution of Auditing and Related Technologies

Presented by: Hunter Mink, CPA, CCIFP | Partner, Audit Services Group

Evolution of the Audit Process

Users of financial statements

- Needs of users of financial statements have continued to change and evolve over time.
- Users of financial statements now care about things that may not have been important or relevant 20-30 years ago.

Real Life and Current Examples

- Statement on Auditing Standards (SAS) 134 is now in effect for private companies with years ending on or after December 15, 2021. This standard reworks the auditor's report in an effort to further clarify the auditor's responsibilities for the audit being performed.
- Additionally, with audited statements being issued for private companies for years ending on or after December 15, 2021, auditors will now be required to disclose (if engaged by those charged with governance) in the Independent Auditor's Report key audit matters (KAMs).
 - "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance."
 - Reporting is optional and at the discretion of the entity being audited.
 - KAMs can also include significant estimates, unusual transactions, etc...
 - While KAM reporting is optional now, we are unsure whether or not this will be required in the future.

Evolution of the Audit Process

SAS 134 Sample Auditor's Report

Opinion paragraph

We have audited the [consolidated] financial statements of [Client Name] [and its subsidiaries] (the Company), which comprise the [consolidated] balance sheets as of December 31, 20X2 and 20X1, the related [consolidated] statements of income, [comprehensive income,] changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the [consolidated] financial statements [(collectively, the financial statements)].

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X2 and 20X1, and the results of [its] [their] operations and [its] [their] cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Evolution of the Audit Process

SAS 134 Sample Auditor's Report

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Evolution of the Audit Process

SAS 134 Sample Auditor's Report

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for [Insert the time period set by the applicable financial reporting framework].

Evolution of the Audit Process

SAS 134 Sample Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Changing Landscape of Auditing

Tools and Technologies

- Auditing and management tools have evolved over the years
 - From ledger paper to excel
 - A common tool used now is a fixed asset management program. Many companies use a program or have their accounting firm maintain their fixed assets in one of the available programs due to the efficiencies gained by using a software solution along with the enhanced reporting capabilities as compared to the use of excel.
 - As Bob discussed earlier, lease software programs are the next evolution within this area. Just like with fixed assets, in theory, it is possible to use excel to track the needed information but it is inefficient and opens the doors for errors within the spreadsheets. Additionally, the software packages generally provide the information needed for the new required footnote disclosures as well.

Changing Landscape of Auditing

Tools and Technologies

- IDEA and, ACL, Microsoft Power BI (and the list goes on)..
 - IDEA is a tool that has been around (and used by RKL) for a number of years. It has capabilities that include but are not limited to:
 - Importing text, pdf and other files and converting them into an excel spreadsheet
 - Allows for analysis of information (excel on steroids) while protecting the data that was imported
 - Can run various types of analysis on data and test 100% of the population at times
 - Can run samples that can be re-run over and over again
 - Can run certain fraud tests like Bedford's Law against manual journal entry files
 - Can set up and run macros to efficiently run consistent tests over data sets or from period to period
 - Tools like IDEA and ACL allow for the start of testing of 100% of a population vs. standard sampling
 - ACL can also be linked to clients' systems directly and has the capability of performing real time auditing based on criteria defined and can identify exceptions that fall out of the expected bounds for further investigation

Changing Landscape of Auditing

Tools and Technologies

- MindBridge
 - This is a tool that can ingest entire general ledgers or sub-sets of the general ledger and after coding is completed, it introduces AI and machine learning to analyze and risk rate transactions based on a plethora of predefined tests.
 - RKL has a team that continues to monitor this product's development and there is a good chance this program (or a similar program) will be used in the future.

Changing Landscape of Auditing

Optical Character Recognition (OCR)

- OCR tools within programs like pdf have seen significant improvements over the years.
- A new tool that is hitting the market is a program called DataSnipper that functions as a bolt on to excel.
 - The tool can ingest pdf's and will use enhanced OCR technologies to make the text searchable with the pdf's.
 - Then criteria/tags are set by the user to determine items of relevance (ie: if interested in purchase orders, noted tags could include the customer name, item/part number, quantity, cost per unit or date of purchase).
 - The program will then search all of the uploaded documents and return the results for those tags.

Changing Landscape of Auditing

Robotic Process Automation (RPA)

- Simply stated, “RPA is the process by which a software bot uses a combination of automation, computer vision, and machine learning to automate repetitive, high volume tasks that are rule-based and trigger-driven.” – David Landreman, CPO of Olive
- This is an area that is seeing immense growth with many new vendors entering the market within the past 18-24 months.
- These soft coded bots can be used to eliminate the need to manually run a report at midnight on the last day of the month as a trigger example.
- They can also be used to bridge manual parts of a process and often between two systems.
- As the coding gets easier, it is expected many more companies and organizations will look for ways to deploy these bots to streamline and improve process management.

Changing Landscape of Auditing

Artificial Intelligence (AI)

- Everyone has heard and likely seen commercials involving IBM Watson, Watson Analytics or even now Watson for Fantasy Sports.
- The machine learning that goes into Watson is based on the quantity of data that is ingested vs. coding and rules. This allows products like IBM Watson to learn by watching videos of chess matches as an example. Another way it learns is through its own activities (ie: playing chess against chess masters).
- The business applications of AI allow for companies to tap into the unprecedented data ingestion capabilities of the tool to understand analytics and complex relationships to help them better understand their businesses and make predictions or forecasts for the future based on the activity and data that is currently available.
- Big 4 firms (with very deep pockets) are using machine learning products to further automate the audit process (in some ways similar to what the MindBridge product does) to focus in on very specific transactions for auditing purposes vs. standard sampling or detail testing of account activity.

Auditing Standards Playing Catch-Up

Auditing Standards

- At this point, technology is changing significantly faster than the applicable standards.
- The AICPA and others are working to review and provide guidance on using these evolving technologies and advanced analytics as part of the audit process and audit documentation.
 - Unfortunately, as is the case with many industries, we are also playing catch-up from the standard setting side.
 - The cost of some of these technologies and the lack of clear guidance have been the two most significant barriers to date keeping many firms from retooling how they perform their audits.

Changing Landscape of Auditing

Internal Control and IT Related Matters

- We are living in and through this technological evolution that is impacting the way all companies operate.
- The IT environment and internal control structures are becoming more involved and complex and increasingly more important to maintain safely and securely.
- We live in a world full of scammers and hackers that are constantly looking for ways to penetrate our systems to lock, hold or steal data in hopes of obtaining ransom payments in order to regain access to our information.
- Audit teams as part of our planning and risk assessment procedures are and will need to continue to better understand IT environments, related controls and safeguards and the process of change management through inquiry and observation to make sure our assessments of the IT environments are appropriate from an audit perspective even though we are not opining on the IT environment itself.

What Does this all Mean?

Audit Process

- Audit and attest firms will have to keep their pulse on the evolving and ever changing landscape of technological advances so that they can efficiently and effectively deploy tools and resources to perform audits in a manner acceptable under all applicable standards and to meet the needs of the users of the financial statements.

Users of Financial Statements

- As mentioned at the beginning of the presentation, users of financial statements now care about items and transactions that were not deemed relevant or significant in the past.
- The reality is, as we all move forward through this technological boom, no one knows for sure what the users of the financial statements will care about three to five, let alone 10 years from now.

RKL's Promise

- RKL will continue to monitor and navigate through these technologically driven changes to deliver the quality audits that our clients and those using those statements rely on.



Thank You for Joining Us

Whatever your next move, we're here to help.

Hunter Mink, CPA, CCIFP

dhmink@rklcpa.com

POLLING QUESTION #8

To be eligible for CPE, 9 polling questions must be answered.



BREAK

rkl

VIRTUAL

2021 Tax and A&A Update



Now let's pick today's raffle winners!

If you see your name in the chat box, a member of the marketing team will contact you directly after the conclusion of today's webinar to claim your prize.

POLLING QUESTION #9

To be eligible for CPE, 9 polling questions must be answered.



Economic Update

Presented by: Nicholas Boyer | RKL Wealth Management Chief Investment Officer

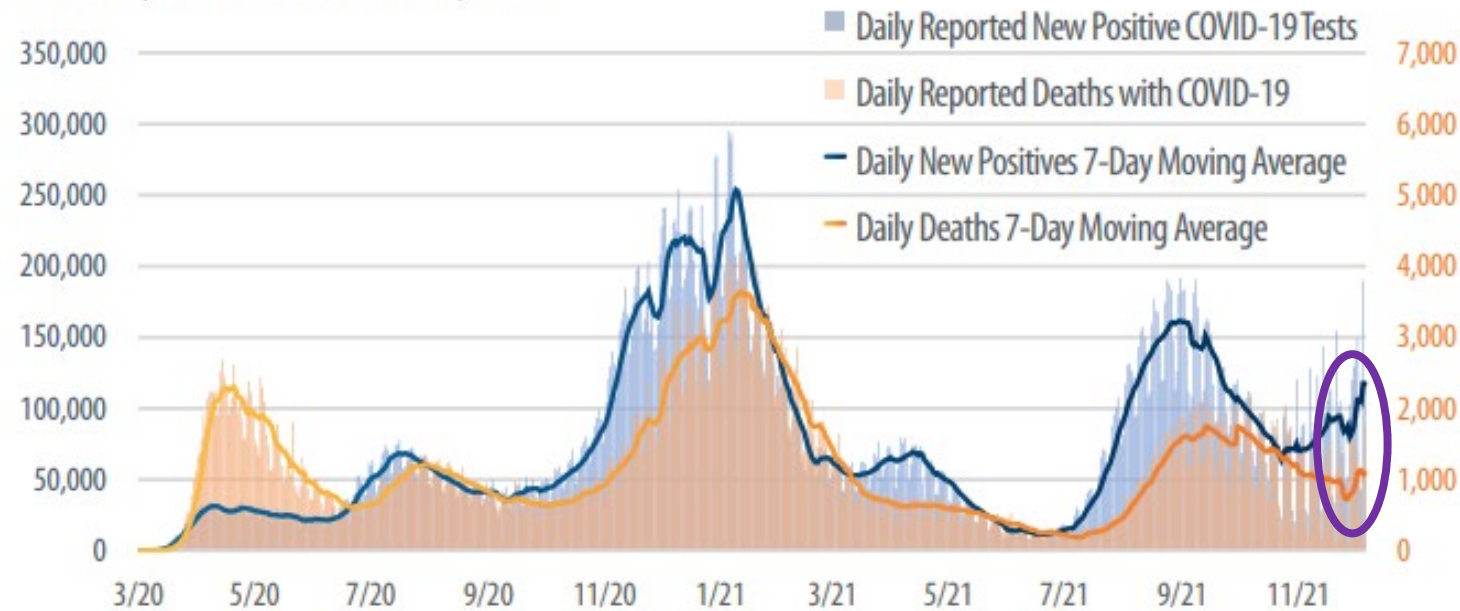
| Agenda

- Where are we today?
- Fiscal & monetary policy
- Interest rates & financial conditions
- Inflation
- Where are we headed?

COVID Tracker

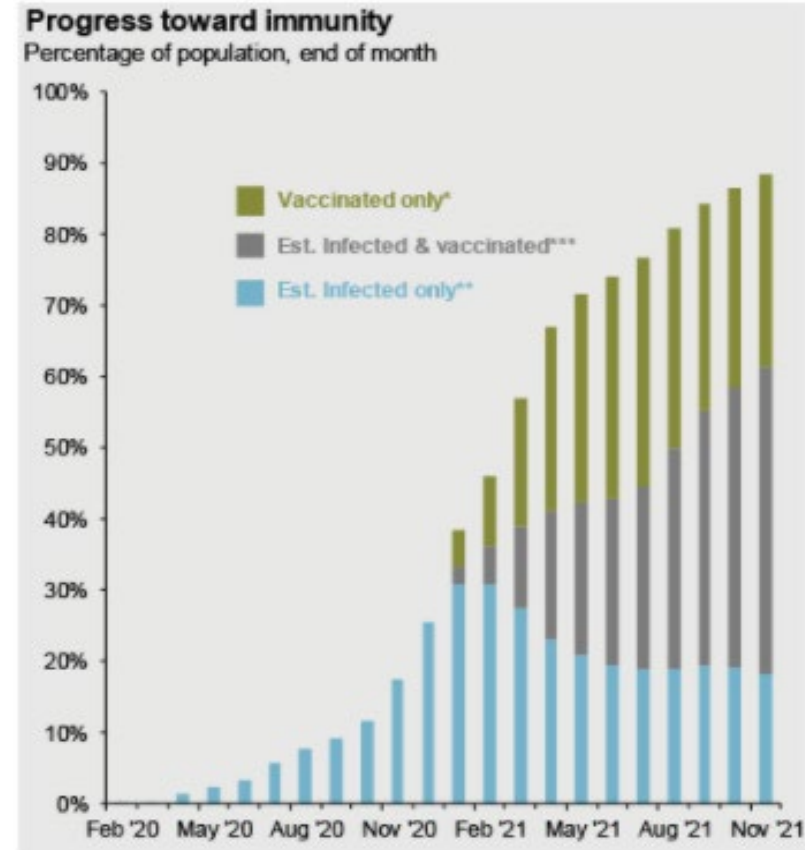
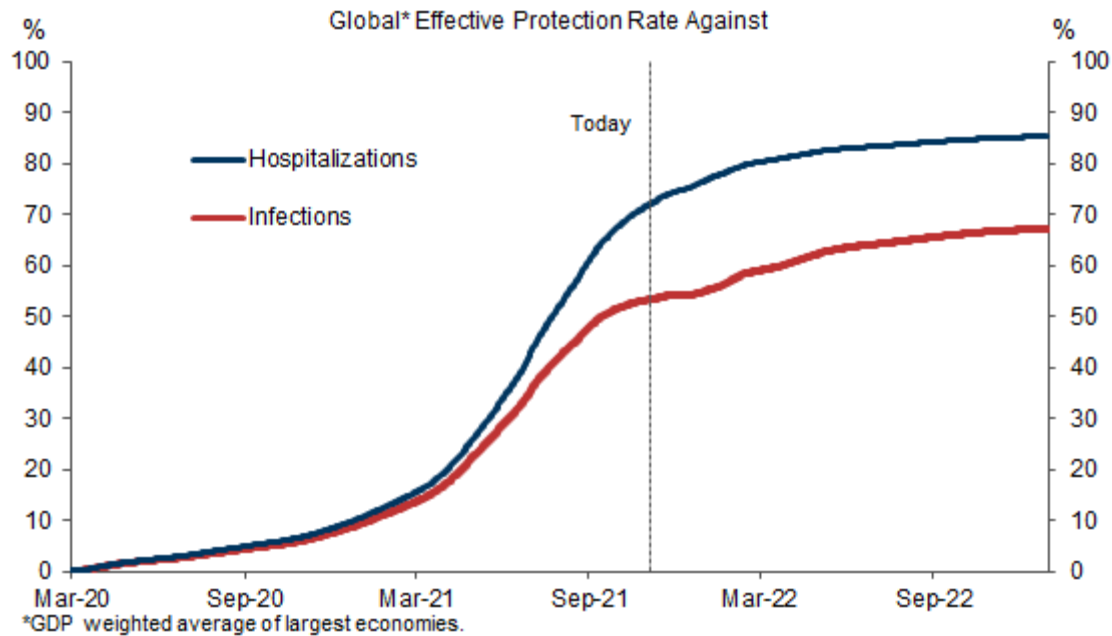
Daily Reported New Positive COVID-19 Tests vs. Daily Reported Deaths from COVID-19 in the U.S.

March 1, 2020 - December 7, 2021



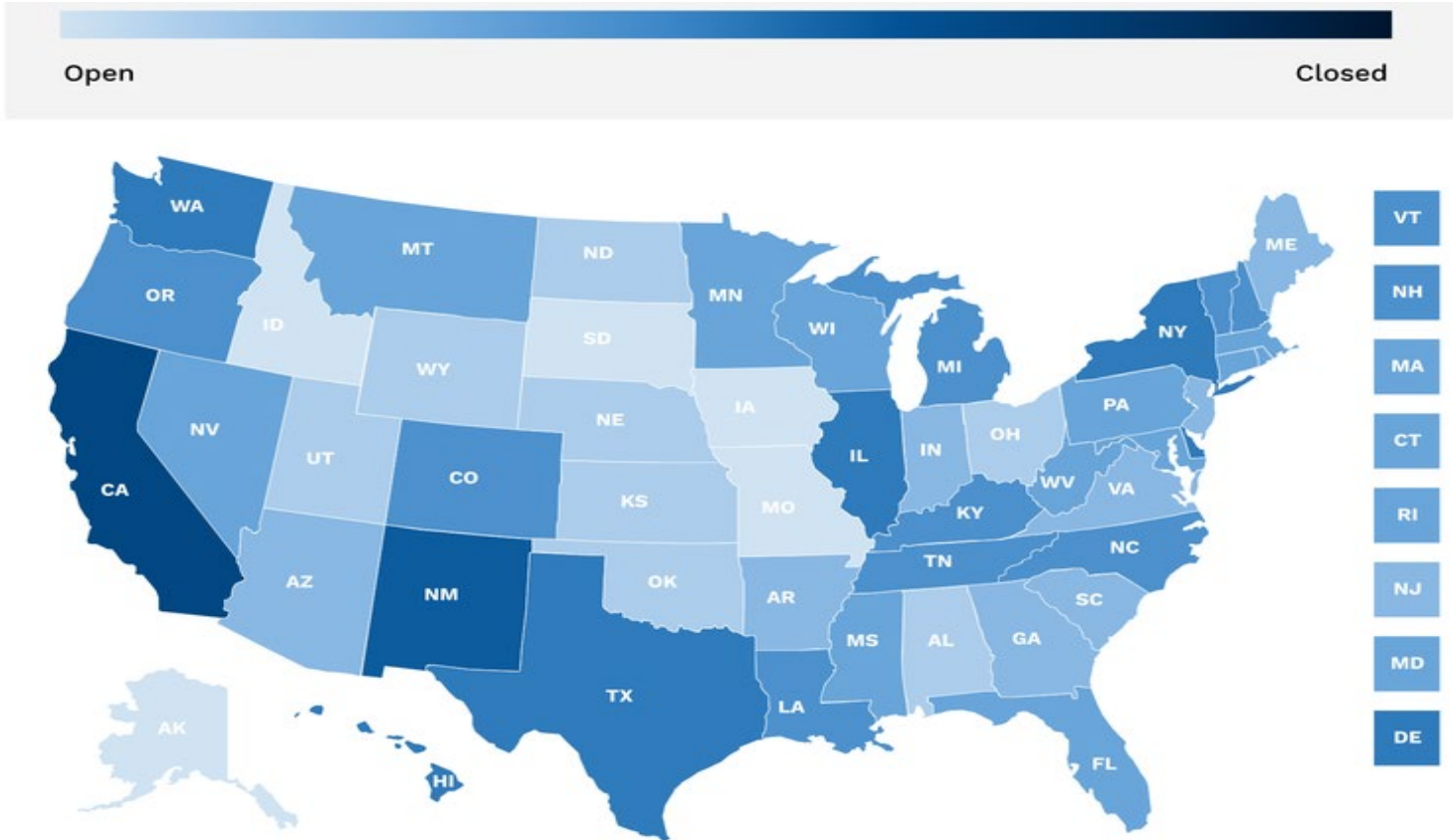
(Source: First Trust COVID-19 Tracker, First Trust Economics Blog, December 10, 2021)

COVID Tracker



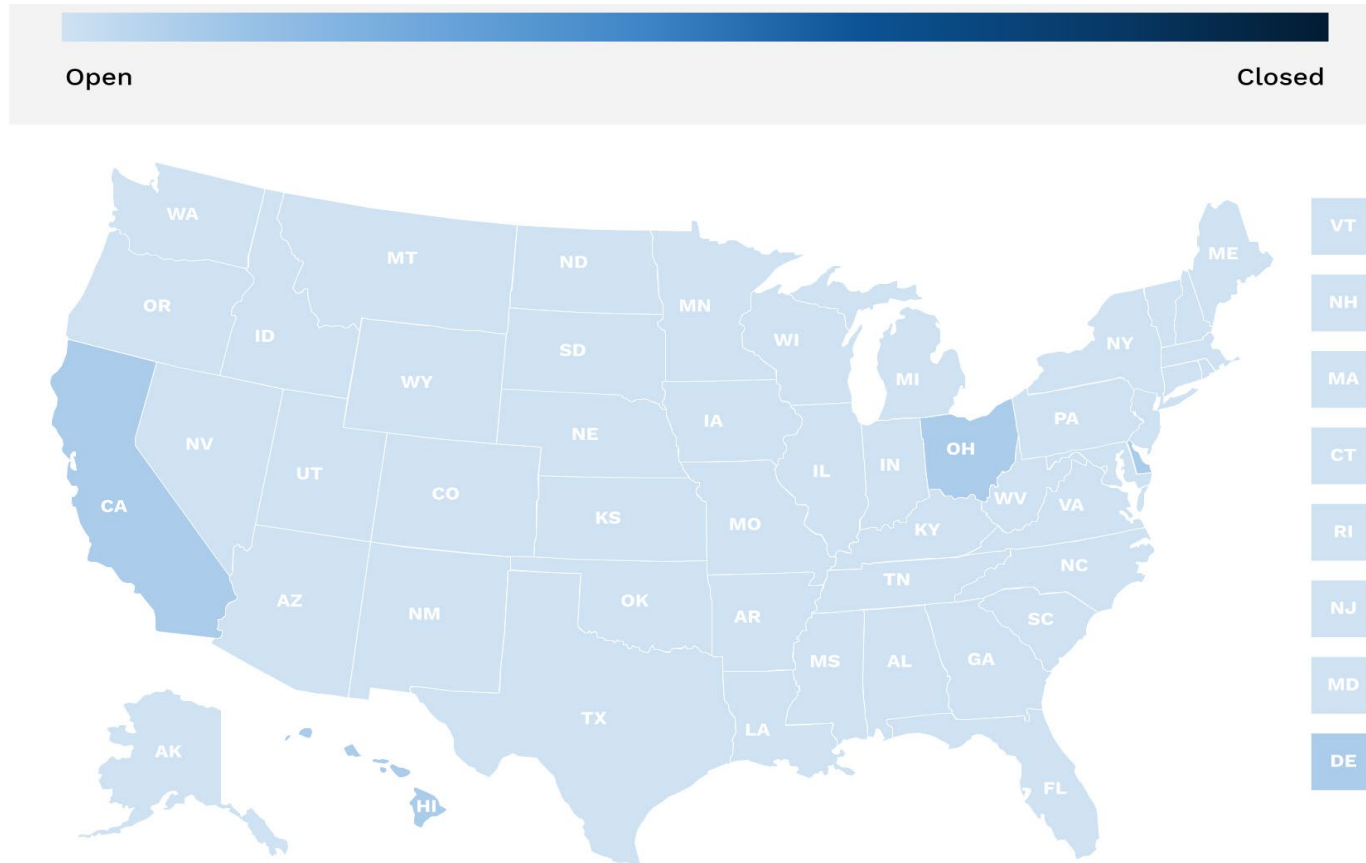
(Sources: **LEFT:** Goldman Sachs Global Investment Research, GS Macro Outlook 2022, November 2021; **RIGHT:** J.P. Morgan Economic Update, Guide to the Markets, December 2021)

U.S. Reopening, July 2020



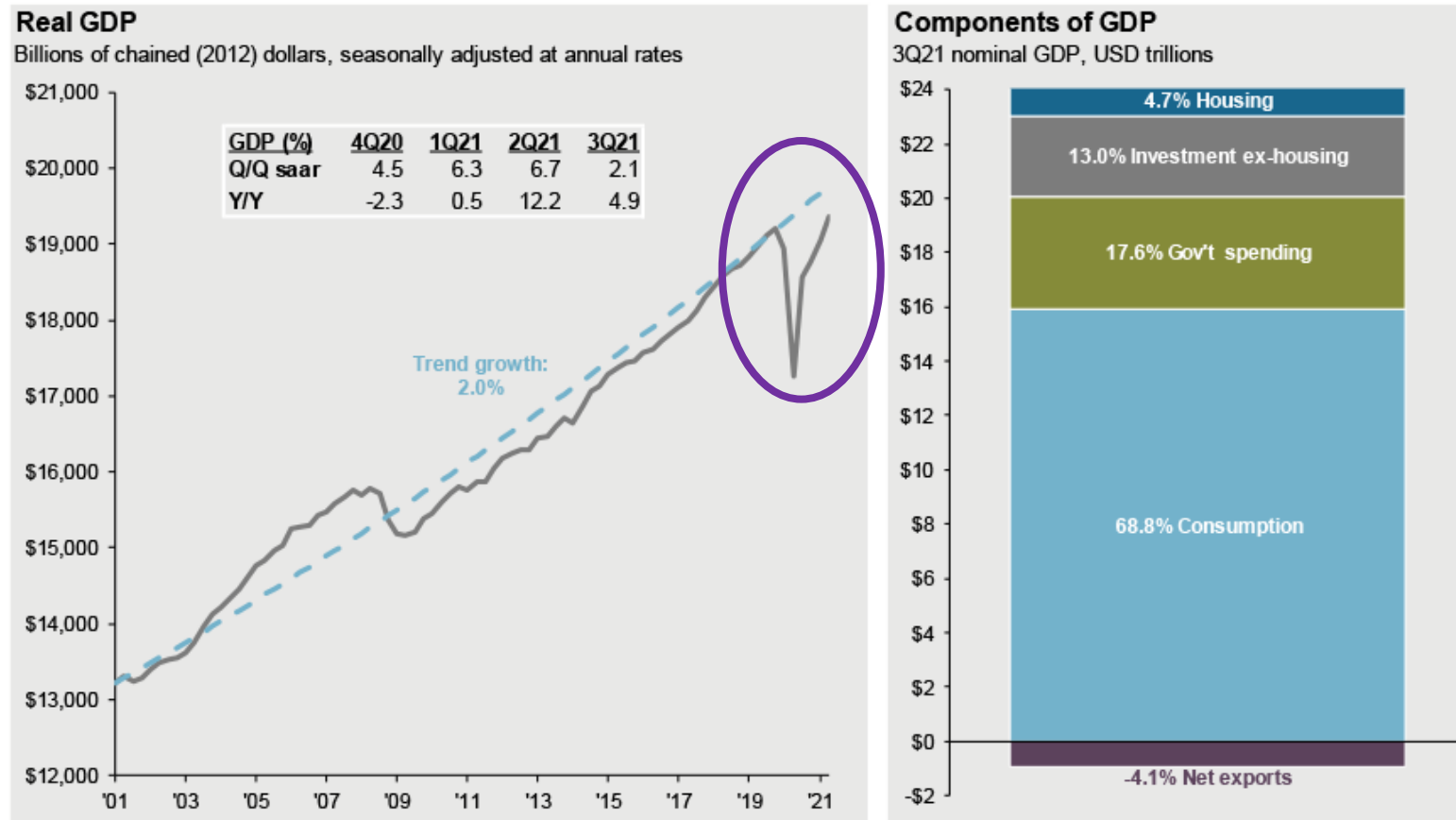
(Sources: MultiState, COVID-19 Policy Tracker, multistate.us, as of 7/28/2020)

U.S. Reopening, December 2021



(Sources: MultiState, COVID-19 Policy Tracker, multistate.us, as of 12/8/2021)

U.S. Economic Recovery



(Source: J.P. Morgan Economic Update, Guide to the Markets, December 2021)

POLLING QUESTION #10

To be eligible for CPE, 9 polling questions must be answered.

Biden Agenda (Estimates)

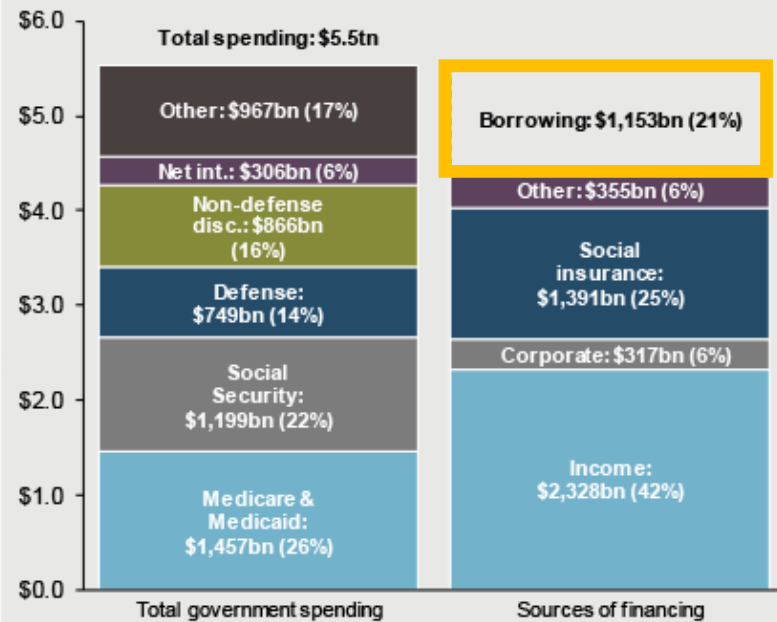
BUDGETARY COMPOSITION OF THE HOUSE BUILD BACK BETTER ACT (\$BN)			
Spending & Tax Cuts	\$bn	Offsets	\$bn
<u>Supporting Families</u>		<u>Corporate</u>	
Child Care	273	15% Book Income Min Tax	319
Paid Leave	205	GILTI/FDII & Other Outbound	212
Child Tax Credit	185	1% Excise Tax on Buybacks	124
Pre-K	109	BEAT	67
EITC	13	Limit Interest Deductions	28
<u>Climate & Environment</u>		Other Business Raisers	75
Clean Energy Tax Credits	325	<u>Individual</u>	
E&C (Air/Hazard/Water/Energy)	81	3.8% NIIT on Active Business Income	252
Other Climate Spending	132	Extend \$80K SALT Cap Thru 2030/\$10K in 2031	245
<u>Health Care</u>		MAGI Surtax (5% above \$10mn/3% above \$25mn)	228
Medicaid (Mostly HCBS)	165	Active Loss Limitation	160
ACA Expansion	137	Mega IRA & Other Retirement	10
Medicare Expansion (Hearing)	37	<u>Other</u>	
<u>Housing/Education/Other</u>		Tax Enforcement & Compliance	208
Cap SALT at \$80K (2021 Thru 2025)	230	Drug Negotiation / Inflation Rebates / Out-of-Pocket Cap	154
Housing & Development	151	Repeal Drug Rebate Rule	143
Immigration	115	Superfund Tax on Crude Oil	13
E&L Higher Education & Workforce	53	Nicotine Tax	9
Other / Unallocated Balances	211	Methane Fee	8
		Small Tax Provisions (Net)	5
		Labor Penalties	3
<u>TOTAL</u>	<u>\$2,423</u>	<u>TOTAL</u>	<u>\$2,263</u>

(Source: Cornerstone Macro, Policy Research, 12/7/21)

U.S. Federal Budget & Debt

The 2022 federal budget

CBO Baseline forecast, USD trillions

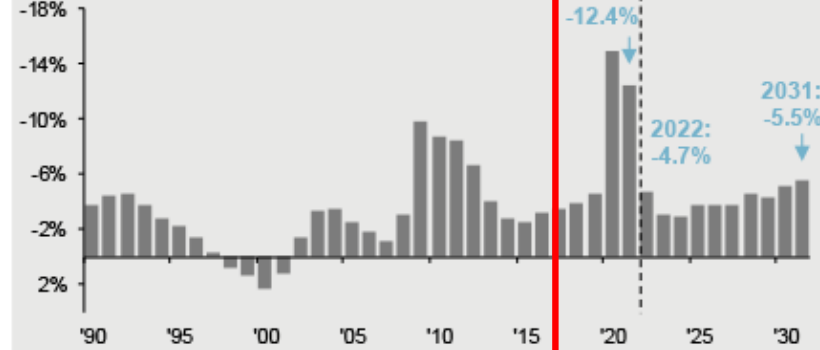


CBO's Baseline economic assumptions

	2022	'23-'24	'25-'26	'27-'31
Real GDP growth	6.1%	1.6%	1.3%	1.6%
10-year Treasury	1.9%	2.1%	2.6%	3.2%
Headline inflation (CPI)	2.7%	2.3%	2.4%	2.4%
Unemployment	4.1%	3.8%	4.2%	4.4%

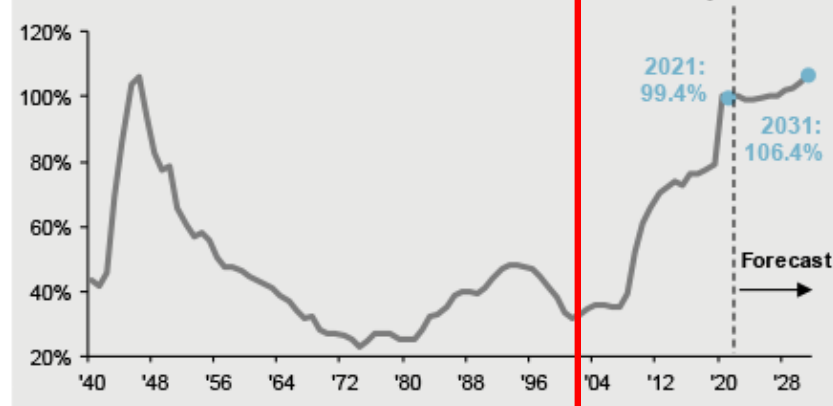
Federal budget surplus/deficit

% of GDP, 1990 – 2031, CBO Baseline Forecast



Federal net debt (accumulated deficits)

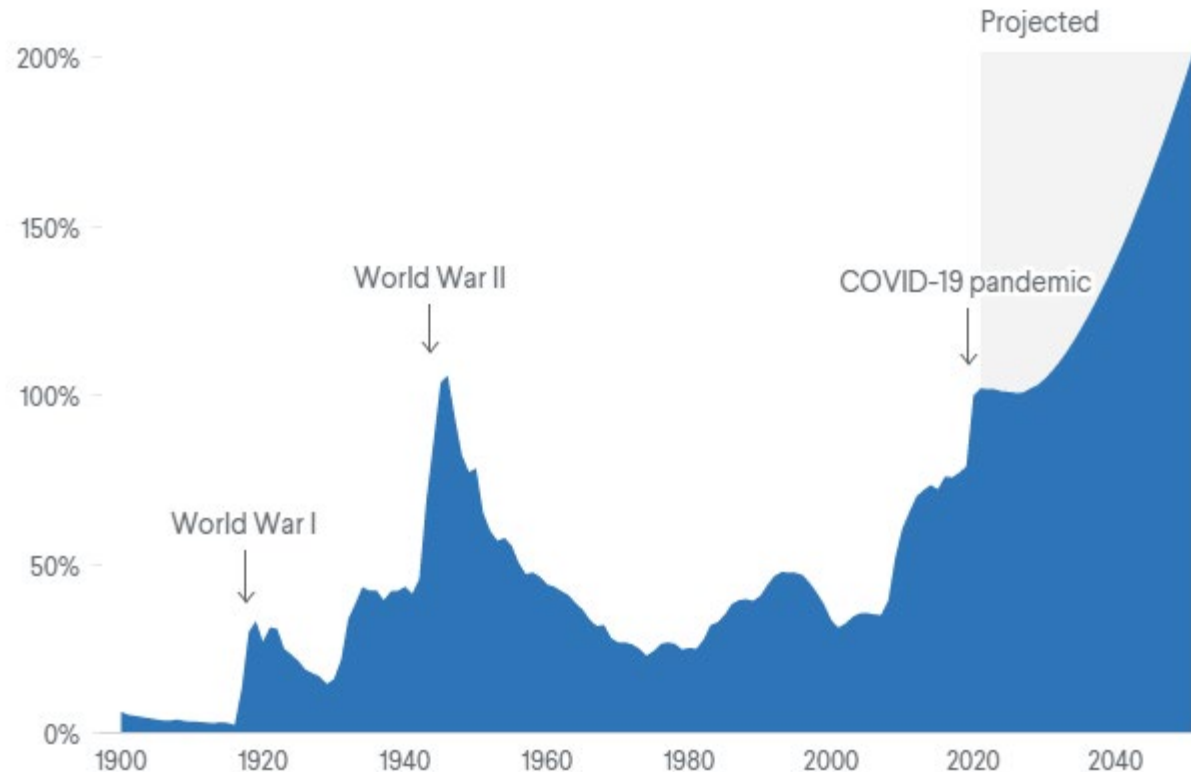
% of GDP, 1940 – 2031, CBO Baseline Forecast, end of fiscal year



U.S. Federal Debt, % of GDP

U.S. Debt Projected to Soar

Federal debt held by the public as a percentage of gross domestic product (GDP)



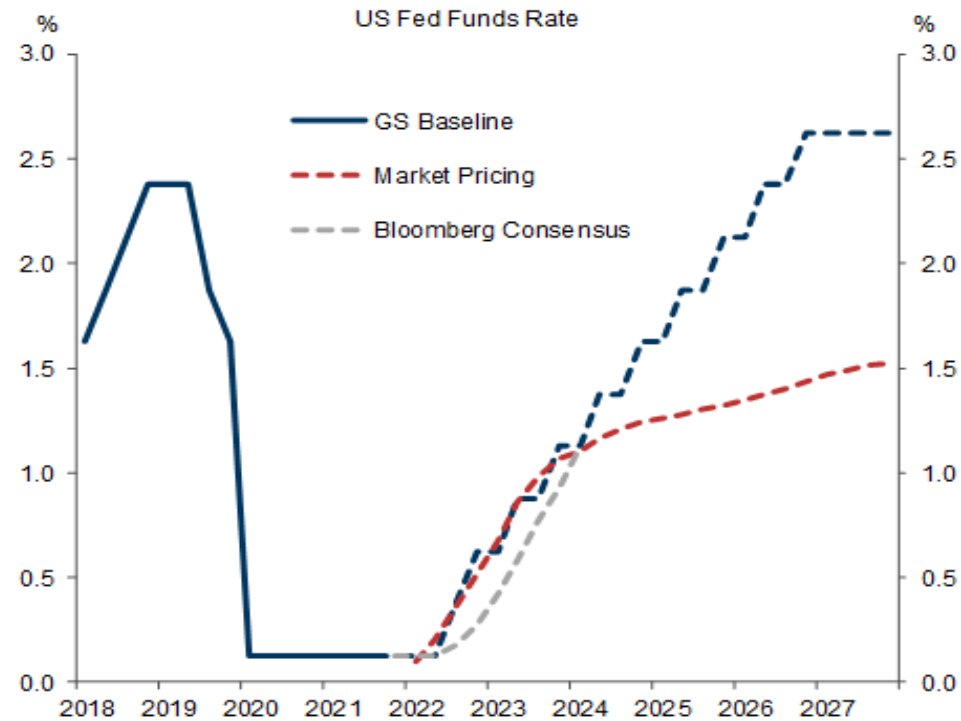
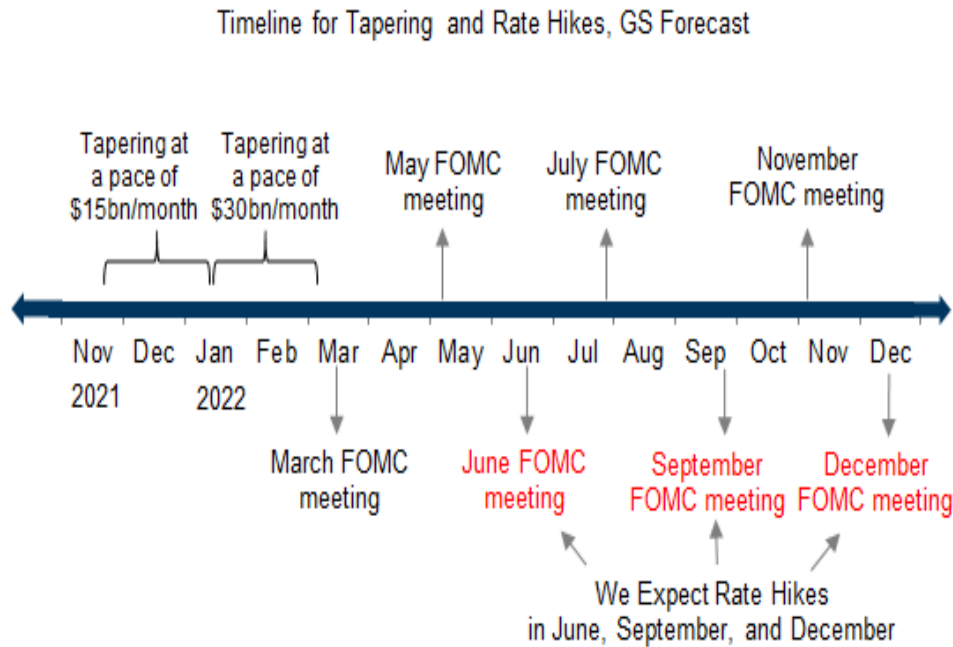
(Source: Council on Foreign Relations, *The National Debt Dilemma*, last updated October 1, 2021)

Risks of High & Rising U.S. Federal Debt

According to the Congressional Budget Office in its latest Long-Term Budget Outlook, the risks of increasing debt include:

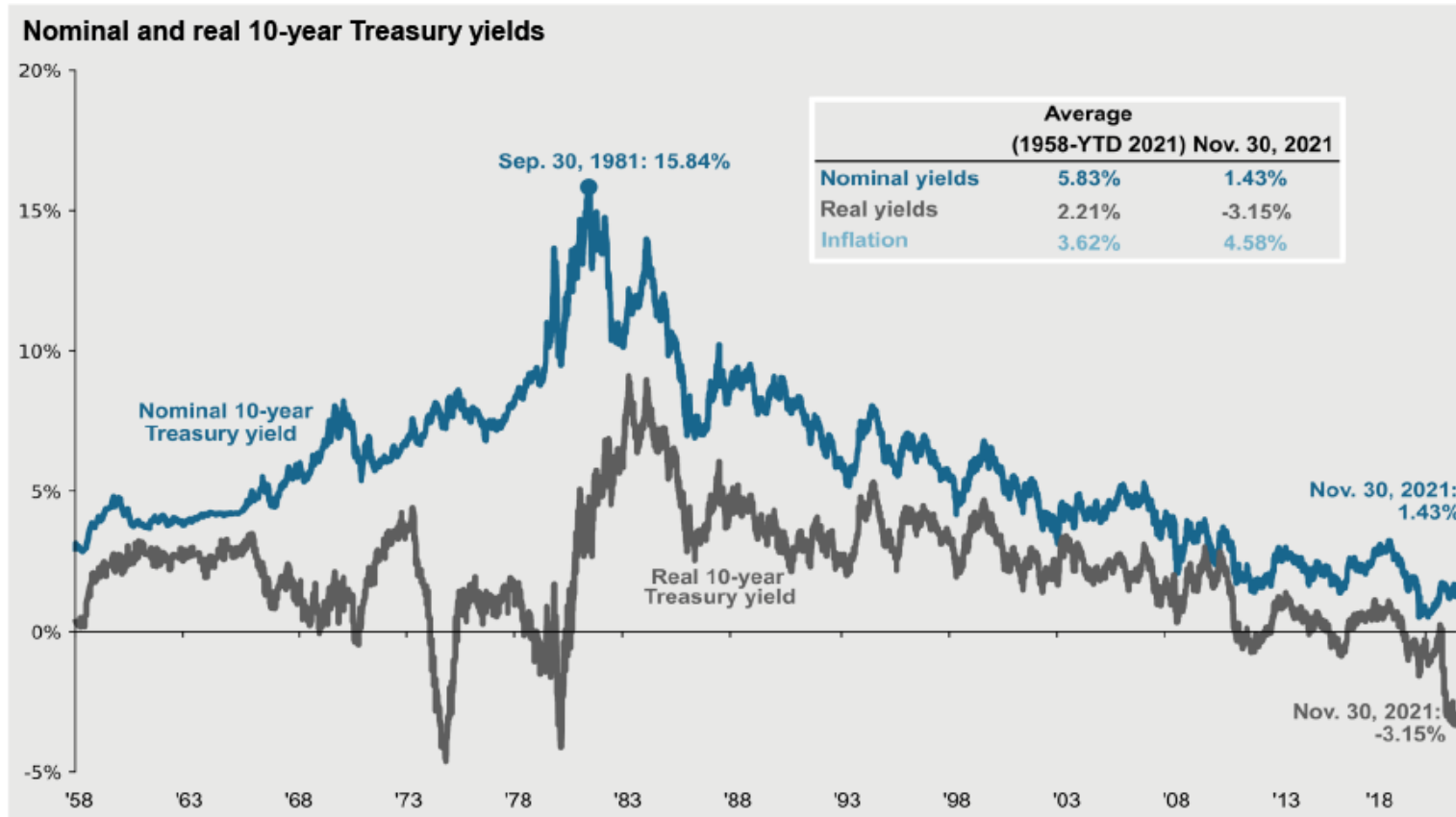
- Raising borrowing costs, reducing business investment, and slowing the growth of economic output over time;
- Rising interest costs associated with the debt would increase interest payments to foreign holders of U.S. debt
- Increasing the risk of a fiscal crisis – that is, a situation in which investors lose confidence in the government's ability to service and repay debts, causing interest rates to increase abruptly, inflation to spiral upward or other disruptions
- Increasing the likelihood of less abrupt, but still significant, adverse effects, such as expectations of higher inflation, an erosion of confidence in the U.S. dollar as an international reserve currency and more difficulty in financing public and private activity in international markets

Fed Funds Rate – “Liftoff”



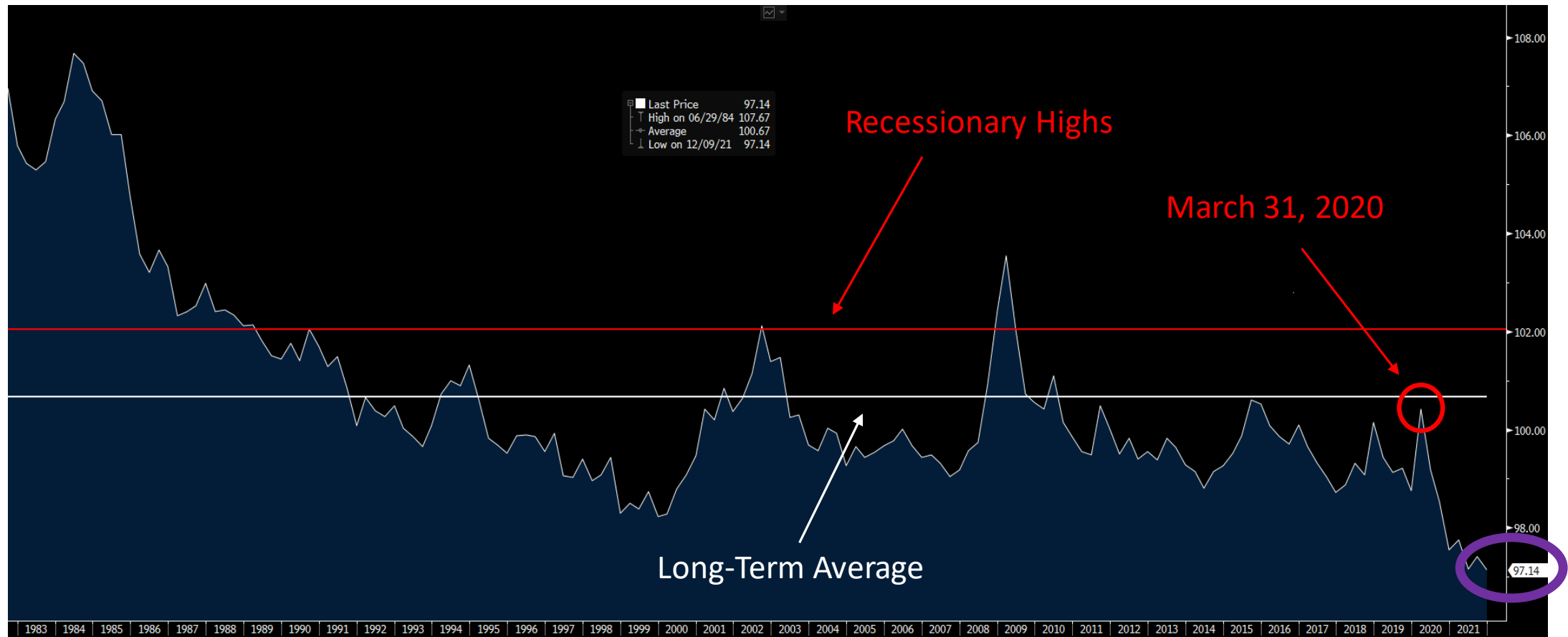
(Source: Goldman Sachs Economic Research, “A Faster Taper and a Slightly Earlier Liftoff,” 11/25/21)

U.S. Treasury Yields



(Source: J.P. Morgan Economic Update, Guide to the Markets, December 2021)

U.S. Financial Conditions



(Source: Bloomberg, GS U.S. Financial Conditions Index, as of 12/10/21)

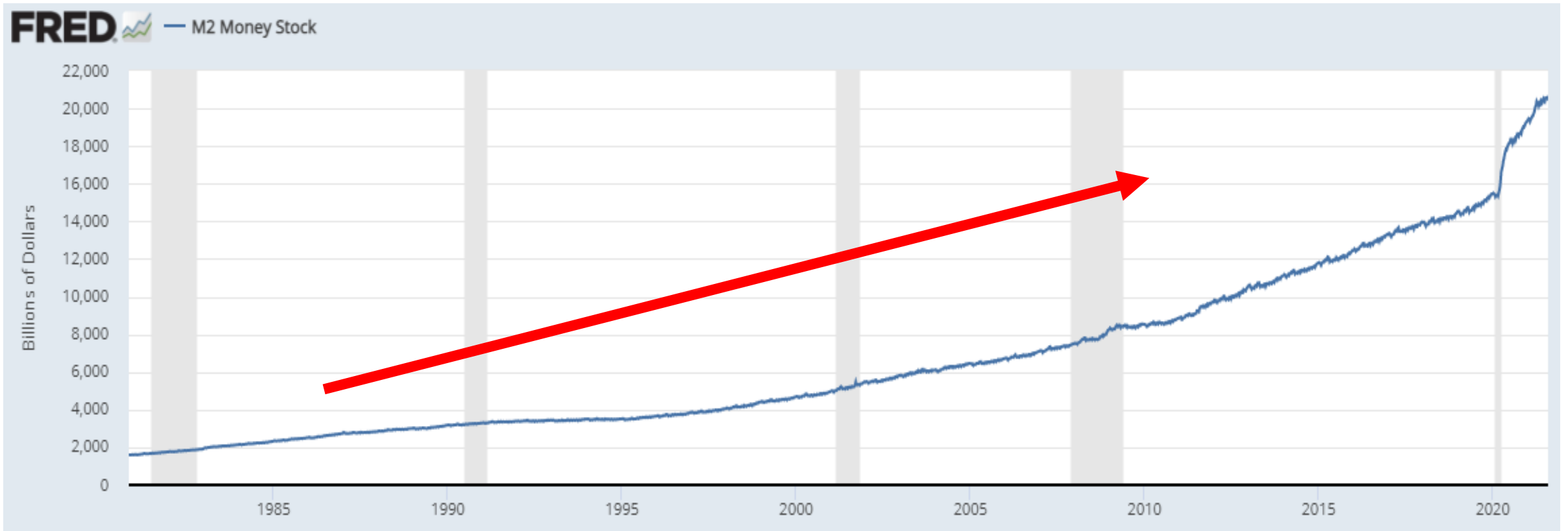
POLLING QUESTION #11

To be eligible for CPE, 9 polling questions must be answered.

Inflation: What It Is & What It Is Not

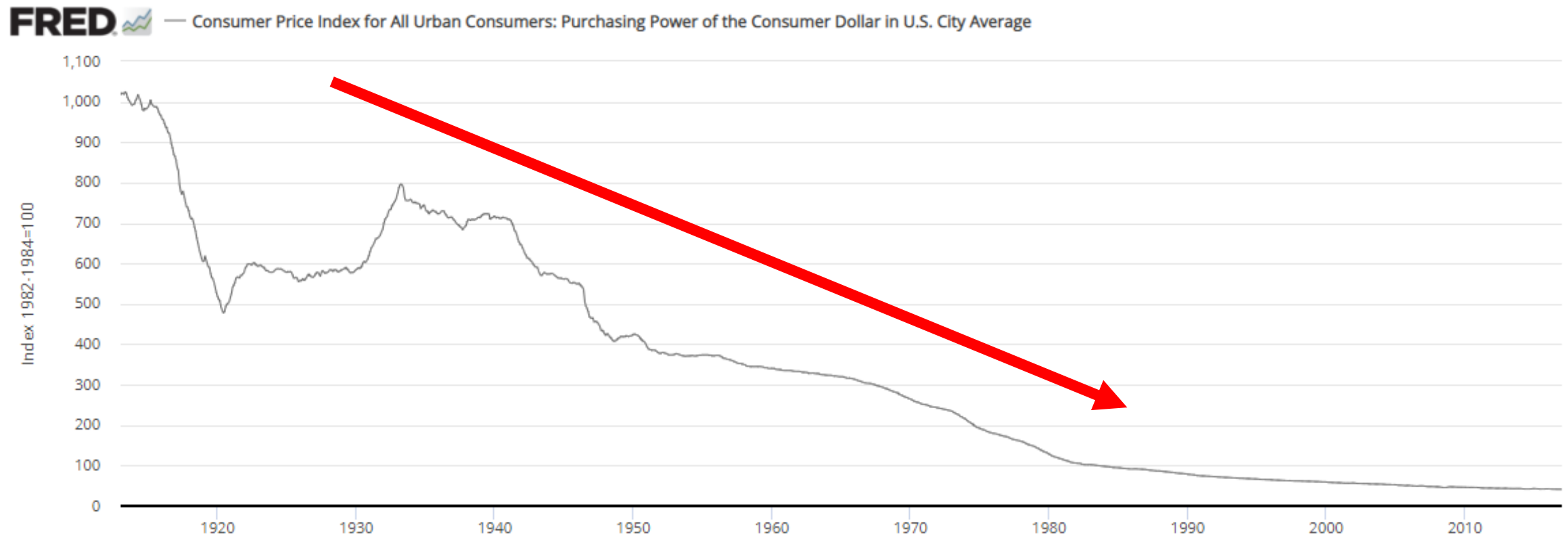
- **Inflation*: [*Economics*] a general increase in prices and fall in the purchasing value of money**
- Inflation, accurately defined, is NOT simply a general rise in prices. It's ultimately a rise in prices caused by an increase in the supply of money.
- This is most easily understood as more dollars chasing fewer goods and services resulting in increased prices. This also results in spillover into asset prices as more dollars chase fewer productive assets.
- Importantly, the prices of goods/services are always rising or falling relative to others as a natural feature of a market economy resulting from changes in supply and demand fundamentals.

M2 Money Stock



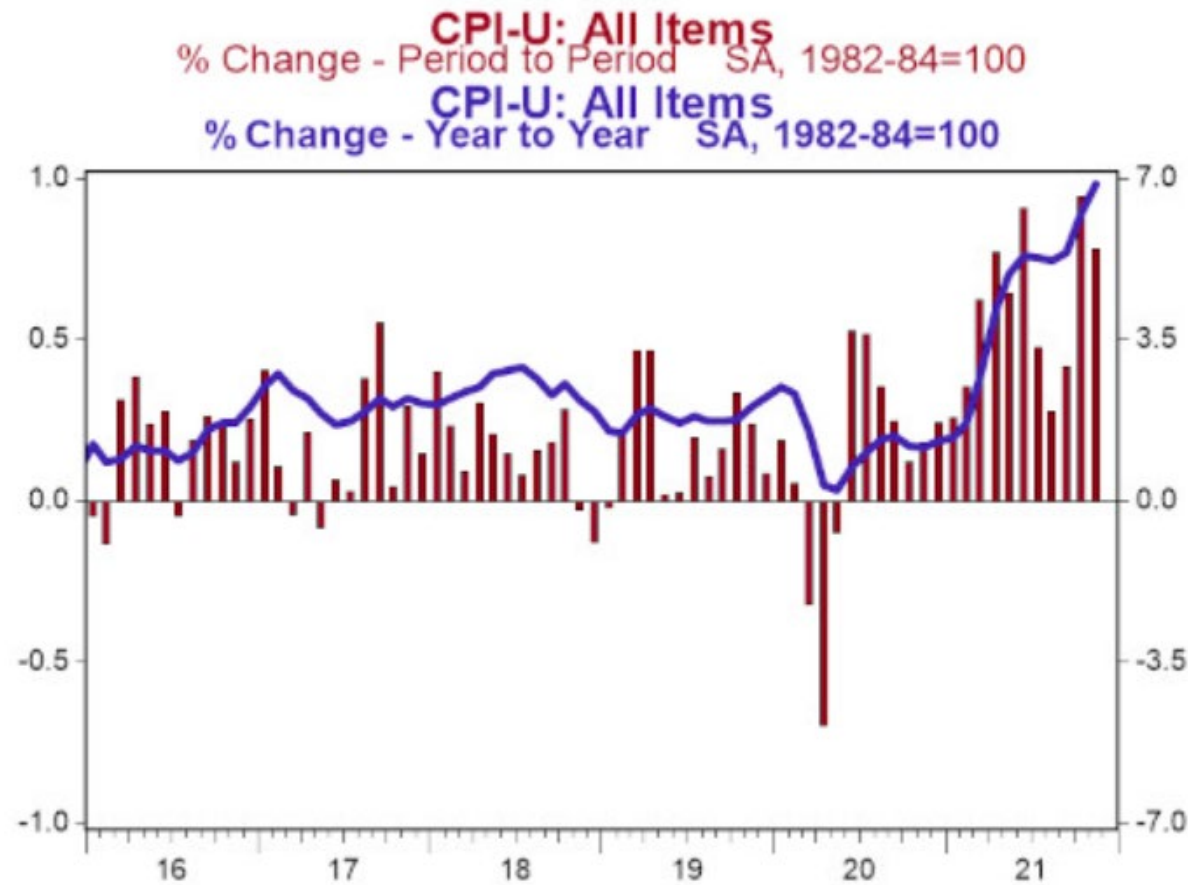
(Source: Federal Reserve, M2 Money Stock, retrieved from FRED, Federal Reserve Bank of St. Louis, December 10, 2021)

Real Purchasing Power – U.S. Dollar



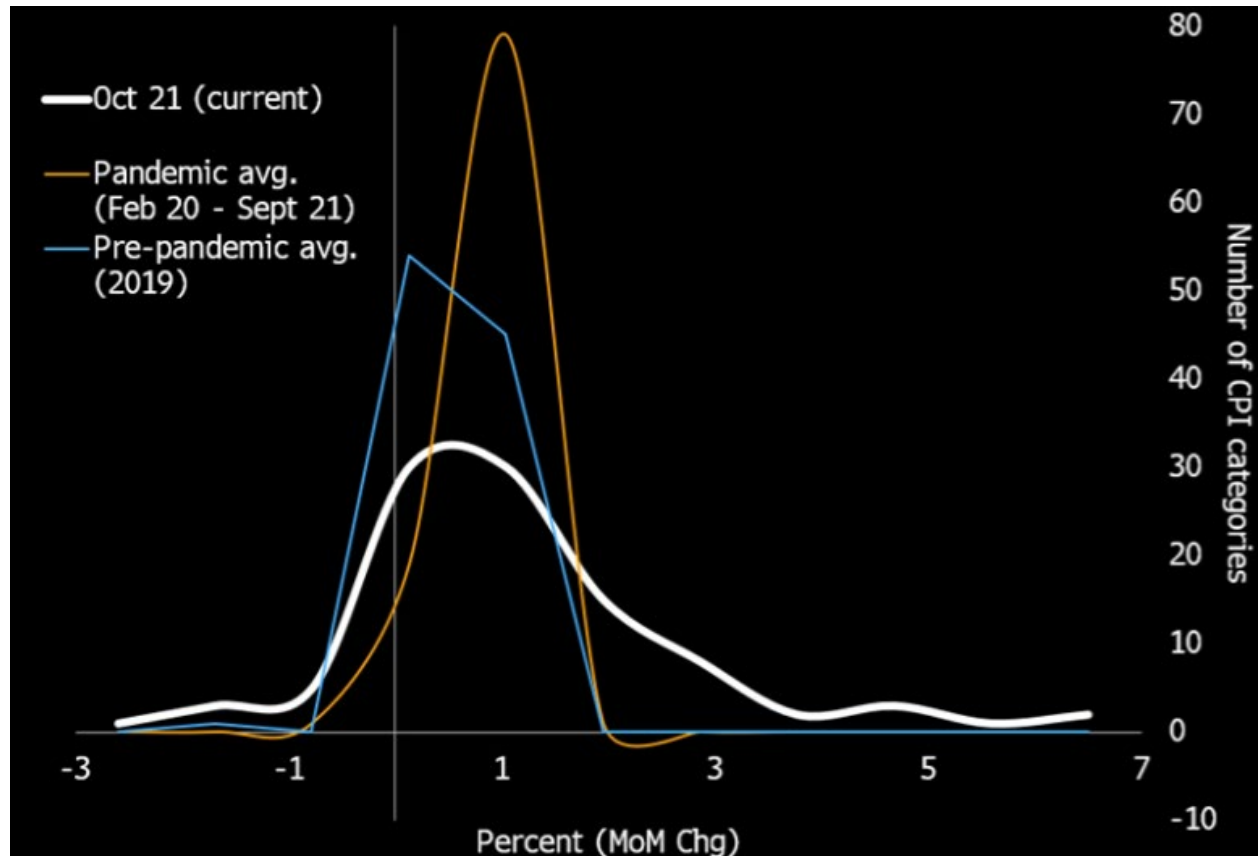
(Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in US City Average, Federal Reserve Bank of St. Louis, December 10, 2021)

Consumer Price Index (CPI)



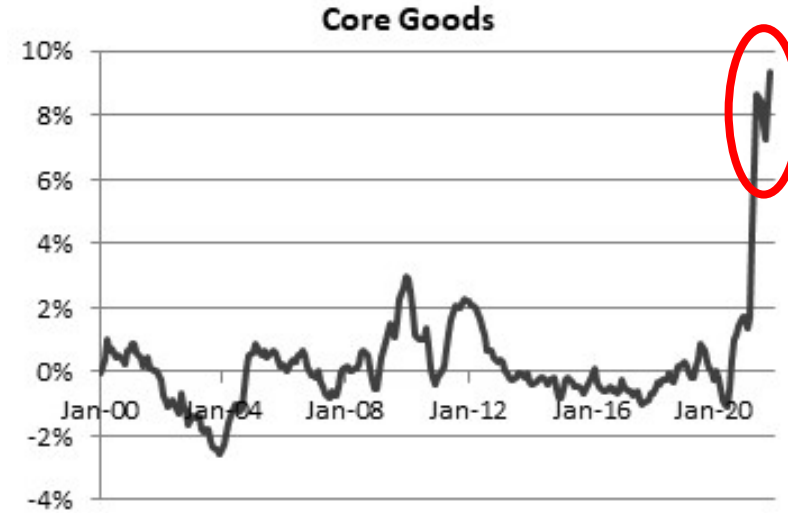
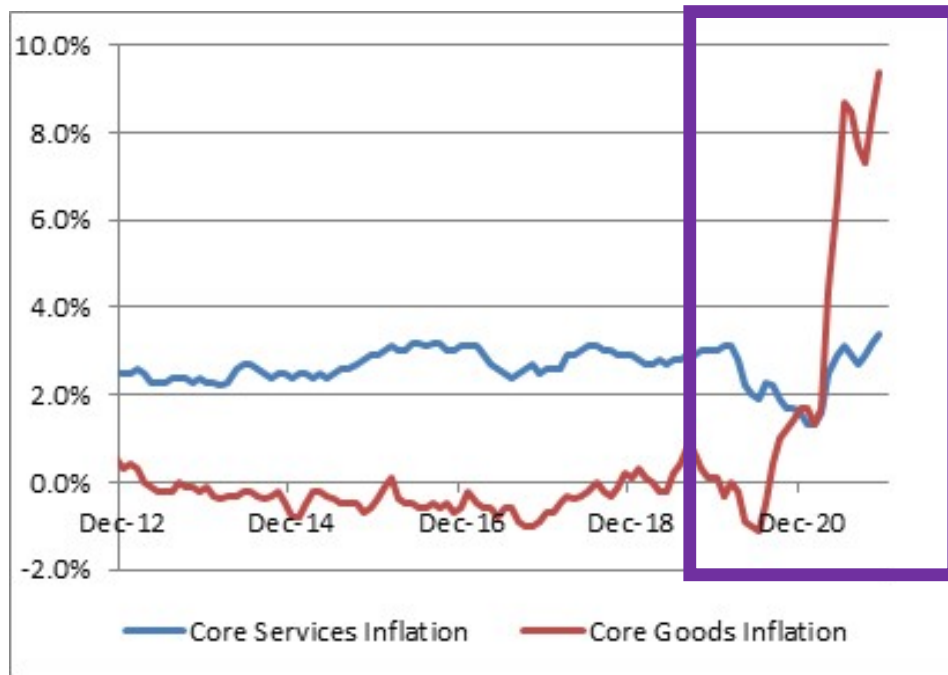
(Source: Consumer Price Index (CPI), First Trust Economics Blog, December 10, 2021)

CPI: Breadth of Increases



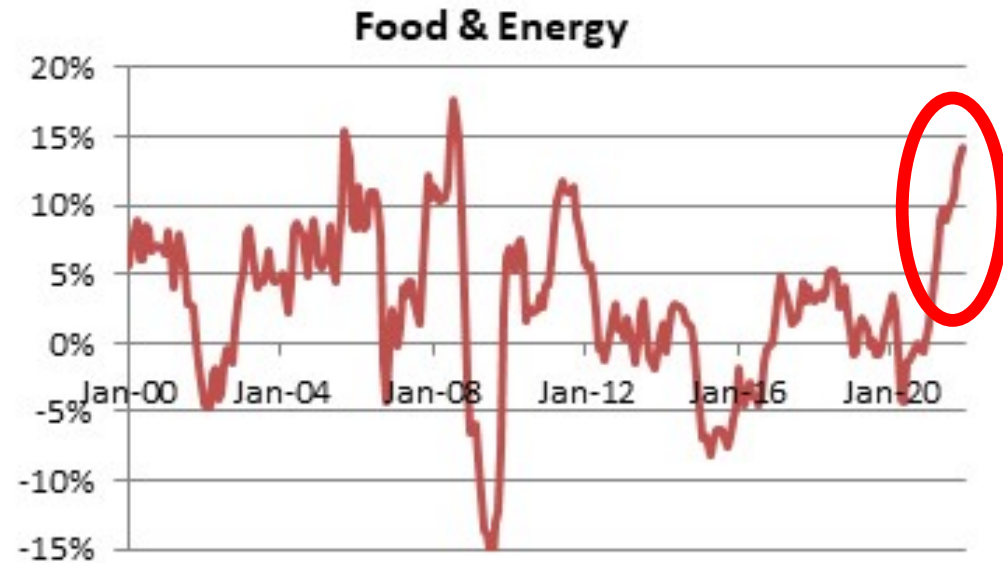
(Source: Bloomberg Economics, U.S. Insight, November 2021)

Prices Increases (CPI)



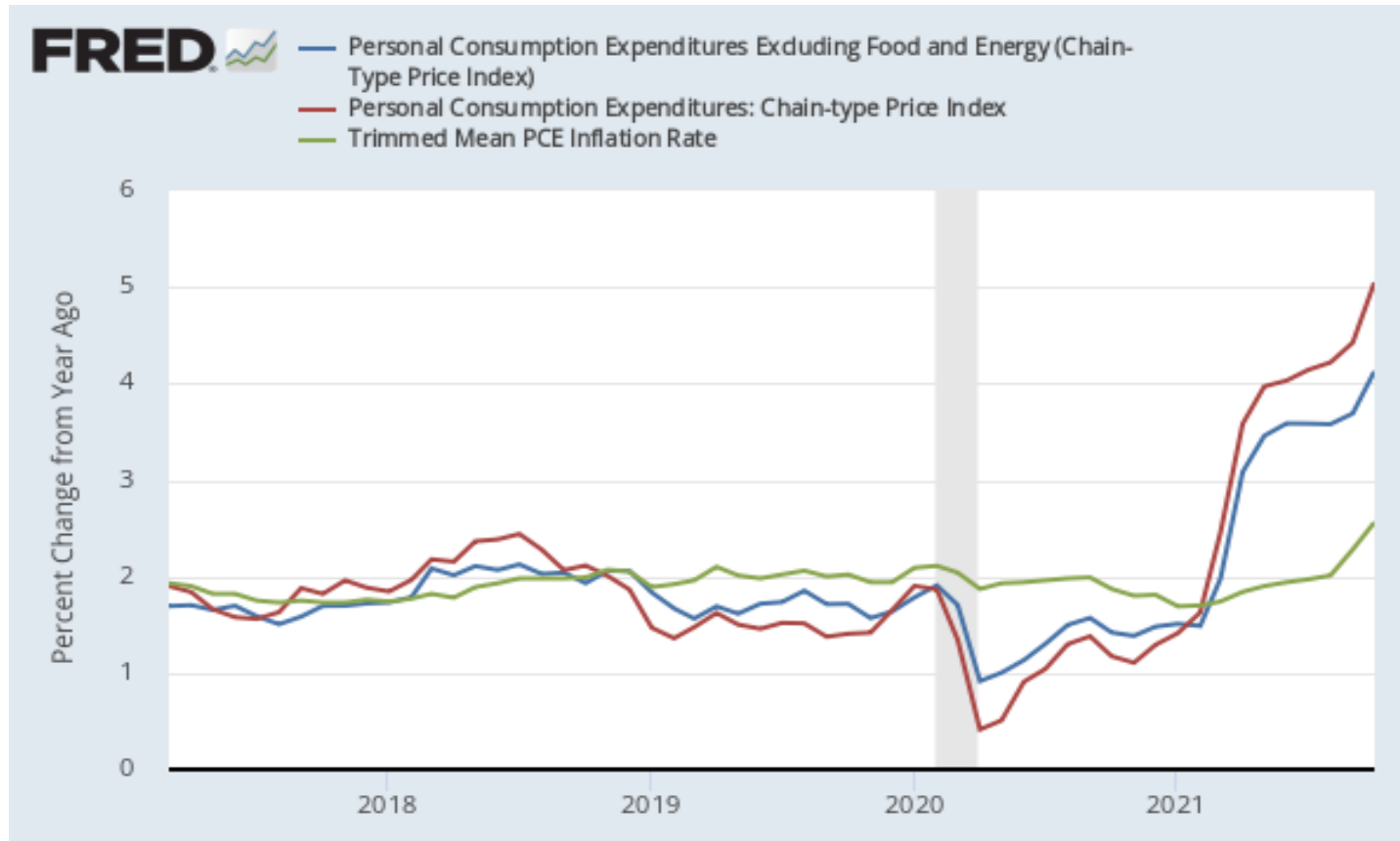
(Source: Ashton, Michael; Enduring Investments, E-piphany: A Blog About Markets, Mania, and Miscellany, December 10, 2021)

Prices Increases (CPI)



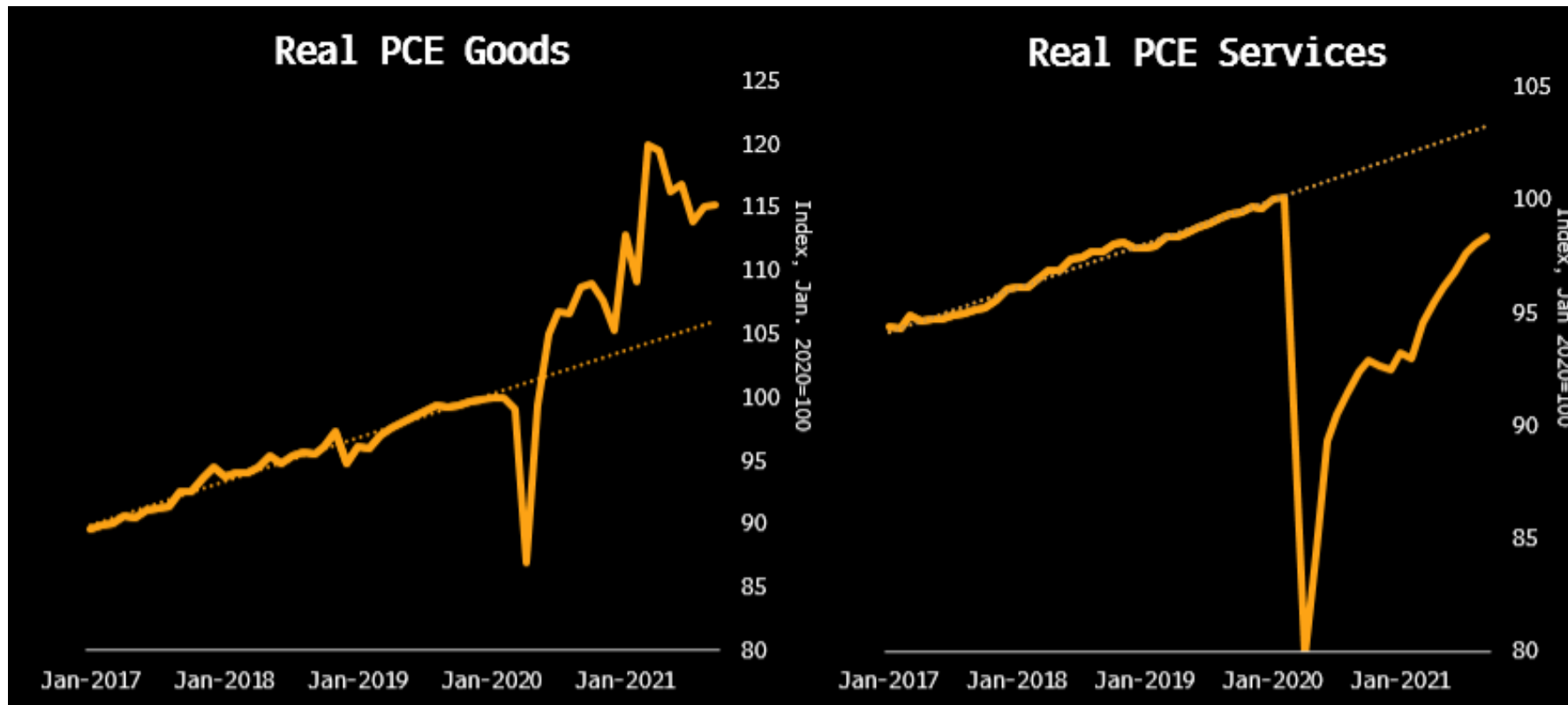
(Source: Ashton, Michael; Enduring Investments, E-piphany: A Blog About Markets, Mania, and Miscellany, December 10, 2021)

Personal Consumption Expenditures (PCE)



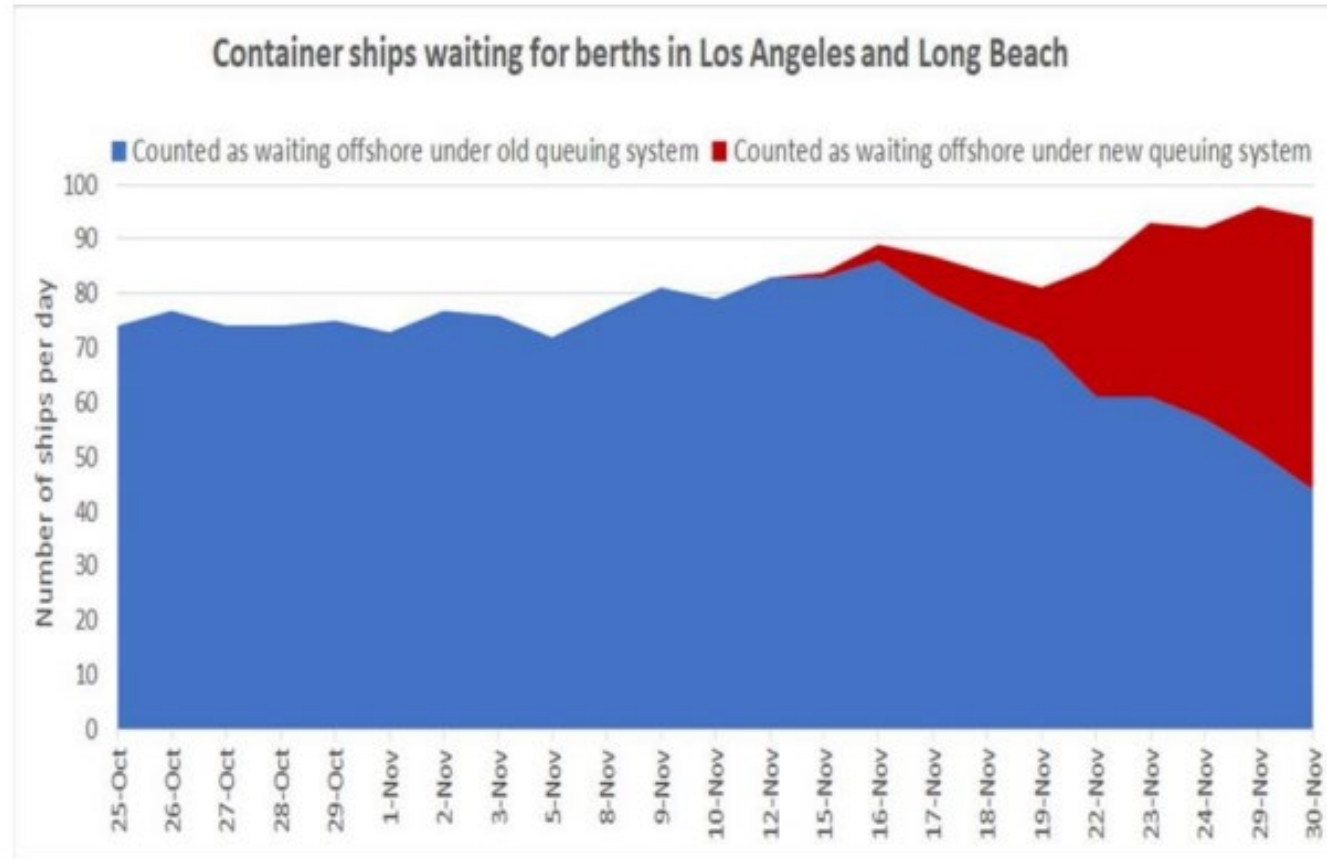
(Source: Federal Reserve, Personal Consumption Expenditures, retrieved from FRED, Federal Reserve Bank of St. Louis, December 10, 2021)

PCE: Goods vs. Services



(Source: Bloomberg Economics, U.S. Insight, December 2021)

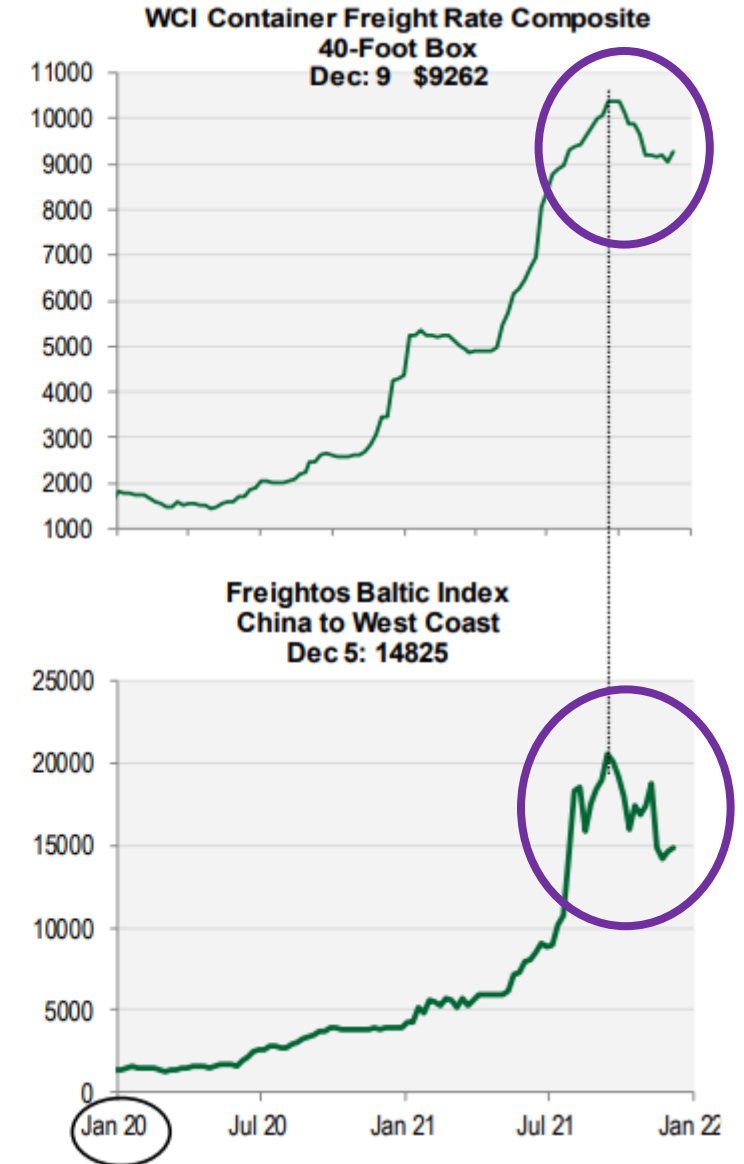
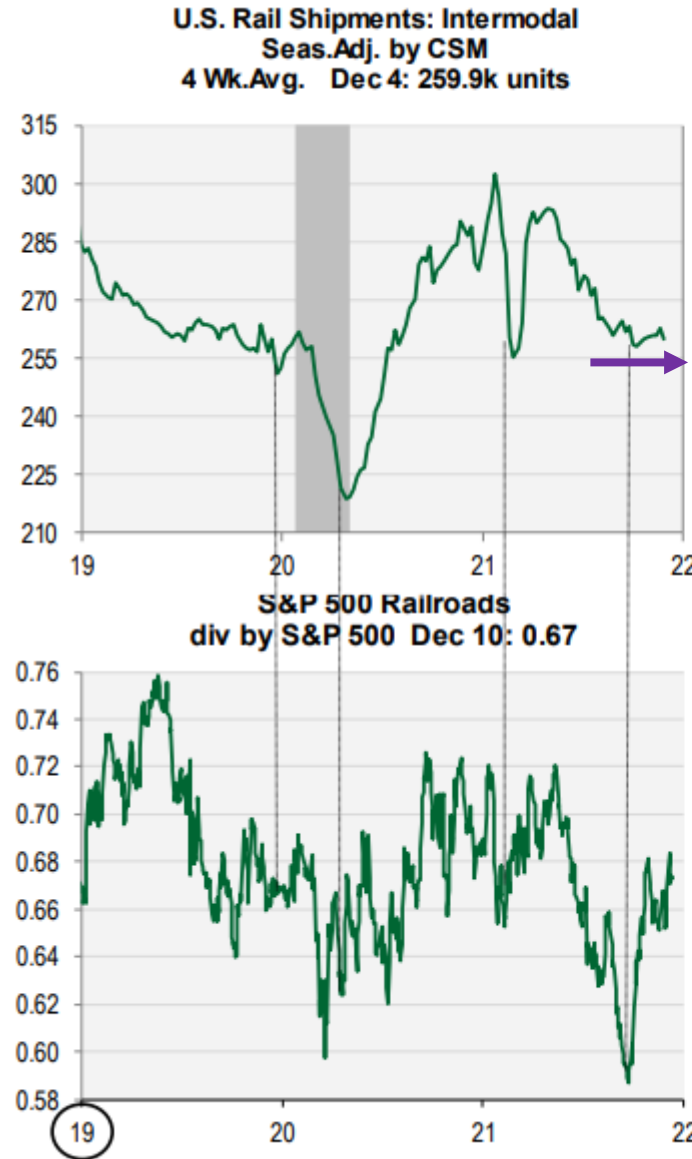
Supply Chain Challenges



(Source: Cornerstone Macro, American Shipper, data from Marine Exchanges of Southern California, 12/10/21)

Supply Chain

“Rail transport has stopped falling...Roll-over shipping costs indicate supply chain pressures are easing.”
- Nancy Lazar



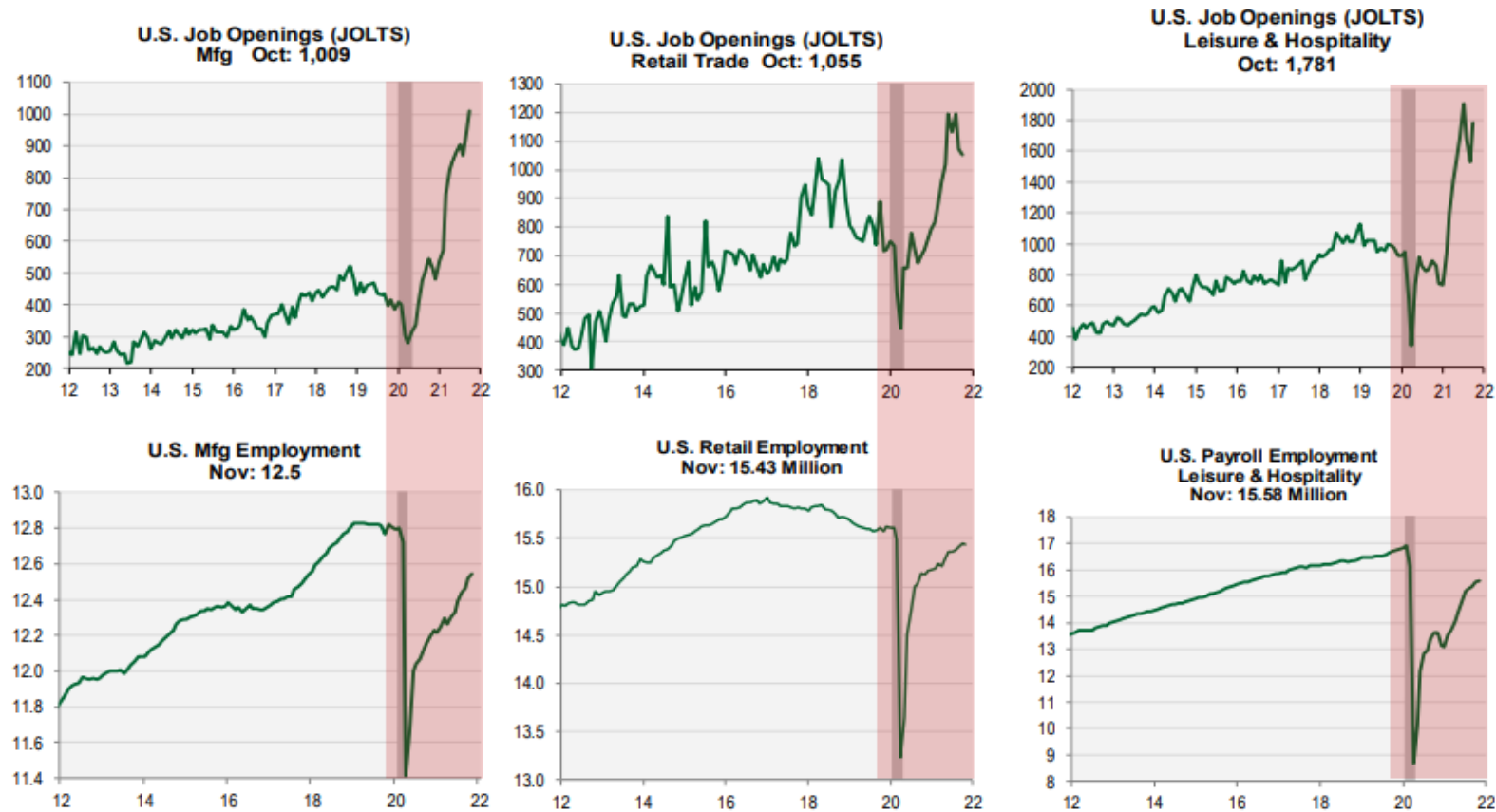
Inflation Takeaways

- COVID lockdowns & U.S. government stimulus created a massive demand shock resulting in a 'bullwhip' effect across every sector of the economy. Meanwhile, supply chain disruptions exacerbated these supply/demand imbalances and these conditions have yet to fully subside.
- The secular decline in the real purchasing power of the U.S. dollar remains a clear and present economic threat. Inflation – properly defined – is here to stay until the normalization of monetary policy.
- It is possible that consumer price measures like CPI & PCE may have peaked and could decline slowly next year as supply chains normalize and demand spikes subside. **However, we note the balance of risks continue to point to the upside given the following factors: 1) prospect of significant additional fiscal stimulus, 2) prospect for stronger consumer spending on travel & accommodations with “re-openings”, 3) rising energy costs, 4) upward wage pressures, 5) and slower-than-expected normalization of global supply chain.**
- **Accordingly, our view is that while both consumer and producer price increases may have peaked, broadly these prices are highly unlikely to decline as quickly as some expect and will likely remain elevated for at least the next 6-8 months.**

POLLING QUESTION #12

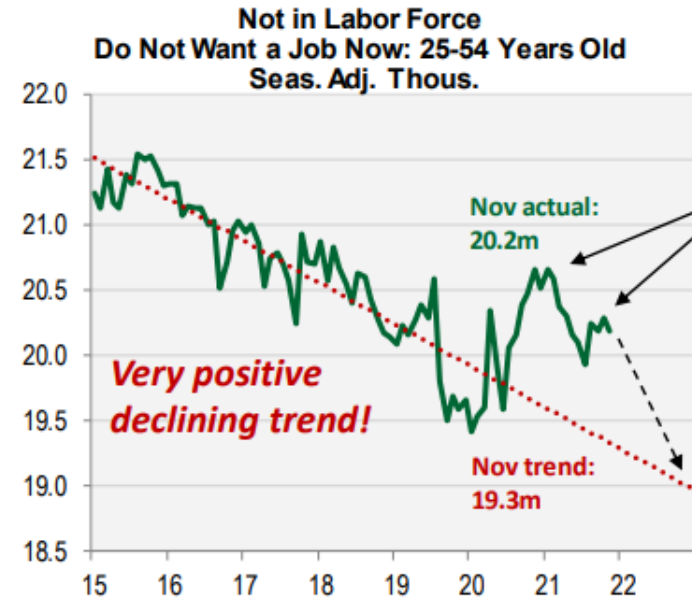
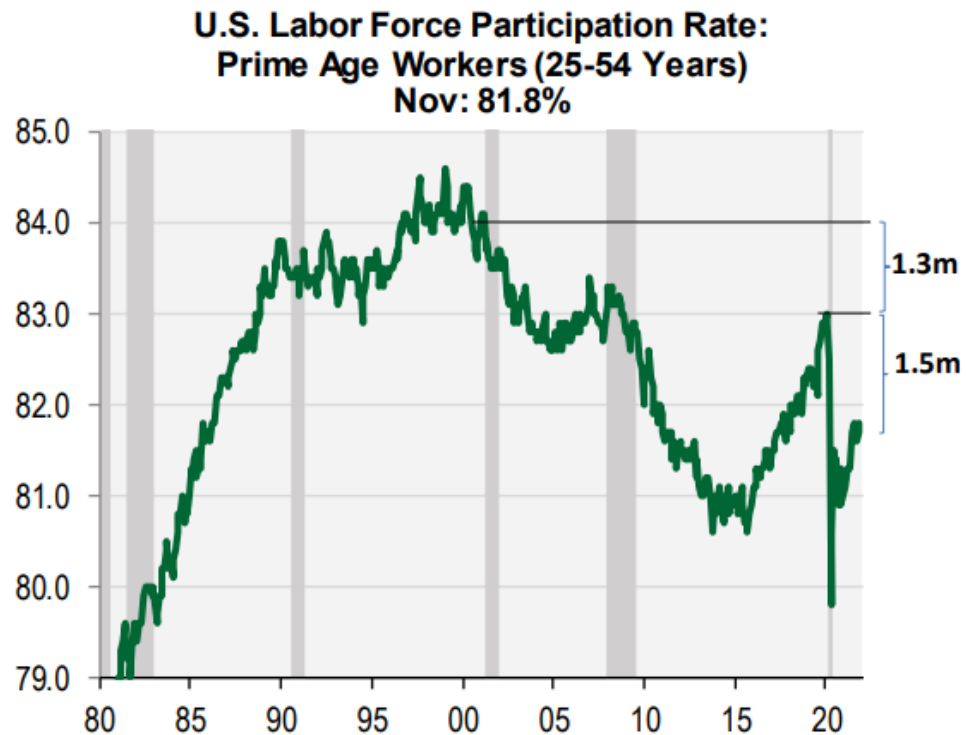
To be eligible for CPE, 9 polling questions must be answered.

Labor Markets – Continued Healing

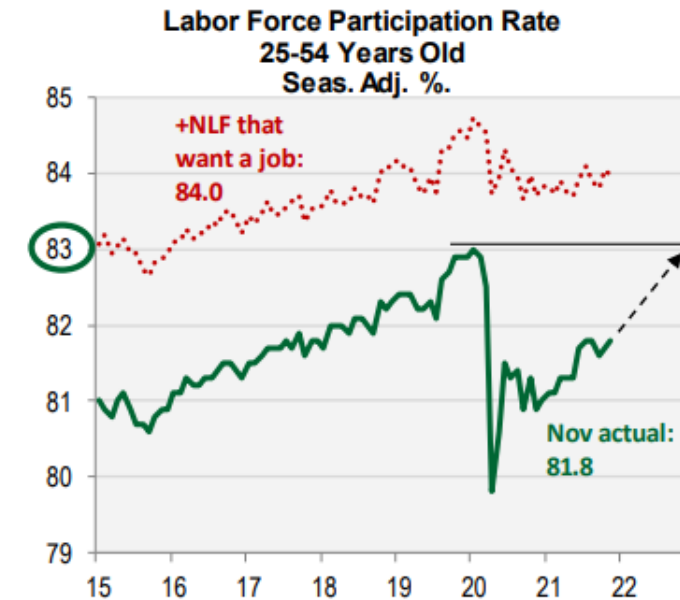


(Source: Cornerstone Macro, Economic Research, 12/10/21)

Labor Force Trends



*Pandemic-driven
exits that are likely
to return*




CEO Business Outlook Survey

Capital Expenditures



(Source: Business Roundtable, CEO Economic Outlook Index Q4 2021, 11/23/21)

U.S. Economic Forecasts, Consensus



United States

Browse

Private

Official

Actual / Forecasts

Probability of Recession

15.0%

Indicator	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23
Economic Activity										
Real GDP (YoY%)	-2.3	0.5	12.2	4.9	5.0	4.6	3.9	4.1	3.6	3.1
Real GDP (QoQ% SAAR)	4.5	6.3	6.7	2.1	5.0	4.3	4.0	3.2	2.6	2.4
Consumer Spending ...	3.4	11.4	12.0	1.7	4.1	3.4	3.0	2.8	2.5	2.4
Government Spendin...	-0.5	4.2	-2.0	0.9	1.3	2.5	2.0	1.8	1.6	1.5
Private Investment (...)	24.7	-2.3	-3.9	11.6	7.0	8.6	6.0	5.4	3.9	3.6
Exports (QoQ% SAAR)	22.5	-2.9	7.6	-3.0	5.0	6.0	6.1	6.0	5.5	5.0
Imports (QoQ% SAAR)	31.3	9.3	7.1	5.8	5.0	5.0	4.9	4.9	4.5	4.1
Industrial Production (Yo...	-4.3		14.3	6.0	4.3	4.3	3.7	3.6	3.6	3.3
Price Indices										
CPI (YoY%)	1.3	1.9	4.9	5.4	6.0	5.6	4.0	3.2	2.6	2.5
PCE Price Index (YoY%)	1.2	1.8	3.9	4.3	4.8	4.5	3.5	2.7	2.3	2.3

(Source: Bloomberg, Economic Forecasts, Contributor Composite, as of 12/10/21)

Where Are We Headed

- We live in a policy-driven economic environment today. Our policy choices now will continue to have an outsized impact on our economic future.
- **COVID:** The emergence of new virus variants increase the risks and uncertainty around the economic outlook, however, we expect only a modest impact on the economy given business activity and consumer spending have become significantly less sensitive to virus spread.
- **Fiscal Imbalances:** Concerns are growing that rising U.S. debt could expose the country to a number of economic dangers and additional debt-fueled spending is likely to exacerbate inflation which has remained elevated.
- **Prices:** While both consumer and producer price increases may have peaked, the breadth of price increases has expanded and prices are likely to remain elevated for at least the next 6-8 months.
- **Monetary Policy:** Financial conditions currently remain very favorable, but the Federal Reserve now has to tread very carefully and “thread the needle” as they taper out of Quantitative Easing and look to begin interest rate “Liftoff.” It will be a challenging task to both manage financial market expectations and increase interest rates without destroying the still-nascent economic recovery.
- **Economy:** Given current economic conditions, including a healing labor market and strong corporate profits, we expect the economy to continue to expand, driven by healthy consumer spending, continued capital expenditures, and a return to growth in productivity. However, major monetary and fiscal policy risks remain front and center, and while stagflation is not our base case, there is a modest and growing probability of this outcome.



Thank You for Joining Us

Whatever your next move, we're here to help.

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Don't forget to fill out our survey that pops up as you exit the webinar, and the recording of today's session will be emailed to all participants later this afternoon. Questions? Contact info@rklcpa.com