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## Welcome to CPE Day

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Tax Outsourcing • International • Business Valuation • Sales & Use Tax

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# SMITH LEONARD 2022 CPE DAY AGENDA

GREENSBORO HIGH POINT AIRPORT MARRIOTT · OCTOBER 21, 2022



**WIFI USERNAME:** *Smith Leonard*    **PASSWORD:** *scottinsurance*

**WIFI Sponsored by Scott Insurance**

- 7:30 - 8:00    **REGISTRATION AND BREAKFAST** (Grand Ballroom Foyer)  
\* *Sponsored by Vaco*
- 8:00 - 8:10    **WELCOME AND ANNOUNCEMENTS**
- 8:10 - 9:00    **REAL ESTATE, CORPORATE & INTELLECTUAL PROPERTY – A QUICK LEGAL UPDATE**  
Nathan Duggins, Natalie Crenshaw Folmar, Blake Patrick Hurt & Patrick Shuler Lineberry,  
Tuggle Duggins
- 9:05 - 9:55    **COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES**  
Kristen Kostner & Judy Canavan, BDO
- 9:55 - 10:10    **MORNING BREAK** (Grand Ballroom Foyer)  
\* *Sponsored by Tuggle Duggins*
- 10:10 - 11:00    **TAX UPDATE**  
Jimmy Eggers & Brandon Hedrick, Smith Leonard PLLC
- 11:05 - 11:55    **THE POST-COVID ECONOMY**  
John Fink, David Valentiner & Ahmed El Nokali, First National Bank
- 11:55 - 12:40    **LUNCH**  
(Plated lunch served in the High Point & Greensboro Rooms, Piedmont Ballroom, Emerald Room, Cardinal Room)  
\* *Sponsored by First National Bank*
- 12:40 - 2:20    **STRESS AND TIME MANAGEMENT IN INTERESTING TIMES**  
Denise Ryan, Firestar
- 2:20 - 2:35    **AFTERNOON BREAK** (Assorted desserts in the Grand Ballroom Foyer)  
\* *Sponsored by Paychex*
- 2:35 - 3:25    **2022 ACCOUNTING UPDATE FOR PRIVATE COMPANIES**  
Scotti Teschke & John Nicolson, Smith Leonard PLLC
- 3:30 - 4:20    **NC ETHICS – BUILDING A FRAMEWORK FOR REGULATORY ETHICS**  
David R. Peters, Peters Professional Education L.L.C.
- 4:20 - 4:25    **WRAP UP AND THANK YOU**

*Please silence your phone during sessions. During breaks, please visit the sponsor tables in the foyer.*

*The Triad Room is available as a Mothers Room for those who need it.*

**IMPORTANT: To ensure you receive appropriate credit, please put your evaluations, the WHITE copy of your CPE certificate & your name tag into one of the FOUR BASKETS in the back of the room BEFORE you leave.**



We Work As Hard For Your Business As You Do®

Where Law Gets Down To Business®

# Welcome to Tuggle Duggins

Since 1974, the choice of discerning businesses and business owners with interests in the Carolinas, throughout the U.S., and internationally. Tuggle Duggins is a multi-specialty, multi-disciplinary law firm focused on the needs of closely held businesses and business owners. We provide representation in legal matters ranging from conventional, personal and business issues to complex legal matters.

TUGGLE  DUGGINS

400 Bellemeade Street, Suite 800  
Greensboro, NC 27401

Phone: 336.378.1431  
Fax: 336.274.6590

[tuggleduggins.com](http://tuggleduggins.com)

Where Law Gets Down To Business

Meet Your Panel:



**Natalie Folmar**  
M&A/General Corporate



**Blake Hurt**  
Intellectual Property



**Patrick Lineberry**  
Real Estate



## Natalie C. Folmar

Director

Direct: 336.271.5220

Fax: 336.274.6590

nfolmar@tuggleduggins.com

### Paralegal

Lauren A. Hughes

Direct: 336.271.5260

lhughes@tuggleduggins.com

Natalie Folmar provides timely, thoughtful and practical advice on matters relating to the acquisition and divestiture as well as day-to-day operations of her clients' businesses. She enjoys solving complex problems and forming creative and practical solutions for her clients. It is this approach that allows her to deliver straight-forward and high-quality work for her clients and their businesses.

Natalie focuses her practice on helping clients, both public and privately-held companies, acquire, sell, merge and generally run their businesses. She is well-versed in a variety of business issues, and works closely with clients to help them achieve their goals while maintaining a keen eye on any related legal issues. She regularly advises clients on entity formation, the purchase and sale of businesses, succession planning and general contract matters. Recently, Natalie has represented banks in a number of lending transactions.

Natalie, a member of the firm's Management Committee, has previous experience as inside counsel with a firm client, having spent a year onsite within their corporation, learning their business and helping them achieve their strategic goals. While onsite, she handled corporate, contract, employment and purchasing matters. This experience as a consumer of legal services helped Natalie recognize the need for efficient, accurate and practical representation, all of which she strives to provide her clients.

In addition, Natalie has established relationships with other professionals who have proven to be valuable resources for her and for her clients. These relationships ensure the right person is on the job and looking out for the clients' best interests, even when it means going outside the firm.

### Representative Matters

- Helped a client with a \$100M multi-national M&A transaction within the automotive manufacturing and safety industry
- Spent one year working as inside counsel for a large automotive manufacturer serving as their only in-house corporate attorney

### SERVICES

Corporate & Finance

Fractional General Counsel

Tax

Covid-19-Related Issues

### EDUCATION

J.D., University of North Carolina School of Law, with honors (2006)

B.S., University of North Carolina-Charlotte, magna cum laude (2002)

- Works closely with automotive recyclers and has developed an in-depth understanding of the industry.
- Assisted a closely-held business in creating a tax-free spin-off business entity.
- Helped a client in the \$70M sale of an international business including addressing the many regulatory issues that arise in international business transactions.
- Assisted a buyer in a \$20M merger and asset purchase.
- Assisted with the purchase of various franchise operations.
- Represented lenders in a variety of complex lending transactions.

## **Outside the Office**

When not in the office, Natalie runs, reads (not at the same time) and spends as much time as possible with her family at Kure Beach. She enjoys working out and traveling, having spent summers abroad in Australia, St. Thomas and Europe. Natalie also soaks up every minute that she can with her husband, Lance, and their daughter, Madelyn, at the park or at the pool with neighbors. She also enjoys reruns of *The West Wing* and any show on the Food Network (though you won't find her doing much cooking). Natalie is a life-long North Carolinian from Harrisburg, NC.

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400 Bellemeade Street, Suite 800  
Greensboro, NC 27401

P.O. Box 2888  
Greensboro, NC 27402

Phone: 336.378.1431  
Fax: 336.274.6590



## Blake P. Hurt

Director

Direct: 336.271.5252

Fax: 336.274.6590

bhurt@tuggleduggins.com

### Paralegal

Pam Dillon

Direct: 336-271-5229

pdillon@tuggleduggins.com

**“Nothing gives me greater joy than getting involved with individual inventors or early-stage businesses and working with innovators to provide them the tools to realize their visions for a better world.”**

Blake Hurt provides his clients with responsive counsel and value through listening to his clients’ objectives and helping them realize their goals through a strategic approach to overcoming roadblocks and enhancing the client experience. His goal is to incentivize his clients to innovate new products, brands, and businesses by aiding them in securing protection for their innovations and then assisting in the maintenance and enforcement of the resulting assets, ensuring that their great value is fully realized.

Blake focuses his practice exclusively on intellectual property, with the most important areas including the preparation and prosecution of patent, copyright, and trademark applications, the maintenance and enforcement of patents, copyrights, and trademarks, and the licensing and transfer of patents, copyrights, and trademarks and related applications before the United States Patent and Trademark Office (USPTO) and copyrights before the U.S. Copyright Office. Additionally, he advises clients on the merits of seeking international IP protection by filing PCT utility patent applications, Hague System design patent applications, and Madrid Protocol trademark applications. He also provides prior art and patentability searches, authors freedom-to-operate and clearance opinions, and gives opinions as to patent infringement/non-infringement and trademark and service mark registerability and infringement. Blake is also experienced and efficient at enforcing client intellectual property rights against potential infringers, advocating for his clients before the Trademark Trial and Appeals Board (TTAB) and the Patent Trial and Appeals Board (PTAB).

Some recent examples of work he’s done on behalf of his clients include:

- A large local hamburger restaurant was named “The Best Burger in America” by Trip Advisor, Blake was able to secure federal registration for their business name, as well as their distinctive graphic logos, allowing them to expand rapidly into other markets.
- A small medical device manufacturer has begun to disrupt the personal respiratory

### SERVICES

Intellectual Property

Corporate & Finance

Litigation & Dispute Resolution

### EDUCATION

J.D., Wake Forest University School of Law (2012)

B.S., Kalamazoo College (2005)

device market with a highly-effective and low-cost vibratory, positive-expiratory pressure device, on which Blake has already successfully prosecuted and procured one patent and is currently in pursuit of additional patents.

- Blake recently concluded a protracted opposition proceeding before the TTAB for a manufacturing client battling an overseas brand infringer, culminating in a rare oral argument victory before the Board.

### **Recent Representative Matters:**

Blake's educational background in biology and chemistry, coupled with his professional experience in the mechanical arts give him a broad knowledge base on which to draw upon the service of his diverse client base.

- Managed an international manufacturer of camping accessories in the development of a utility and design patent portfolio for deterrence against counterfeiting from competitors, both domestically and abroad.
- Aided local furniture company in the comprehensive development of a patent and trademark portfolio including numerous foreign patents stemming from the PCT process and international trademarks stemming from the Madrid Protocol system.
- Secured utility patent on flagship respiratory therapy device for early-stage company, facilitating the acquisition of significant market share in a multi-billion dollar industry.
- Prosecuted to issuance multiple utility patents in favor of local antimicrobial manufacturer, leveraging the intellectual property to the \$20 million acquisition of the company.
- Routinely drafts, prosecutes, and obtains utility patents, both domestically and abroad for an industry-leading textile manufacturer.

### **Outside of the Office**

When not in the office, Blake spends his time with his daughter Kristin and his son Cameron and his beautiful wife Julie. Time permitting, he also enjoys golfing and softball in the warm-weather months and downhill skiing in the winter. Blessed with a large family around the country, he and his family love to travel whenever they can, be it by plane, train, or automobile. A specific travel experience that he is particularly fond of was the two-week trip he took to Australia where he went scuba diving on the Great Barrier Reef and sky-diving in the same 24 hour period!

### **Awards**





## Patrick S. Lineberry

Of Counsel

Direct: 336-271-5213

Fax: 336-274-6590

plineberry@tuggleduggins.com

### Paralegal

Sheila Duckett

Direct: 336-271-5250

sduckett@tuggleduggins.com

Patrick thrives as he provides assistance to clients in a wide array of commercial real estate related matters. He knows the value of understanding the details of deals as well as understanding the people behind each transaction. Patrick works with local investors, private equity firms, national developers and more to handle transactions creatively and competently. His practice includes leasing, corporate work, title review, acquisitions, tax-incentivized transactions, and land use. Patrick enjoys the fast pace of the booming real estate market. His favorite part of his job is watching his clients grow and succeed.

Patrick started his legal practice representing nonprofit organizations and maintains involvement with several charitable organizations. He clerked for the Honorable Martha A. Geer on the North Carolina Court of Appeals. Before moving to Tuggle Duggins, Patrick gained experience in real estate in private practice.

### Outside the Office

Patrick enjoys hiking, rock climbing, brewing beer and spending time with his wife and three boys. Belgian

### SERVICES

Real Estate

Litigation & Dispute Resolution

### EDUCATION

J.D., University of North Carolina School of Law (2013)

B. S., Appalachian State University, summa cum laude (2008)

style ales are his favorite beers to brew. Patrick believes *Webster's* uses his children as an illustration for the entry to "handful." There is never a dull moment around his house!

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400 Bellemeade Street, Suite 800  
Greensboro, NC 27401

P.O. Box 2888  
Greensboro, NC 27402

Phone: 336.378.1431  
Fax: 336.274.6590



## J. Nathan Duggins III

Managing Partner

Direct: 336.271.5246

Fax: 336.274.6590

nduggins@tuggleduggins.com

### Paralegal

Layne Sossaman

Direct: 336.271.5273

lsossaman@tuggleduggins.com

**“We are best measured by our outcomes, so focusing on the outcome that our clients are seeking is always my north star.”**

Nathan Duggins works alongside clients to offer guidance and direction to meet the ultimate goal for each one. As Managing Partner of Tuggle Duggins, he uses this same approach to lead the firm, keeping an eye toward the Firm’s strategy to help attorneys and staff remain focused on the overarching goal of the Firm – to seamlessly and purposefully serve clients.

In his practice, Nathan helps clients with litigation related to construction, complex business disputes and real estate. Much of Nathan’s experience has come in the utility and commercial construction space as well as the multi-family. Within these areas, he has structured numerous real estate transactions to optimize outcomes for sellers of all types of real estate. Also, he has negotiated dozens of real estate tax appeal claims with county and city entities throughout North Carolina on behalf of clients.

Additionally, Nathan helps employers with a wide range of employment-related issues including federal and state employment law compliance, hiring practices, termination procedures, and all forms of employee-related litigation. Whether he is helping fix a problem, assisting with building something or simply providing counsel about a sticky situation, Nathan serves as a technical expert as well as the navigator towards the client’s expected outcome.

His practice constantly exposes him to new businesses, new clients and new opportunities. This serves as a great crucible of learning that makes for very few boring days.

### Recent Representative Matters

- Represented numerous multi-family developers taking the entire life cycle of a development, including syndication, site acquisition, land use, financing and disposition.
- When a large utility contractor faced significant litigation against a multi-national company, we worked diligently to chart a litigation course that led to a large arbitration award for the client.

### SERVICES

Real Estate

Litigation & Dispute Resolution

Employment

Fractional General Counsel

### EDUCATION

J.D., Wake Forest University School of Law  
(1995)

B.A., University of North Carolina at Chapel  
Hill (1991)

- When the CEO of a large regional manufacturing company found himself at odds with the Board of Directors, we worked to find a mutually acceptable solution for the CEO that prevented litigation and unwanted publicity.
- When a bankrupt airline needed “bet the company” counsel in a dispute with a vendor, we stepped in and obtained a significant judgment on behalf of the client, the judgment we obtained remains one of the largest ever awarded in a North Carolina Business Court.
- When a large commercial realtor was concerned that it had missed the deadline to file an important appeal, we worked quickly to find a solution that provided a path for appeal, which we ultimately won.

## Outside of the Office

Nathan is often described as easy to interface with and hard-working although he does not define himself by his avocation but rather by his family, friends and community. He is involved in a number of organizations both in the Greensboro community including the Greensboro Chamber, the Guilford Education Alliance, and University of North Carolina at Greensboro.

When he is not working, Nathan enjoys watching his kids play sports, working out, and spending time with friends and family. He is also a fan of a good Netflix marathon.

## Awards



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400 Bellemeade Street, Suite 800  
Greensboro, NC 27401

P.O. Box 2888  
Greensboro, NC 27402

Phone: 336.378.1431  
Fax: 336.274.6590



# COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

October 21, 2022

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## With You Today



**JUDY CANAVAN**  
Managing Director  
Compensation & Benefits Survey Business

215-636-5635  
[jcanavan@bdo.com](mailto:jcanavan@bdo.com)



**KRISTEN KOSTNER**  
Senior Manager  
Global Employer Services

314-655-6236  
[kkostner@bdo.com](mailto:kkostner@bdo.com)

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2

## Judy Canavan

MANAGING DIRECTOR, COMPENSATION & BENEFITS SURVEY BUSINESS

- ▶ Judy has more than 30 years of experience in survey management, total rewards strategy, market assessment, pay plan design.
- ▶ Served on the faculty at the University of Southern California, Bovard College as an Assistant Professor of Human Resource Management.
- ▶ She leads BDO USA's Compensation Surveys practice.
- ▶ Her industry experience includes health insurance, clinical research outsourcing, pharmaceuticals, reinsurance, utilities, engineering, food processing, higher education, and nonprofit organizations.



215-636-5635

[jcanavan@bdo.com](mailto:jcanavan@bdo.com)

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

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3

## Kristen Kostner

SENIOR MANAGER, GLOBAL EMPLOYER SERVICES

- ▶ Kristen has more than 20 years of experience in compensation plan design, where she manages client engagements for companies with diverse ownership profiles (publicly traded, privately held, not-for-profit, public sector).
- ▶ Her industry experience includes banking and financial services, government contractors, manufacturing, private equity, professional services, real estate & construction, retail & wholesale trade, and technology, among others.
- ▶ Her experience includes staff level, executive, and incentive compensation plan design, and board of director studies related to structure, remuneration, and governance issues, along with M&A integration, performance management, leadership transition, and succession planning.



314-655-6236

[kkostner@bdo.com](mailto:kkostner@bdo.com)

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Today's Presentation

-  Current and Ongoing Challenges
-  Pressing Compensation Planning Topics
-  Case Studies
-  Solutions

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Current and Ongoing Challenges



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## Current Challenges

Companies are facing perplexing challenges in the face of a uniquely uncertain economic outlook.

ISSUE	GUIDANCE
High Turnover/ Talent Shortage	<ul style="list-style-type: none"> <li>▶ Develop compensation or total rewards strategy</li> <li>▶ Assess market competitiveness of pay and benefits</li> <li>▶ Assess all rewards of work - especially culture and career opportunities</li> <li>▶ Ensure proper allocation of compensation budget</li> <li>▶ Create a suite of approaches for attraction and retention of employees</li> </ul>
Work from home "demands"	<ul style="list-style-type: none"> <li>▶ Defining policy - work from home versus remote work</li> <li>▶ Ensure fair pay practices</li> <li>▶ Appropriately managing pay and policies for those positions that can work from home and those that cannot</li> <li>▶ Consider tax implications</li> </ul>
Escalating Pay	<ul style="list-style-type: none"> <li>▶ Inflation impact on pay</li> <li>▶ Talent shortage impact on pay</li> <li>▶ Tools to limit increasing fixed costs</li> </ul>

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## Current Challenges

Some challenges are ongoing and specific to the structure of the company.

TYPE OF COMPANY	ISSUE	GUIDANCE
Non-Profits	Executive pay/ Intermediate Sanctions	<ul style="list-style-type: none"> <li>▶ As a disinterested third party, provide assessment of the competitiveness of executive pay levels to help mitigate risk of intermediate sanctions</li> <li>▶ Assist in the design of bonus plans</li> </ul>
Partnership	Reasonable pay	▶ Determine if pay is reasonable either as a result of an IRS audit, dispute between partners, or for company valuation

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## Current Challenges

Some challenges are ongoing and specific to the structure of the company.

TYPE OF COMPANY	ISSUE	GUIDANCE
Private Equity Portfolio Company	Executive ownership Transactions	<ul style="list-style-type: none"> <li>▶ What portion of ownership goes to executives</li> <li>▶ Mergers: Is pay administered equitably across entities</li> <li>▶ Consolidation of benefit plans</li> </ul>
Public companies	Pay for performance	<ul style="list-style-type: none"> <li>▶ Annual incentives</li> <li>▶ Long-term incentives</li> <li>▶ Salary administration - merit increases</li> <li>▶ Performance management</li> <li>▶ SEC disclosures and compliance with proxy advisor guidelines</li> </ul>
Public/ private companies	Attracting board talent	<ul style="list-style-type: none"> <li>▶ Board/ committee member profiles</li> <li>▶ Competitive pay levels</li> <li>▶ Fiduciary vs. Advisory Boards</li> </ul>

Next, we will explore some of the most pressing topics ▶

## Pressing Compensation Planning Topics



## Talent Shortage

### WHY THEY LEFT THE LABOR FORCE

<b>Parents</b>	<p>More expensive, harder-to-find daycare gives parents reason to stay home rather than return to work.</p> <ul style="list-style-type: none"> <li>▶ Day-care centers are short of workers, turning away families.                     <ul style="list-style-type: none"> <li>• Workers down 10.4%</li> <li>• Wages of workers up 10%                             <ul style="list-style-type: none"> <li>- More employment options for childcare workers (Amazon may pay more).</li> </ul> </li> </ul> </li> </ul>
<b>Junior Level Employees</b>	<p><b>Burnout:</b> Junior personnel in white-collar industries have often had to work long hours "without benefiting from the training, mentorship, and client interactions that previously made such jobs rewarding," which in turn may have lowered their tolerance for such demands.</p>
<b>Modestly Paid</b>	<p><b>Reshuffling trillions of federal relief dollars</b> made many less eager to return to strenuous, modestly paid jobs.</p>
<b>Retirees</b>	<p><b>Early Retirement:</b> Over 3 million Americans retired early (about 2x what was expected and represent over half the workers missing from the labor force).</p>



## U.S. Broad Industry Pay Trends<sup>1</sup>

### Within Professional & Business Services:

- ▶ Wages grew more than the national average.
- ▶ Current wage growth is more than twice the average historical.
- ▶ Job switchers are experiencing a historic average pay increase of 12.2% - 63% above the average since 2014.

While these pay increases are more than typical, with the most recent consumer price index for inflation at 9.1%, real wages do not rise as much as it appears.

Source: <sup>1</sup>Principal Data Scientist, Jeff Nezaj, [ADP Workforce Vitality Report](#)

### U.S. wage growth for 2021 and comparison to prior years from 2014 to 2021

End of Year 2021	National	Prof. & Business Services
<b>Wage Growth - Overall</b>	4.40%	<b>6.20%</b>
Job Holders	5.90%	<b>6.40%</b>
Job Switchers	8.00%	<b>12.20%</b>
Entrants	3.00%	7.50%

Year	Yearly Wage Growth for Prof. & Business Services*		
	All	Holdes	Switchers
2014	0.5%	3.8%	7.1%
2015	2.0%	3.7%	7.0%
2016	1.3%	4.4%	6.8%
2017	3.1%	5.1%	8.4%
2018	2.6%	4.0%	8.0%
2019	3.3%	4.6%	7.5%
2020	4.1%	3.3%	7.8%
<b>2021</b>	<b>6.2%</b>	<b>6.4%</b>	<b>12.2%</b>
<b>Average</b>	<b>2.4%</b>	<b>4.1%</b>	<b>7.5%</b>

\*12 months as of December of each year



## 2022 Salary Increase Budgets Rose Throughout the Year

### BDO 2022 Salary Increase Survey

Predictions as of Q3 2021	Predictions as of Q4 2021	2022 Q1 Average Reported*		
3%	3.9%	4.4%	For Profit only Salary Increase Budget	4.6%
			All Organizations % of Organizations that Recently Increased Budget	47%
			All Organizations Average Budget for those who Increased	5.1%
			For Profit Only % of Organizations that Recently Increased Budget	48%
			For Profit only Average Budget for those who Increased Budget	5.4%

- ▶ 2001 - last time budgets were over 4%
- ▶ 1991 - last time budgets were 5%

13 \*Source: BDO Salary Increase Flash Survey, 440 companies, conducted in January/ February of 2022  
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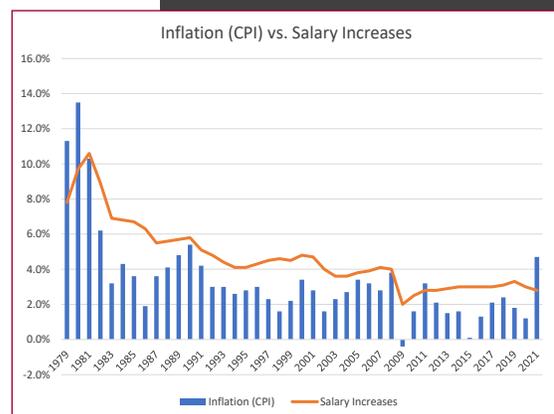


## Salary Increases Budgets and Inflation

### IMPACT OF OTHER FACTORS

There is a correlation between inflation and salary increases, but inflation does not explain 100% of salary budget decisions.

- ▶ On a macro level drivers include:
  - Overall demand for talent
  - Other economic indicators (growth/expansion vs. recession)
  - Global impact - currently the strong dollar makes U.S. goods and services more expensive
- ▶ On a more micro level (company specific) drivers include:
  - Need for talent
  - Affordability
  - Other "rewards of work" benefits, culture, work life balance
  - The impact of inflation on the workforce based on demographics (inflation tends to have the most profound impact on lower income families)



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## Salary Increase Budgets

APPROACH TO HEDGE AGAINST ECONOMIC UNCERTAINTY

**Salary increases are permanent, inflation is not, support employees in ways that do not permanently add to the bottom line.**

- ▶ Define your total rewards philosophy/strategy
  - ▶ Commit to competitive levels that reflect performance
    - Larger salary increase budgets allow for greater differentiation of increases based on performance
- 
- ▶ Consider other “inflation busting” approaches, examples include:
    - Gas cards
    - Other offsets for commuting costs (parking, mass transit)
    - Inflation busting checks (\$1,000 - \$2,000)
    - Lunch provided on core office days
    - Performance bonuses
- 
- ▶ Focus of financial support on those roles that are most impacted



## Remote Work

Over the last few years, many companies have moved from a traditional approach of all employees working in a company office to include remote work options. The most common approach is a hybrid model with a mix of Work from Home (WFH) and remote work if the nature of the work accommodates this model.



Traditional Work in the Office



Hybrid: Mix of WFH and Office



100% Remote

THERE IS NO “ONE-SIZE FITS ALL” SOLUTION

## Defining Remote Work

There are two buckets of “remote work” for the purposes of setting policy. Later in the presentation, these definitions will need to be subdivided for the purposes of tax implications.

WORKING FROM HOME	REMOTE WORK
<ul style="list-style-type: none"> <li>▶ Employee works from home - typically for a predefined percent of the week</li> <li>▶ There is workspace available at the company office location</li> <li>▶ Home is within commuting distance of office/primary work location</li> </ul>	<ul style="list-style-type: none"> <li>▶ Works from a home-office exclusively</li> <li>▶ No defined workspace available at company office</li> <li>▶ May or may not be within commuting distance of a local office</li> </ul>

## Remote Work Policies

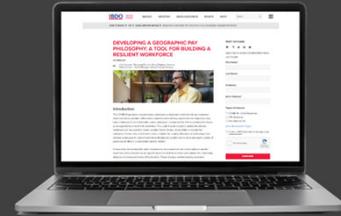
By defining these two categories, policies can be developed that minimize the need for individual exceptions:

POLICY	WORKING FROM HOME	REMOTE WORK
<b>Requirements/ Guidelines for Working in the Office</b>	<ul style="list-style-type: none"> <li>▶ Company may require employees to be in office a certain number of days a week or month</li> <li>▶ Emerging policy is to have two core days and a minimum of an additional “floating office day”</li> </ul>	<ul style="list-style-type: none"> <li>▶ No regular requirements</li> <li>▶ May require occasional attendance at office meetings for defined purpose</li> <li>▶ Company may pay travel to office</li> </ul>
<b>Home Office Set Up</b>	<ul style="list-style-type: none"> <li>▶ Important to determine if the employee has a home set-up that facilitates their productivity (desk, phone, computer, privacy)</li> <li>▶ Company is less likely to pay for home office because workspace is provided in the company office</li> </ul>	<ul style="list-style-type: none"> <li>▶ Company may have a home office set-up allowance and may pay for some recurring costs (e.g., toner for printer, cell phone, etc.)</li> </ul>

## Geographic Pay Differentials

This is another policy that is best defined by differentiating between WFH vs. remote work employees.

POLICY	WORKING FROM HOME	REMOTE WORK
<b>Geographic Pay</b>	Base geographic pay differential on office location/corporate policy	Geographic pay differential may be based on any of the following: <ul style="list-style-type: none"> <li>▶ Location of employee</li> <li>▶ Location of the nearest office</li> <li>▶ Location of headquarters</li> <li>▶ National</li> </ul>



More details regarding how to develop a remote work geographic pay philosophy can be found here: [How to Develop a Geographic Pay Philosophy | BDO Insights](#)



## Remote Work and Compensation

Work from home policies can help with attraction and retention:

- ▶ Lowers commuting cost.
- ▶ Many employees appreciate the time saved by not commuting.
- ▶ Many employees feel that they can manage work-life-balance more effectively.
- ▶ National Bureau of Economic Research estimated that WFH could account for 2% lower salaries. Employees are willing to trade from 1.5% to 7.3% of earnings to be able to work from home.

**The risk is the potential for a negative impact on culture, team, as well as impeding growth and development of junior team members.**



## Culture Considerations

- ▶ Culture is often cited as a large reason for employees to stay with or leave a company
- ▶ Remote work can create challenges to culture:
  - Teamwork: challenges managers to be creative
  - Training & Development: may place larger burden on managers to train junior employees as they no longer have direct access to other teammates
  - Isolation, mental health, burnout: Computer screens provide only limited proxy for direct human interaction

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY &amp; TALENT SHORTAGES

### CASE STUDY: INVESTMENT BANKING

Why are analysts and associates leaving?

- ▶ Part of what makes the analyst and the associate years bearable is the sense of camaraderie developed with peers.
- ▶ Being a junior investment banker isn't always fun, but at least you're with similarly-minded people and can blow off steam as you're waiting to turn comments at 2am for the third night in a row.
- ▶ With the rise of WFH, this dynamic was entirely shifted as you no longer really got to know your peers in the same way.



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## Culture Considerations

HOW DOES A COMPANY HANDLE MULTIPLE REMOTE WORK SCENARIOS?

- ▶ **100% in the Office/Onsite:**
  - Some jobs require employees to be on site (manufacturing, receptionists, medical staff, etc.)
- ▶ **Work from Home:**
  - Some jobs are easily transitioned to WFH (the "laptop class").
- ▶ **Remote Work:**
  - Talent pool for some jobs resides in locations not convenient to the company office and now employees are less willing to move - requiring company to offer a remote work option as a recruitment alternative.

### Issues that can arise:

- ▶ "Them versus us" (must be in office vs. those who work from home)
- ▶ Commuting costs - may be an extra burden on those who must come into the workplace, and these may be lower paid roles who are most impacted by rising gas prices.
- ▶ Inconsistent application of policies across departments.
- ▶ Inconsistent application of policies among employees in the same job.

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY &amp; TALENT SHORTAGES



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## Culture Solutions



The following are solutions that companies have implemented to help maintain culture  
Financial, Fair, Facilitate, Fun

- ▶ For those who come into the workplace, provide transit support (more details on this later in the presentation)
  - Qualified
  - Non-qualified (gas cards)
  - “Inflation busting checks/bonuses”
- ▶ If a subset of employees are required to come to the workplace, ensure some percent of WFH employees are also there
- ▶ Encourage work teams to come into the office on the same days to facilitate collaboration
- ▶ Create “buddy system” for new remote work employees to facilitate them getting the lay of the land
- ▶ Provide lunch on one of the core office days to support team and culture
- ▶ Ensure continuation of traditional and create new company activities and parties

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY &amp; TALENT SHORTAGES



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## Case Studies



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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY &amp; TALENT SHORTAGES



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CASE STUDY ONE:

Private Family-Owned Manufacturing Company

 CHALLENGE	 PROCESS	 DETAILS	 RESULTS
<ul style="list-style-type: none"> <li>▶ High turnover</li> <li>▶ Many large employers locally</li> <li>▶ Compensation program lacked structure</li> <li>▶ Minimal to no definition of roles</li> <li>▶ Employees resisted taking on new responsibilities</li> <li>▶ Management was considering a pay-for-skills program</li> </ul>	<ul style="list-style-type: none"> <li>▶ Collect compensation data, plan documents and benefit information</li> <li>▶ Conduct in-depth interviews with department managers</li> <li>▶ Determine the required skill sets and selected the appropriate comparator market</li> <li>▶ Conduct data analysis of employee population to determine the range of pay, experience and certifications</li> </ul>	<ul style="list-style-type: none"> <li>▶ Defined roles (production technicians, quality assurance, stockroom, etc.)</li> <li>▶ Defined job levels (entry, journeyman, senior, lead, supervisors)</li> <li>▶ Assigned employees to jobs and levels</li> <li>▶ Defined career levels with training and certifications aligned with the levels</li> <li>▶ Created communications documents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Employees became excited about the career opportunities</li> <li>▶ Company was able to fill the more complex roles with internal candidates</li> <li>▶ Attraction and retention became much more manageable, and prospects have indicated that they chose this company because of the career opportunity</li> </ul>



CASE STUDY TWO:

Private Family-Owned Retail Company

 CHALLENGE	 PROCESS	 DETAILS	 RECOMMENDATIONS
<ul style="list-style-type: none"> <li>▶ To have a disinterested 3rd-party ensure that the executive compensation packages are internally equitable, externally competitive, and reflect industry best practice in structure and design</li> <li>▶ Utilize a process that will be accepted by the family members</li> </ul>	<ul style="list-style-type: none"> <li>▶ Collect compensation data, plan documents and benefit information</li> <li>▶ Conduct in-depth interviews with each executive</li> <li>▶ Define the appropriate comparator market.</li> <li>▶ Conduct analysis</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop an Executive Compensation Strategy that considered all rewards</li> <li>▶ Assess base salary, total cash compensation and long-term awards for non-family members</li> <li>▶ Review the perceived value of benefits relative to cash compensation</li> <li>▶ Identify other compensation and administrative issues to address</li> </ul>	<ul style="list-style-type: none"> <li>▶ Full assessment of pay levels that was transparent and accepted by the family members. Recommendations included:                         <ul style="list-style-type: none"> <li>• Increases to salary levels</li> <li>• More structured incentive with target awards</li> <li>• The addition of developmental goals to the incentive plans</li> <li>• Formalization of the strategic plan</li> <li>• The addition of an advisory board to serve as a resource as the company moves to achieve its strategic goals.</li> </ul> </li> </ul>



**CASE STUDY**  
**Total Rewards Strategy**

As a first step, we defined the approach to compensation in terms of how it needed to support the business requirements.

BUSINESS REQUIREMENTS			IMPACT ON TOTAL REWARDS
 <p><b>What are the key business imperatives?</b></p> <ul style="list-style-type: none"> <li>▶ Current industry position</li> <li>▶ Key business imperatives</li> <li>▶ Gap analysis</li> <li>▶ Strategic plan</li> </ul>	 <p><b>What are the current market forces?</b></p> <ul style="list-style-type: none"> <li>▶ Industry disruptors</li> <li>▶ Economic climate</li> <li>▶ Regulatory requirements</li> <li>▶ Business case for change</li> </ul>	 <p><b>What does your company need to be successful?</b></p> <ul style="list-style-type: none"> <li>▶ <b>WHAT:</b> Business results</li> <li>▶ <b>HOW:</b> Organizational capabilities (financial, technological, human capital)</li> </ul>	 <p><b>What are the implications for compensation and other rewards?</b></p> <ul style="list-style-type: none"> <li>▶ Base salaries</li> <li>▶ Annual incentives</li> <li>▶ Long-term incentives</li> <li>▶ Other compensation and benefit plans</li> <li>▶ Other rewards of work</li> </ul>

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**CASE STUDY**  
**Total Rewards Strategy**

Total rewards are a comprehensive view of what attracts, retains and motivates employees. How each element is valued is strongly impacted by the industry, location, size and culture of the organization.

Development of a Total Rewards Strategy provided the foundation for determining how to use all rewards to best attract, motivate, and retain strategically critical talent.



DIRECT	INDIRECT	AFFILIATION	WORK CONTENT	CAREER
<ul style="list-style-type: none"> <li>▶ Base Salary</li> <li>▶ Incentives</li> <li>▶ Other Cash Rewards</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits</li> <li>▶ Retirement</li> <li>▶ Non-cash Recognition</li> <li>▶ Perquisites</li> </ul>	<ul style="list-style-type: none"> <li>▶ Org Commitment</li> <li>▶ Work Environment</li> <li>▶ Org Citizenship</li> <li>▶ Job Title</li> </ul>	<ul style="list-style-type: none"> <li>▶ Variety</li> <li>▶ Challenge</li> <li>▶ Autonomy</li> <li>▶ Meaningfulness</li> <li>▶ Feedback</li> <li>▶ Work/Life Balance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Advancement</li> <li>▶ Personal Growth</li> <li>▶ Training</li> <li>▶ Job Security</li> </ul>

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# Solutions

29 COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

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## Compensation Solutions

Compensation consultants can assist in many aspects of compensation related issues.

<p><b>Compensation Strategy</b> Develop executive and broad-based compensation strategies</p>	<p><b>Compensation Programs</b> Design &amp; benchmark programs for executives, managers, key contributors, professionals &amp; support staff</p>	<p><b>Market Competitiveness</b> Determine market competitiveness of all compensation components</p>	<p><b>Executive and Broad-Based Incentive Plans</b> Assist with and develop executive and broad-based incentive plans</p>
<p><b>Annual and Long-Term Incentive Plans</b> Assess and develop annual and long-term incentive plans for both public and private companies</p>	<p><b>Compensation Committee</b> Assist the board of directors in enhancing the Board governance posture with a focus on the Compensation Committee</p>	<p><b>Compensation Disclosures</b> Prepare Compensation Discussion &amp; Analysis (CD&amp;A) and other executive compensation disclosures in proxies and 10-Ks</p>	<p><b>Succession Programs</b> Develop leadership succession programs and performance management plans</p>
<p><b>Custom Surveys</b> Conduct custom surveys to define compensation levels and identify program characteristics unique to specific industries</p>	<p><b>Geographic Pay Philosophy</b> Develop remote work policies</p>	<p><b>Employment Agreements</b> Design &amp; review employment agreements with an emphasis on change-in-control, severance plans, and non-disclosure/non-compete issues</p>	<p><b>Transaction Compensation Support</b> Transaction due diligence, integration/ separation, and retention support</p>

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## BDO's Global Employer Services

<p><b>GLOBAL MOBILITY</b> In a rapidly changing environment for employers and their global workforces, the need for effective mobility strategy and execution is greater than ever.</p>	
<p><b>GLOBAL REWARD TAXATION</b> Tax planning and compliance for global reward programs ensure optimum outcomes for employers and employees while minimizing tax cost and risk.</p>	
<p><b>PEOPLE AND ORGANIZATION STRATEGY</b> Lifecycle events such as succession planning, acquisitions, divestitures, right-sizing, or restructuring bring strategic people and organizational challenges to the forefront.</p>	
<p><b>RETIREMENT PLANS</b> Retirement programs are a successful employee incentive and retention strategy, yet employers must navigate complex rules and regulations to design and operate them effectively.</p>	



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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

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## BDO's Global Employer Services

**We help companies achieve their business and financial goals by effectively managing their most important asset - their people.**

<p><b>GLOBAL MOBILITY</b> </p> <p><b>Expatriate Tax</b> Working with multinational employers to minimize tax burdens and compliance risk while providing integrated services and essential tools, such as our business traveler tracking application, to enable seamless global and domestic employee transitions.</p> <p><b>Mobility Consulting</b> Developing strategies with company stakeholders to determine key objectives and create or modify a global mobility program to meet these objectives through enhanced assignee selection criteria, policy design, repatriation strategies, cost analysis, market analysis, and effective communication.</p> <p><b>Global Equity</b> Helping employers with multinational stock compensation programs minimize tax burdens and compliance risk through our international network and tools like the BDO Global Equity Mobility Solution and Global Equity Rewards Matrix.</p>	<p><b>GLOBAL REWARD TAXATION</b> </p> <p><b>Global Payroll</b> Providing payroll review and recommendation, implementation, assignment benefit and compensation gathering, and compensation schedules to reconcile U.S. and foreign payrolls.</p> <p><b>U.S. Employment Tax</b> Identifying and implementing reductions in current and future employment tax burden and exposures; taking advantage of federal, state, and local opportunities to recover overpayments and credit opportunities; and assisting with managing the unique complexities of remote work arrangements.</p> <p><b>Executive Tax</b> Providing tax consulting for nonqualified deferred compensation plans, stock options and other equity-based plans, golden parachute issues, transfer of partnership interests, and review for IRC 409A compliance.</p>
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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

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## BDO's Global Employer Services

We help companies achieve their business and financial goals by effectively managing their most important asset - their people.

### PEOPLE AND ORGANIZATION STRATEGY

#### Employee Stock Ownership Plan (ESOP) Advisory

Helping companies evaluate and transition to a shared ownership with employees through an ESOP, a tax-advantaged mechanism for business owners who are looking for liquidity while maintaining a legacy for valued employees.

#### Compensation Consulting & Surveys

Providing total compensation program design and benchmarking, long-term incentive strategy development, board briefings and support on the executive compensation regulatory environment, preparation of executive compensation disclosures and performance management.

#### Workforce in Transactions

Helping companies assess risks, costs, and exposures relating to the people and HR elements of all transaction types by providing workforce due diligence and post-deal strategy services spanning the full people and organization continuum.

### RETIREMENT PLANS

#### ERISA Consulting

Providing comprehensive design and operational support for all qualified retirement plans, including traditional defined benefit pension and cash balance plans, 401(k), and various profit-sharing plans and ESOPs.

#### Actuarial Services

Providing independent actuarial review for defined benefit plans and retiree health and welfare plans by acting as a pension accounting resource, conducting merger and acquisition and plan design reviews, and providing forecasting services and non-qualified plan consulting.

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES



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## BDO's National Presence



BDO USA, LLP

**\$2.49** billion Revenues

38% Assurance 35% Tax 27% Advisory and Other

820 Partners 9,671 Client Service Personnel 11,270 Total Personnel 80+ Offices

U.S. financial statistics for the 12 months ended 4/30/21 to align with fiscal year.

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COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES



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## BDO's Global Presence



**BDO INTERNATIONAL**  
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 42% Accounting & Auditing    22% Tax    36% Advisory (Consulting, BDO, Corp. Fin., Other)

**7,234** Partners  
**76,467** Professional Personnel  
**97,292** Total Personnel  
**167** countries & territories  
 5<sup>th</sup> largest accountancy network in the world

**1,728** offices

BDO International is represented in dark shaded countries.

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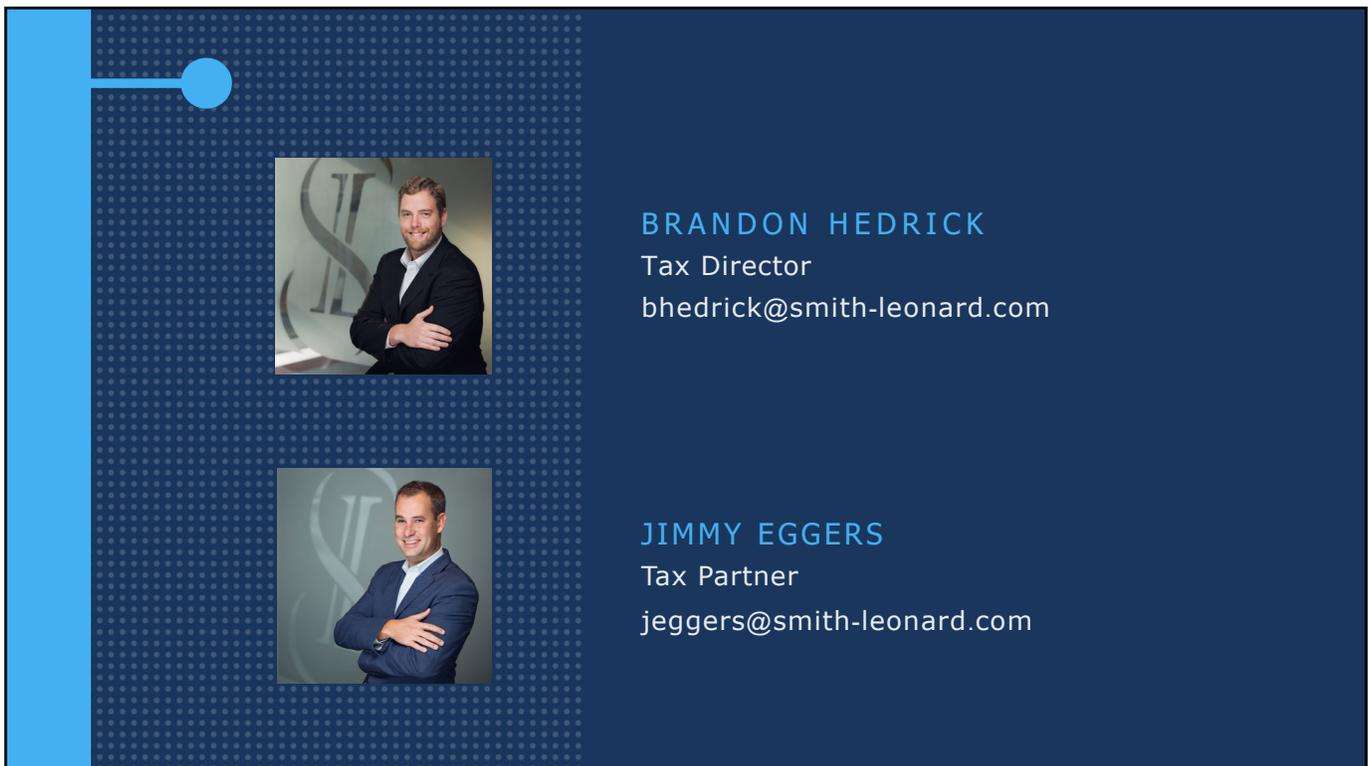
**2022 TAX UPDATE**

Presented by Brandon Hedrick and Jimmy Eggers, Smith Leonard Tax

October 21, 2022



1



**BRANDON HEDRICK**  
Tax Director  
[bhedrick@smith-leonard.com](mailto:bhedrick@smith-leonard.com)



**JIMMY EGGERS**  
Tax Partner  
[jeggers@smith-leonard.com](mailto:jeggers@smith-leonard.com)

2

## What's Going on at the IRS?

Inflation Reduction Act

Current State of the IRS

IRS Topics on the Radar

How to "Stay Clean"

3

## Inflation Reduction Act

- Enacted August 16, 2022
- Increases IRS funding by \$80 Billion over 10 Years
- \$204 Billion in additional revenue
- Allocation of Funding

4

## Allocation of Funding

45.6 Billion for Enforcement

*(Examinations, collections, criminal investigations, legal and litigation support, digital asset monitoring)*

25.3 Billion for Operations Support

4.8 Billion for Systems Modernization

3.2 Billion for Taxpayer Services

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## Current State of the IRS



(Matthew Busch for The Washington Post)

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## What is happening here?



- Unprocessed and late filed returns
- Lost or misplaced documents
- Automated notices
- Audit reports
- Few revenue field agents for high-end compliance



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## IRS Hot Topics



What's on the  
IRS radar for  
2022?

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## IRS Hot Topics



- Charitable Remainder Annuity Trusts
- Treaty benefits for pensions
- Foreign captive insurance
- Monetized installment sales
- Refund scams
- Unemployment fraud



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## IRS Hot Topics cont'd



- Fake employment offers
- Fake charities
- Concealing assets
- High-income individuals that are non-compliant
- Syndicated conservation easements
- Micro-captive insurance arrangements



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## How do you stay clean?



- Make money
- Match cash collections
- NAICS Codes

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## More Tax Updates and Reminders

State Tax Update

Tax Cuts & Jobs Act of 2017 (TCJA)

Compliance Changes

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## State Tax Update



- Pass-through entity taxation
- Evolution



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## Tax Cuts & Jobs Act of 2017 (TCJA)



- 199A – Qualified Business Income Deduction
- 163(j) – Business Interest Expense Limitation
- 461(l) – Excess Business Loss Limitation
- 168(k) – Bonus Depreciation Deduction
- 174(a) – R&E Expenditures
- Sunsetting provisions



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## Compliance Changes



- Tax basis capital account reporting
- S-Corp basis disclosure – Form 7203
- Schedule K-2 & K-3 – International activity



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## RESOURCES

### TALK TO YOUR TAX ADVISORS

#### IRS AUDIT WEBSITE

<https://www.irs.gov/statistics/soi-tax-stats-irs-data-book>

<https://www.washingtonpost.com/opinions/interactive/2022/irs-pipeline-tax-return-delays/>

#### NCDOR PASS-THROUGH ENTITY TAX WEBSITE

<https://www.ncdor.gov/important-notice-regarding-north-carolinas-recently-enacted-pass-through-entity-tax-0>

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# Thank You

Any Questions?

**BRANDON HEDRICK**  
Tax Director  
bhedrick@smith-leonard.com

**JIMMY EGGERS**  
Tax Partner  
jeggers@smith-leonard.com

# Scott Insurance

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**\$1.49B** 2021 Premiums  
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Est. 1864

[scottins.com](http://scottins.com)

# Inflation and Rising Interest Rates

Presented by:

**John Fink**, Senior Vice President of Commercial and Corporate Banking

**Ahmed El Nokali**, Managing Director and Head of Capital Markets

**David Valentiner**, CFA, Director of Interest Rate Management

October 2022



# First National Bank

 EQUAL HOUSING LENDER, MEMBER FDIC

NYSE : FNB



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Commentary provided throughout this presentation is that of First National Bank of Pennsylvania—Information was assembled from sources that we believe reliable, but we cannot assure the accuracy or completeness of these materials.



**FIRESTAR**  
E n t h u s i a s m   S h i n e s

# **Stress Management in Interesting Times**



**By Denise Ryan, MBA, CSP**



**Post Office Box 31692, Raleigh, N.C. 27622**  
**E-mail [deniseryan@firestarspeaking.com](mailto:deniseryan@firestarspeaking.com) Phone (919) 788-0291**  
**Web site [www.firestarspeaking.com](http://www.firestarspeaking.com)**  
**Like me on Facebook—Denise Ryan FireStar Speaking**

# Action Strategies

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## Top Time Wasters:

- ◆ Lack of planning
- ◆ Lack of organization
- ◆ Interruptions
- ◆ Procrastination
- ◆ Lack of delegation
- ◆ Meetings
- ◆ Not saying “no”
- ◆ Communication—poor, socializing, etc.

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# Thinking Strategies

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**Post Office Box 31692, Raleigh, N.C. 27622**  
**E-mail [deniseryan@firestarspeaking.com](mailto:deniseryan@firestarspeaking.com) Phone (919) 788-0291**  
**Web site [www.firestarspeaking.com](http://www.firestarspeaking.com)**  
**Like me on Facebook—Denise Ryan FireStar Speaking**

# Self Management Strategies

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## Three Stress Strategies I'll Commit to:

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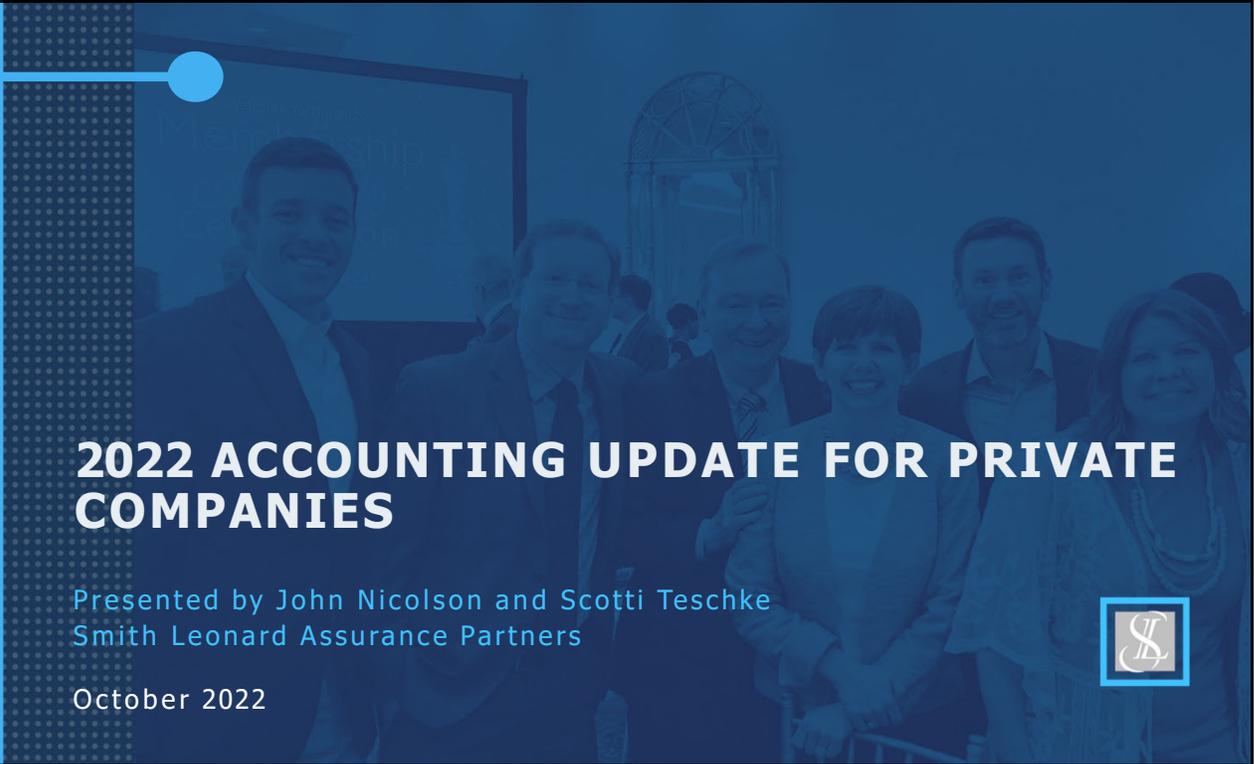
# Take employee management off your list with Paychex HR Services

- Find the right talent
- Close the skills gap
- Meet new-hire requirements
- Reduce turnover
- Train and develop employees
- Increase productivity
- Offer competitive benefits
- Keep up with changing regulations
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**Let's chat and schedule your free HR consultation:**

Kevin Tracy  
ktracy@paychex.com  
315-263-7564



# 2022 ACCOUNTING UPDATE FOR PRIVATE COMPANIES

Presented by John Nicolson and Scotti Teschke  
Smith Leonard Assurance Partners

October 2022



1



**JOHN NICOLSON**  
Assurance Partner  
[jnicolson@smith-leonard.com](mailto:jnicolson@smith-leonard.com)



**SCOTTI TESCHKE**  
Assurance Partner  
[steschke@smith-leonard.com](mailto:steschke@smith-leonard.com)

2

## 2021/2022 Financial Reporting Environment

Raw material pricing, including freight, has been volatile, costing systems have not kept pace

Prices, especially container prices, are coming down—companies that bought at peak competing against imports at lower current prices—potential lower of cost or market issues for previously profitable entities

Lag times between receiving order or signing contracts and delivery in inflationary environment

- Significant margin pressure
- Impacted many manufacturers
- Construction industry

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## 2021/2022 Financial Reporting Environment

Unpredictable supply chain lead times

Overflowing inventories in Asian and American warehouses causing cash flow issues

- Discounting causing margin and pricing pressures

IT security remains a concern

- Ransomware
- Continuous phishing attacks
- Employees working from home creates new IT security concerns

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## 2021/2022 Financial Reporting Environment

Internal controls may need to be revisited

- Employee turnover
- Supervision, training often not as effective when employees are remote

Government assistance to businesses:

- No U.S. GAAP guidance
- Companies had to analogize other guidance

Leases—some entities not prepared

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## ASC 842 - LEASES



Key Topics to  
Get You Started

6

## Types of Leases



- Finance Leases
- Operating Leases
- Short-term Leases



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## Finance Lease



### **Any lease that meets one of the following:**

- Transfers ownership
- Includes option to purchase
  - Must be reasonably certain to exercise
- Lease term is major part of economic life
- PV of lease payments and residual value => FV of asset
- The underlying asset is so specialized, there is no alternative use to the lessor

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## Finance Lease



Reasonable to adopt policy keeping ASC-840 bright lines (75% economic life of asset and payments, 90% of asset value)

Finance leases are substantially similar to capital leases under old rules (ASC 840)

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## Operating Lease



**If none of the finance lease criteria are met, it is an Operating Lease.**

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## Short-term Lease



- At commencement date, a lease term of 12 months or less and **does not include a renewal option that is reasonably certain to be exercised**
- May elect accounting policy not to recognize right-of-use asset and lease liabilities
- Expense on a straight-line basis over term of lease
- Election made by class of underlying asset

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## Related Party Leases



Account for related party leases based on legally enforceable terms and conditions

Careful consideration required for related party property leases

Lessees need to address amortization period if less than lease term

Informal month-to-month arrangements accounted for as a short-term lease

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# OVERVIEW

## ACCOUNTING BY LESSEES



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## Initial Measurement – Lease Liability

### Measured at the PV of lease payments, including:

- Fixed payments
- Less lease incentives
- Variable lease payments initially measured using index or rate at commencement date (Consumer Price Index or market interest rate)
- Exercise price of purchase option
- Penalties for terminating lease
- Amounts owed under residual value guarantees

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## Initial Measurement – Lease Liability

### Do not include:

- Variable payments tied to usage
- Variable lease payment tied to change in index – expense in period they are due
- Amounts allocated to non-lease components (CAM)
- Guarantees of lessor's debt

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## Lease Term

### Lease term - includes:

- Options to extend (if reasonably certain to exercise)
- Options to extend or terminate that are controlled by lessor

### Lease term - excludes:

- Options to terminate early (if reasonably certain to exercise)

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## Key Terms – Reasonably Certain

**High threshold intended to be applied in same way as reasonably assured threshold in previous lease guidance**

- Consider contractual terms and conditions, significant leasehold improvements expected to have economic value greater than original lease term, costs to terminate lease, and importance of underlying asset to entity's operations
- Significantly higher than 51%. Some commentators indicate this implies a probability of ~75%

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## Key Terms – Discount Rate

**Discount rate initially used to determine present value will be:**

- Rate implicit in lease (if can be determined)
- Incremental borrowing rate

**Private companies may adopt an accounting policy to use risk-free discount rate instead of incremental borrowing rate**

- Must be used for all leases within elected asset class
- Still required to use rate implicit in lease if this is known

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## Initial Measurement – Right-of-Use Asset

### Consists of the following:

- Initial measurement of lease liability
- Any lease payments made at or before commencement date
- Any other initial direct cost (IDC) incurred by lessee



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## Key Terms – Initial Direct Costs (IDC)

- Fewer lease origination costs under ASC-842
- Include commissions made to existing tenant
- Exclude legal fees. Consider if costs would be incurred even if lease not ultimately executed
- Exclude other pre-lease activity costs

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## Common Area Maintenance

Policy election, by underlying asset class, to not separate non-lease components

Variable element, such as end-of-year true-up expenses, accounted for as variable lease expense

May significantly reduce complexity of data gathering

Will increase lease liability

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## Quantitative Disclosures

### LEASE EXPENSE

- Finance – amortization and interest
- Operating – straight-line lease expense
- **Short-term lease**
- Variable lease expenses (unknown at lease inception)
- Sublease income

### MATURITY ANALYSIS

- Undiscounted cash flows (same as before)
- Present value discount (to match BS)

### OTHER INFORMATION

- Sale-leaseback, cash flows, new ROU assets
- **Weighted average remaining lease term and discount rate**

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## Are You Ready? Things to do before Year End



- Designate a single person to manage the project
- Have an action plan with key dates
- Assess impact on agreements, debt covenants
- Begin to educate stakeholders (shareholders, management, bankers)
- Talk with your accountants
- Evaluate software options
- Gather all leases documents in a single location (in PDF)
- Review fact pattern of leases and assess renewal options reasonably certain to be exercised

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## Are You Ready? Things to do before Year End



- Ascertain GL accounts old leases rules and new leases rules.
- Decide on policy on lease and non-lease components (CAM)
- Address interest rates elections
- Formulate a lease cap policy
- Formulate a policy for short-term leases
- Evaluate financial statement adoption elections (effective date presentation versus restating all periods presented)
- Consider impact on next year's budgeting process

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# RESOURCES



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## Resources



### **BDO's Accounting for leases under ASC-842**

BDO has an extensive 290-page practice aid that is available online.  
<https://www.bdo.com/insights/assurance/accounting-and-reporting-advisory/accounting-for-leases-under-asc-842>

### **LeaseCrunch Resource Center**

- Smith Leonard has selected LeaseCrunch as our software solution for accounting for leases under the topic 842
- LeaseCrunch has an extensive resource center that can be accessed online

<https://www.leasecrunch.com/leasepedia>

<https://www.leasecrunch.com/resource-center-tools>

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## ASU 2021-05 - Leases (Topic 842)

### CERTAIN LEASES WITH VARIABLE LEASE PAYMENTS (LESSOR ACCOUNTING)

- After adopting ASC 842 lessors recording day-1 losses for leases with variable lease payments not tied to a rate or index (and recording income when payments received under lease)
- Aligns rules to those under ASC 840
- Effective for calendar year 2022

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## ASU 2016-13 - Financial Instruments – Credit Losses (Topic 326)

### MEASUREMENT OF CREDIT LOSSES ON FINANCIAL INSTRUMENTS

- Introduces the current expected credit losses (CECL) model
- Replaces incurred loss model
- Losses recognized earlier
- More judgment and assumptions
- Expected to increase allowances for credit losses for loans (primarily financial institutions)
- First cumulative adjustment through retained earnings. Thereafter through income
- Increased disclosures
- Nonpublic entities –ASU 2019-10 extends to calendar year 2023
- Early adoption permitted
- Apply using modified retrospective approach

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## ASU 2017-04 - Intangibles—Goodwill and Other (Topic 350)

### SIMPLIFYING THE TEST FOR GOODWILL IMPAIRMENT

- Applies to entities that have not adopted private company alternative for goodwill - based on a triggering event
- Option to first perform qualitative assessment to determine if quantitative test is necessary
- Eliminates step 2 from the goodwill impairment test to reduce cost and complexity of evaluation
- If assessment indicates qualitative test required –compare FV of reporting unit with carrying value. If less impairment charge for difference
- Applied prospectively
- Nonpublic entities– first effective calendar year 2023
- Early adoption permitted

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## ASU 2019-12 - Income Taxes (Topic 740)

### SIMPLIFYING INCOME TAXES

Removes the following exceptions:

- Incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items
- Requirement to recognize a deferred tax liability (DTL) for equity method investment in foreign subsidiaries
- The ability not to recognize a DTL for a foreign subsidiary when a foreign equity method investment becomes a subsidiary
- The general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year



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## ASU 2019-12 - Income Taxes (Topic 740)

### SIMPLIFYING INCOME TAXES, CONTINUED

- Requires franchise or similar tax partially based on income to be recognized as an income-based tax and any incremental amount as a non income-based tax
- Requires an entity to evaluate when a step up in tax basis of goodwill should be considered part of the business combination instead of a separate transaction
- Specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax
- However, an entity may elect to do so for an entity that is both not subject to tax and disregarded by the taxing authority
- Requires an entity to reflect the effect of an enacted change in tax law or rates in the interim period of the enactment
- Nonpublic entities – effective calendar 2022

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## ASU 2020-04 - Reference Rate Reform (Topic 848)

Facilitation of the effects of reference rate reform on financial reporting

TEMPORARY OPTIONAL EXPEDIENTS AND EXCEPTIONS  
FOR CONTRACT MODIFICATIONS AND HEDGING  
ACCOUNTING IF CERTAIN CRITERIA ARE MET

EFFECTIVE THROUGH DECEMBER 31, 2022

INTENDED TO EASE THE POTENTIAL BURDEN IN  
ACCOUNTING FOR REFERENCE RATE REFORM ON  
FINANCIAL STATEMENTS

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## ASU 2021-07 – Compensation – Stock Compensation (Topic 718)

### DETERMINING THE CURRENT PRICE OF AN UNDERLYING SHARE FOR EQUITY-CLASSIFIED SHARE-BASED AWARDS

- Expedient to use when determining the “current price input” of an equity-classified share-based awards
- The current price input is used when calculating the award’s fair value
- The characteristics of the reasonable application of a reasonable valuation method include:
  - the date on which a valuation’s reasonableness is evaluated
  - the factors that a reasonable valuation should consider
  - the scope of information that a reasonable valuation should consider
  - the criteria that should be met for the use of a previously calculated value to be considered reasonable
- Not to be used for liability-classified awards
- Effective prospectively for all granted or modified beginning calendar year 2022

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## ASU 2021-08 – Business Combinations (Topic 805)

### ACCOUNTING FOR CONTRACT ASSETS AND CONTRACT LIABILITIES FROM CONTRACTS WITH CUSTOMERS



Diversity in practice related to accounting for revenue contracts with customers **acquired in a business combination**

Required to use revenue recognition guidance as it acquirer had negotiated contract and not fair value measurements when recognizing contract assets and liabilities related to customer contracts

Does not impact customer and contract related intangibles

Apply prospectively to all combinations that occur on or after adoption date

Nonpublic entities – first effective calendar 2024

Early adoption is permitted

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## ASU 2021-10 – Government Assistance (Topic 832)

### DISCLOSURES BY BUSINESS ENTITIES ABOUT GOVERNMENT ASSISTANCE

Currently no US GAAP for business entities related to accounting for or disclosure of government assistance received

Government assistance broadly defined. Includes assistance by domestic, foreign, local, regional, national, intergovernmental (such as U.N.)

Excludes nonprofits

Business entities required to disclose information about government assistance received:

- Nature of transactions
- Accounting policy used to account for transactions
- Line items on balance sheet and income statement affected by transactions
- Amounts applicable to each financial statement one item
- Significant terms and conditions of transaction, including commitments and contingencies

Apply either prospectively beginning in year of adoption or retrospectively

Nonpublic entities –effective for calendar 2022

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## ASU 2022-01 Derivatives and Hedging (Topic 815)

Fair Value  
Hedging –  
Portfolio Layer  
Method

- Better aligns hedge accounting with risk management strategies
- Applies to entities that elect portfolio layer method of hedge accounting
- Current GAAP allows a single-layer, last-of-layer hedging method
- Expands last of layer method – allows multiple layers of a single closed portfolio to be hedged under method. Method now referred to as portfolio layer method
- Guidance on accounting for and disclosure of hedge basis adjustments under method
- Guidance on credit losses for assets included in closed portfolio
- Modified retrospective basis – adjust opening balance of retained earnings on initial application date
- Nonpublic entities – first effective for calendar 2024
- Early adoption is permitted

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## ASU 2022-02 – Financial Instruments – Credit Losses (Topic 326)

### TROUBLED DEBT RESTRUCTURINGS AND VINTAGE DISCLOSURES

- Response to feedback received during FASB's ASC 326 post-implementation review process
- Lifetime credit losses recorded at acquisition under ASC 326
- Applying additional guidance for troubled debt restructurings on same instruments seen as creating unnecessarily complex situation – just apply loan refinancing and restructuring guidance
- Enhanced disclosure requirements for certain loan refinancings and restructurings when borrower experiencing financial difficulty
- Public business entities must disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases
- Generally applied prospectively
- Nonpublic entities – first effective calendar 2023
- Early adoption permitted

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## ASU 2022-03 – Fair Value Measurement (Topic 820)

### FAIR VALUE MEASUREMENT OF EQUITY SECURITIES SUBJECT TO CONTRACTUAL SALE

- Applies to investments in equity securities measured at fair value subject to contractual sale restriction
- Commonly applies to insiders' shares acquired in an IPO (lock-up agreements)
- Existing guidance resulted in diversity in practice
- Contractual restriction not to be considered in measuring fair value
- No separate measurement of a contractual sale restriction
- Expanded disclosures
- Applied prospectively – adjustments recognized in period adopted
- Nonpublic entities – first effective calendar 2025
- Early adoption permitted

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## ASU 2022-04 - Liabilities (Topic 405)

Supplier Finance  
Programs – Disclosure  
of Supplier Finance  
Program Obligations

TYPICALLY, APPLIES WHERE BUYER:

1. Enters into agreement with finance provider or intermediary
2. Purchases goods and services from suppliers on credit
3. Notifies finance provider or intermediary of supplier invoices that are valid

Currently no GAAP disclosure requirements about buyer's use of these programs – expanded disclosures on these companies

Nonpublic entities – first effective for calendar 2023, except for a rollforward of the supplier finance program obligations, which is effective for calendar 2024

Applied retrospectively to all periods, except for the obligation rollforward – applied prospectively

Early adoption is permitted

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## Looking Forward – Some Current FASB Projects



- Accounting for and disclosure of crypto assets
- Accounting for and disclosure of software costs
- Accounting for environmental credit programs
- Financial Instruments – Credit Losses (Topic 326) – Acquired Financial Assets
- Joint Venture Formations
- Leases (Topic 842): Common Control Arrangements
- Disaggregation – Income Statement Expenses

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# Thank You

Any Questions?

**JOHN NICOLSON**

Assurance Partner

[jnicolson@smith-leonard.com](mailto:jnicolson@smith-leonard.com)

**SCOTTI TESCHKE**

Assurance Partner

[steschke@smith-leonard.com](mailto:steschke@smith-leonard.com)

# Building a Framework for Regulatory Ethics

David R. Peters, CPA, MST, CLU, CPCU



*Financial and Investment Advisory services offered through CFO Capital Management. Brokerage and Custodial Services offered through TD Ameritrade Institutional, member FINRA and SIPC. CFO-CM and TDA are not affiliated. Tax services are provided by Peters Tax Preparation & Consulting, PC and are not provided by CFO Capital Management.*

## Why are we talking about the AICPA Code of Professional Conduct?

- BOD of NCACPA – Policy Adopted during meeting on Sep 7, 1990
- *"We subscribes to the Code of Professional Conduct of the American Institute of CPAs and the Rules of Professional Ethics and Conduct of the North Carolina State Board of CPA Examiners. In the event of any conflict, the provision of the North Carolina Board of CPA Examiners shall prevail."*

(ncacpa.org)

# AICPA Code of Professional Conduct

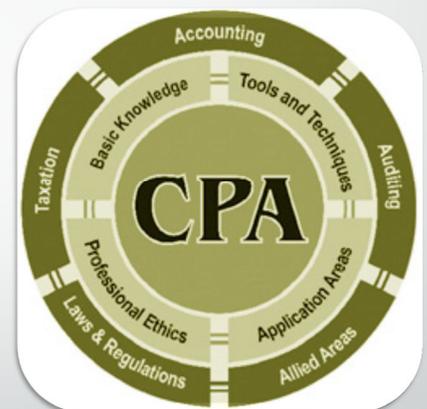
- Many states make the AICPA Code of Professional Conduct part of the regulatory requirements for CPA's
- Typically does not matter if you are an AICPA member
- Underwent significant revisions at the end of 2014



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# AICPA Code of Professional Conduct

- New Format places members into 3 parts:
  - 1 – Members in Public Practice
  - 2 – Members in Business
  - 3 – Other Members



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# What if I work for a nonprofit?

## Glossary – “members in business”

- “Member(s) in business. A member who is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, **the public sector, education, the not-for-profit sector**, and regulatory or professional bodies. This does not include a member engaged in public practice.” [Prior reference: paragraph .22 of ET section 92]

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# AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .02 **Objectivity is a state of mind**, a quality that lends value to a member’s services. **It is a distinguishing feature of the profession.** The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. *Independence* precludes relationships that may appear to *impair a member’s* objectivity in rendering attestation services.

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# AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .04 For a *member* in public practice, the maintenance of objectivity and *independence* requires a continuing assessment of *client* relationships and public responsibility. Such a *member* who provides auditing and other attestation services should be **independent in fact and appearance**. In providing all other services, a *member* should maintain objectivity and avoid conflicts of interest.

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# AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .05 **Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services.** *Members* employed by others to prepare *financial statements* or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as *members* in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with *members* in public practice. [Prior reference: ET section 55]

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## Code Sections run parallel to each other....

### 1.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

### 2.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

### 3.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

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## AICPA Code of Professional Conduct

### 1.600.100 Use of the CPA Credential

.01 A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the **CPA credential**. A member who fails to follow the accountancy laws, rules, and regulations on use of the **CPA credential** in any of the jurisdictions in which the **CPA** practices would be considered to have used the **CPA credential** in a manner that is false, misleading, or deceptive and in violation of the “Advertising and Other Forms of Solicitation Rule” [1.600.001]. [Prior reference .07 section 502.]

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# NC Requirements on Advertising

- On firm's website:
  - Exact firm name as registered with the Board
  - Principal place of business address
  - Business telephone number, email addresses, mailing addresses, and fax numbers.
- Must separate licensed from unlicensed staff in a way that is not confusing and list license numbers for each CPA (as well as their jurisdiction – North Carolina).

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## Case Study #1

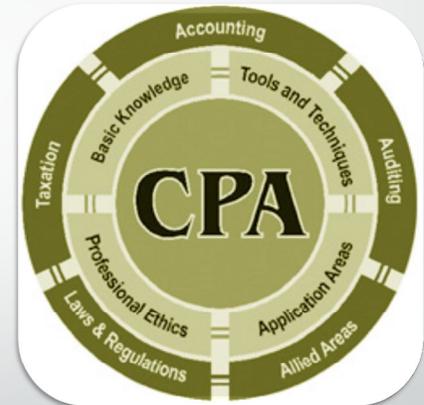
*Allison had just received notice that she had passed AUD – her second CPA exam. "Two down, two to go," she thought to herself. She excitedly jumped on LinkedIn and updated her profile – "Allison, 2/4 CPA." She posted: "Half-way to being a financial expert in all areas of business and financial services!"*

*Evaluate Allison's actions and comments.*

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# AICPA Code of Professional Conduct

- Conceptual Framework:
  - Identify Threats
  - Evaluate Threats
  - Identify Safeguards
  - Apply Safeguards



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## Types of Threats

- Adverse Interest
- Advocacy
- Familiarity
- Self-Interest
- Self-Review
- Undue Influence
- Management Participation



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# Safeguards

## Public Practice

- Laws & Industry Regulation
- Firm Safeguards
- Client Safeguards

## Business (including Nonprofits)

- Laws & Industry Regulation
- Firm Safeguards

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# Case Study #2

*You are the CFO of a small manufacturing company in your hometown. Your organization is undergoing its first financial statement audit. You find out from the CEO that a family friend of hers is the audit partner in charge of the engagement.*

*Is this situation addressed by the AICPA Code of Professional Conduct?*

*Are there any ethical problems with this arrangement? If so, what?*

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## Case Study #2 – Conceptual Framework Approach

- 1. Identify Threats** – There is a threat that the auditor may not be objective and independent in giving their opinion.
- 2. Evaluate Threats** – How close is the auditor with the CEO? How long have they known each other? In what capacity have they known each other?

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## Case Study #2 – Conceptual Framework Approach

- 3. Identify Safeguards** – Safeguards may include another partner taking the engagement, audit quality control standards, concurring partner review, your company's code of ethics, and other company rules.
- 4. Apply Safeguards** – Probably would apply nearly all of these.

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# CPA Licensing

- State Boards of Accountancy license CPA's
- Credentialing is generally respected across state lines → Mobility
- There are several differences from one state to another

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# General Commonalties Among States

- States usually license individuals as well as firms
- Firm licensing/registration is generally required, if one is performing audits, reviews, or compilations in that state
- The size of the firm is not normally considered. Sole Proprietorships are usually asked to become licensed/register

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# CPA Firm Registration

- One common form of deceptive practice is not registering the CPA firm when you are required to!
- *"A CPA firm, unless it is a professional corporation (PC), professional limited liability company (PLLC), or registered limited liability partnership (LLP), must register with the Board within 30 days after opening an office in this State."*
- *"CPA firms that are professional corporations, professional limited liability companies, or registered limited liability partnerships must register with the Board prior to the formation of the CPA firm."* (ncacpa.org)

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# Continuing Professional Education (CPE)

- All states generally require continuing education, but the actual number of hours may differ
- The ethics class requirement is often different from one state to the next
- Many states offer the carryover of CPE from one reporting period to another, but usually within limits that may differ

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# Continuing Professional Education (CPE)

- States can differ in the amount of self-study credits and types of classes that they allow for credit
- Standardized tests are sometimes allowed for credit
- Increments of time in which CPE is rewarded may differ from one state to the next (for example, nano learning)

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# Unique Requirements in NC

- Evidence of Moral Character Requirement in NC - 3 certificates signed by CPA's to get licensed!
- Only 20 hours of CPE may carryforward (not Ethics) each year
  - Must hold on to the certificates for 4 previous calendar years
  - 1 hour of ethics is unique
- No limitations on the delivery method of CPE – All Self-Study is fine.

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# Typical Requirements When Moving to a New State

- Most states will honor the fact that you have been licensed as a CPA in another state before this → Reciprocity
- Normally, a state will require you to send them your college transcripts, CPA exam results, and evidence that you have met the initial ethics requirement
- States usually have an application to apply for a reciprocal license and will charge a licensing fee

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# Typical Requirements When Moving to a New State

- States may or may not have a “retired” status
- Almost always, reciprocity will only be respected from active status to active status
- At the very least, states require one to catch up their CPE before one can resume active status (at worst, they can require re-taking the CPA exam)

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## Summarizing the Day

- As CPA's, we are often required to follow the AICPA Code of Professional Conduct – regardless of whether or not we are a member of the AICPA
- In situations where something is not addressed directly within the AICPA Code of Professional Conduct, we use a conceptual framework approach
- The safeguards of the Conceptual Framework approach differ depending on if you are in public practice or not

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## Summarizing the Day

- While regulation affecting CPA's may differ from one state to the next, there are many commonalities
- CPE is similar, but not necessarily the same, between one state and another
- Reciprocity is the term used when one moves across state lines and becomes licensed as a CPA in a new state

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# My Contact Information

David R. Peters, CPA, CFP®, MST, CLU, CPCU  
(800) 799-4526

Mail to: 8005 C-Creighton Pkwy #129  
Mechanicsville, VA 23111

Office: 1657 West Broad Street, Unit 5  
Richmond, VA 23220



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