



# Current M&D Developments: Elevate **Your** Business

November 9, 2022 | Wauwatosa, WI

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# Learning Objectives

- At the end of this session, you will be able to:
  - Recognize how lease standards may affect your business
  - Identify tax law changes that could reveal new opportunities for your business and you
  - Identify how current events might impact your M&D business strategy
  - Discuss economic updates regarding interest rates, inflation, and war
  - Recognize how to modernize your business operations





# Background and Overview of the New Lease Standard

Chris Handrick and Seth Zipperer, CLA

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# An Overview

- Amended guidance issued February 2016 for the treatment of leases, including subleases
- Affects all industries
- Lessee will be required to recognize a right-of-use asset and lease liability for substantially all operating and finance leases
- Lessor accounting will remain relatively unchanged
- Enhanced disclosures for lessees and lessors



# An Overview

## Topic 842 **DOES NOT** apply to:

Leases of intangible assets	Leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources	Leases of biological assets, including timber	Leases of inventory	Leases of assets under construction
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# Why the Change?

## Lessee

- Most lease assets and liabilities are off-balance sheet
- Limited information about operating leases

## Lessor

- Lack of transparency regarding residual values
- Consistency with leases and revenue recognition



# Effective Dates

- NOW!
- Fiscal years beginning after December 15, 2021, ie: Calendar-year 2022
  - **Reflects recent FASB decision to defer by one year**







# Lease Determination

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# What is a Lease?

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.



# Lease Determination

- An identified asset
  - Can be explicitly or implicitly specified
  - Supplier has no practical ability to substitute
  - Supplier receives no economic benefit from substituting
- The right to control the use during the lease term
  - Decision making authority over the use of the asset
  - Ability to obtain substantially all economic benefits from the use of the asset





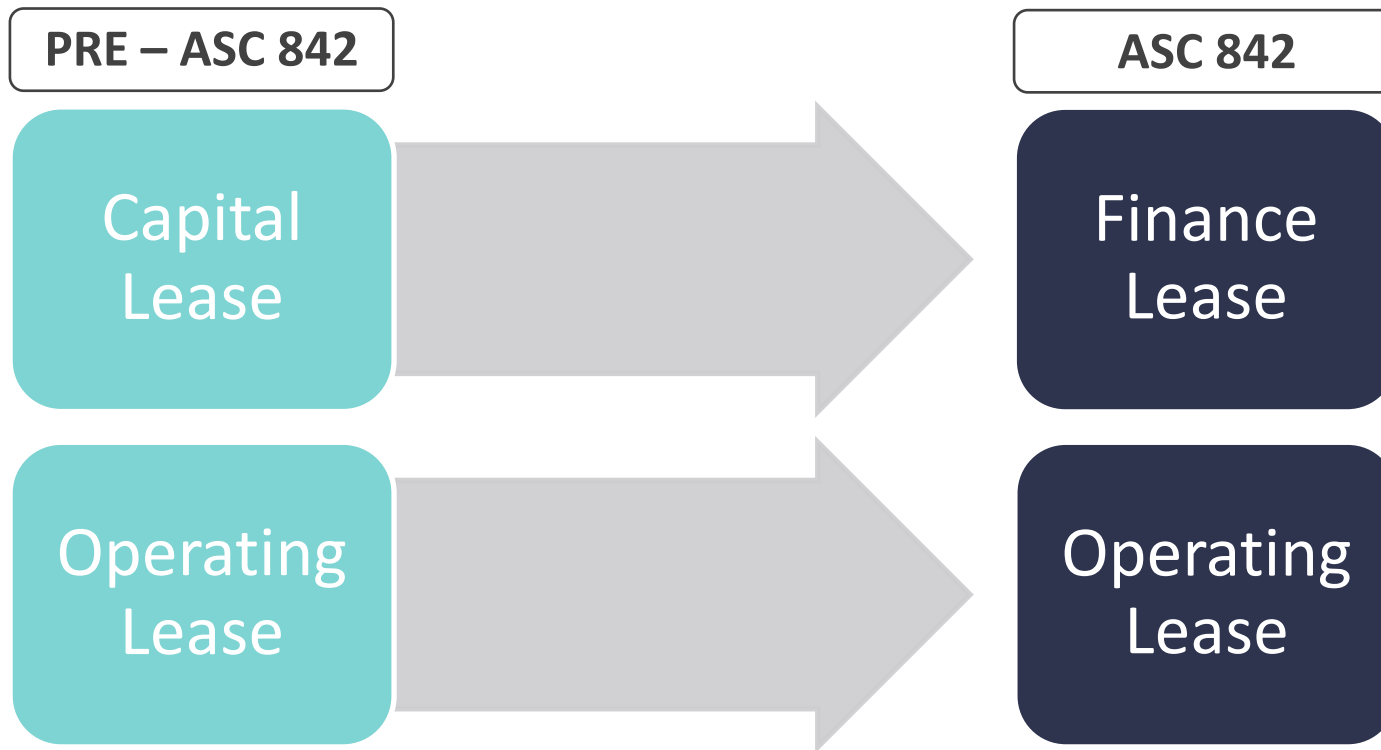
# Lease Classification

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# Lease Classification Terminology



# Lease Classification – Lessee

Financing lease if ANY of the following 5 conditions are met:

Transfer of ownership

Option to purchase is reasonably certain

Lease term is a major part of the economic life  
(75% or more)

Present value of lease payments is substantially all (>90%) of the fair value of the underlying asset

The underlying asset is of a specialized nature

If none of the above are met, the lease is an operating lease





# Recognition and Measurement

## Lessee Accounting

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# Lease Term – Initial Measurement

- Slightly new definition
  - Noncancellable period for which lessee has right to use the underlying asset, **plus periods covered by:**
    - Option to extend if lessee reasonably certain to extend
    - Option to terminate if lessee is reasonably certain not to exercise
- Reasonably certain
  - Must consider all relevant factors that create an economic incentive for the lessee to exercise the option





# Lease Term – Subsequent Measurement

## Lessee

- Reassess only upon the occurrence of a significant event/change in circumstances that is within the control of the lessee
  - Absent a modification

## Lessor

- Not required to reassess
  - Absent a modification

# Lease Term – Other Considerations

- Month-to-Month leases – rent expense when incurred. However, if substance is not truly month-to-month agreements should be revised.
  - Related party leases must follow contractual provisions of the lease agreement
  - Consolidations with related party leasing entities
    - Consolidated financials would eliminate the ROU assets/liabilities so... no calculation is needed on these related party leases in consolidation
- But what about those consolidating/combining supplementary schedules...*
- Supplementary Schedules can exclude 842 for the related party leases **IF** the audit report indicates that the supplementary information was not audited and is presented for additional analysis, and we don't express an opinion on it



# Balance Sheet Impact



# Right-of-Use Asset – Initial Measurement

- Consists of all of the following at commencement date:
  - Initial measurement of the lease liability
  - Any lease payments made to the lessor at or before the commencement date, minus any lease incentives received
  - Any initial direct costs incurred by the lessee

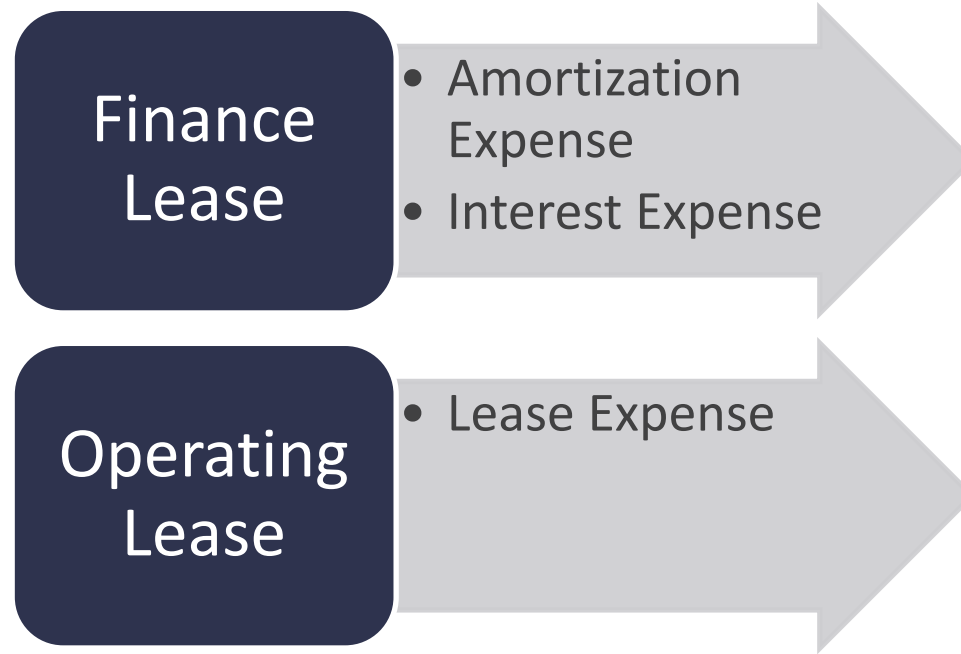


# Lease Liability – Initial Measurement

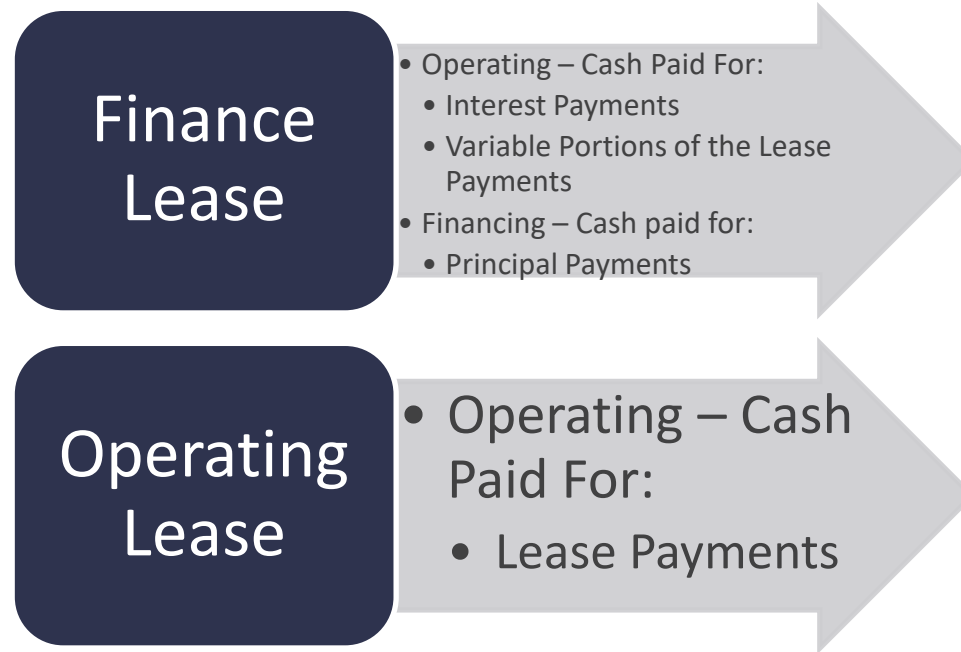
- Present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement
- What if the discount rate is unknown?
  - Use Incremental Borrowing Rate (IBR) – requires significant judgement and evaluation of similar lending conditions and collateral as the lease terms *(likely results in a higher rate/lower ROU assets)*
  - Practical expedient – Elect to use Risk Free Rate with same term as lease *(likely results in a lower rate/higher ROU assets)*
  - ASU 2021-09 allows non-public entities to apply the existing risk-free discount rate expedient by class of underlying assets rather than to all leases



# Income Statement Impact



# Cash Flow Statement Impact





## Other Considerations

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# Transition Methods Available

CY = year of  
adoption

PY =  
comparative  
period

Original  
Transition  
Method (ASU  
2016-02)

- CY - 842
- PY - 842

Cumulative effect  
adjustment at the  
beginning of the  
earliest period  
presented

Additional  
Transition  
Method (ASU  
2018-11)

- CY - 842
- PY - 840

Cumulative effect  
adjustment at the  
beginning of the  
CY



# Transition – Package of 3 Practical Expedients

- An entity need not reassess:
  - Whether any expired or existing contract are or contain embedded leases
  - Lease classification of any expired or existing leases
  - Initial direct costs for any existing leases
- Applies to leases that commenced **BEFORE** the effective date
- Must apply as a package to all leases
  - Can not pick and choose which leases
  - Can not pick and choose which practical expedients



# Transition – Hindsight Practical Expedient

- Hindsight can also be elected as a practical expedient
  - Determination of lease term
  - Impairment of right-of-use assets
  - Can be used separately or in conjunction with package
  - Must apply consistently to all leases



# Transition – Separating Lease Components

## Practical Expedient

- Election to not separate lease components from nonlease components, for example (CAM costs):
  - Insurance costs
  - Tax costs
  - Maintenance costs
- Total lease and nonlease costs under this election would be included in payments used to calculate ROU assets





# Presentation and Disclosures

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# Financial Statement – Example

- The main area where you will see changes is on the balance sheet and footnotes
- Operating leases: amortization of ROU asset and “interest” on ROU liability payments are recorded as rent expense (same as pre-842)

## ASSETS

### Current Assets

Cash	\$ 1,000,000
Trade receivables, net	1,800,000
Inventories, net	1,300,000
Prepaid expenses and other current assets	290,000
Total current assets	<u>4,390,000</u>

### Property and Equipment, Net

50,000

### Other Assets

Right of use assets	400,000
Financing fees, net	10,000
Total other assets	<u>410,000</u>

### Total Assets

\$ 4,850,000

## LIABILITIES AND MEMBERS' EQUITY

### Current Liabilities

Accounts payable	\$ 500,000
Accrued expenses and other current liabilities	100,000
Right of use liabilities - current portion	120,000
Total current liabilities	<u>720,000</u>

### Noncurrent Liabilities

Right of use liabilities - noncurrent	230,000
Total noncurrent liabilities	<u>230,000</u>

### Members' Equity

3,900,000

### Total Liabilities and Members' Equity

\$ 4,850,000



# Disclosures

- Objective
  - Enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases
- Requirement
  - Enhanced qualitative and quantitative disclosures



# Lessee Disclosures – Qualitative

- Nature of leases
- Leases that have not yet commenced but create significant rights and obligations for the lessee
- Significant assumptions and judgements made in application
- Main terms and conditions of any sale and leaseback transactions
- Whether a policy election was made for short-term lease exemption





# Lessee Disclosures – Quantitative

- Lease Costs Table:
  - Finance lease cost segregated between amortization and interest
  - Operating lease cost
  - Short-term lease cost
  - Variable lease cost
  - Sublease income
  - Gains/losses from sale and leaseback transactions



# Lessee Disclosures – Quantitative

- Segregate amounts for finance and operating leases for the following:
  - Cash paid for amounts included in the measurement of lease liabilities
  - Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets
  - Weighted-average remaining lease term
  - Weighted-average discount rate





# Action Items

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# What You (as Lessees) Should Be Doing Now

- Begin gathering data on the leases you have now
- Evaluate the processes and controls currently in place
- Decide whether or not to elect optional practical expedients
- Review existing and future debt agreements for covenants



# Data Collection and Ongoing Data Management

- Existing systems (e.g., spreadsheets and software) may include some lease information
  - All information required to make the calculations?
  - Judgements (including on going assessments) and information for disclosures?
- Significant effort could be required to manually gather missing lease information



# Implementation Considerations



# Need a Little More Help?

- CLA lease implementation resources to assist you
  - Lease calculator Excel Template
    - For up to 5 leases
    - Client involvement with completing templates
  - Turnkey Lease Solution
    - For up to 100+ leases
    - CLA Team drives entire process with client assistance as needed





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# Thank you!

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# Tax Update

Christa Baldrige and Allen LaCrosse, CLA



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# Business Income and Deductions

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# PPP Loan Forgiveness

Excluded from income

- IRS initial position: no deduction for expenses paid for with PPP funds
- Consolidated Appropriations Act (CAA) Update: deductions allowed for PPP-related expenses



# PPP Loan Forgiveness

- Also excluded from income:
  - EIDL
  - Restaurant revitalization grants
  - Shuttered venue assistance
  - and SBA loan payments
- Taxpayers who did not deduct PPP-related expenses can
  - (i) file amended return or
  - (ii) claim expenses on next return



# 100% Deduction for Restaurant Meals

- Meals generally subject to 50% disallowance
- General Exceptions:
  - Social events for employees (i.e. company holiday party)
  - Items available to general public
  - Sold to customers
- **100% deduction for restaurant meals in 2021 and 2022**
- Restaurant – prepares and sells items for immediate consumption, either onsite or offsite
  - Places selling pre-packaged food or drink not for immediate consumption (grocery store, convenience store) **do not qualify**
- Per diems – Notice 2021-63 allows for the meal portion to be considered from a restaurant for 2021 and 2022.



# Interest Expense Limitation – Sec 163(j)

- Net business interest expense deduction **limited to 30% of ATI** plus floor plan financing interest
- Adjusted Taxable Income
  - TI + non-business deductions/losses – non-business gain
- Excess carries forward
- Small Businesses (< \$27m in gross receipts) are exempt from this rule!



# Section 163(j) Developments

**Reminder: Depreciation no longer an Adjusted Taxable  
Income add back starting in 2022**



# Bonus Depreciation Phaseout

- Can deduct 100% of qualifying property currently.
- Begins to phase out NEXT YEAR (2023)!!
- 20% Phaseout Per Year



Year	% of Cost Allowed to be Bonused
2022	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027	0%





# Accounting Methods and Periods

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# What is LIFO?

- Last In First Out
  - Method of accounting for inventory
  - Most recent purchases become COGS on income statement
  - Oldest purchases make up inventory on balance sheet

**L** LAST  
**I** IN  
**F** FIRST  
**O** OUT



# When & Why Would LIFO Matter to You?

- Why: Opportunity for recurring tax deductions by increasing COGS!!!
- When:
  - Inflation is on the rise (get to deduct more expensive inventory first)
  - Inventory quantities are staying flat or going up (happens when business is growing)
- Example: Automobile Dealerships
  - LIFO is beneficial most of the time
  - COVID caused inventory to plummet, which led to income pick up



# Advantages of M&D Inventory

- Diversified – Inventory is less likely to drop to near zero due to one missing piece – like a microchip
- More stable inventory; consistent or growing levels
- Not all pieces of inventory have to be on LIFO!
  - Some or all raw materials
  - Some or all items purchased for resale
  - Some or all raw materials plus overhead





# Cash Method of Accounting

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# Small Business Taxpayer Regulations

- TCJA allows small business taxpayers to use simplified methods of accounting:
  - Overall cash method
  - Exemption from inventories and UNICAP
  - Exemption from percentage of completion
  - Exemption from Sec. 163(j) (business interest limitation)
- Small business taxpayer:
  - Average annual gross receipts  $\leq$  \$27M in 2022; and
  - Business is not a tax shelter



# Tax Shelter Status

- Syndicate means a partnership or other non-C corp. entity if more than 35% of the losses during the tax year are ***allocated*** to limited partners or limited entrepreneurs
- Losses: allowable deductions > income recognized
  - Excluded: gains/losses from capital assets, depreciable assets, or RP
  - Losses are determined without Sec. 163(j) limitation
- Generally, status determined after close of current year
- Entity can elect to use prior year allocations
  - Annual election. Make election by attaching a stmt to the tax return.





# Business Credits

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# 2020 Employee Retention Credit

- CARES Act created refundable payroll credit for qualified wages paid after 3/12/2020 and before 1/1/2021
  - 50% of qualified wages up to \$10,000 = \$5,000 credit/employee/year
- Eligible employer
  - Fully or partially suspended operations during any quarter in 2020 due to order from a governmental entity due to COVID-19, or
  - Significant decline in gross receipts
    - 1<sup>st</sup> quarter in 2020 where gross receipts are < 50% for same quarter in 2019
    - Ends when gross receipts are > 80% for same quarter in 2019 (or 12/31/2020 if earlier)
  - Governmental entities are not eligible for the credit.



# 2020 Employee Retention Credit

- Qualified wages in 2020
  - Average FTE > 100 in 2019
    - Wages paid to employee for time that employee is not providing services
  - Average FTE ≤ 100 in 2019
    - Any wages paid during qualifying period
  - Includes allocable qualified health plan expenses



# 2020 Employee Retention Credit

- Claiming the credit
  - Form 941
  - Offset federal employment tax deposits in same quarter
  - Ability to amend Form 941 (and related business tax returns) until the statute of limitations closes
- Credit is not included in gross income for federal income tax purposes, however...
  - **Reduce aggregate deductions by credit amount**
- CAA, 2021 – removed rule making employers ineligible if received PPP loan



# 2021 Employee Retention Credit

- Modifications for 2021:
  - **Significantly** expanded and improved the credit
  - \$10,000 qualified wage limit per employee per quarter
  - Credit percentage is 70% of \$10k (max \$7,000 credit per quarter)
  - 2019 average FTE threshold increased to 500
  - Significant decline in gross receipts < 80% for same quarter in 2019
    - Can elect to “lookback” one quarter
    - If employer did not exist in 2019, look at 2020 gross receipts



# 2021 Employee Retention Credit



- Can't double dip
- Qualified wages do not include wages used for:
  - R&D credit
  - WOTC
  - Credit for paid family and medical leave
  - Indian employment credit
  - Active-duty employee credit
  - Empowerment zone credit
  - PPP – Careful coordination with PPP forgiveness



# 2021 Employee Retention Credit

- Special rules for Q3 & Q4 2021:
  - Recovery startup business – up to \$50K credit if:
    - Began business after 2/15/20; and
    - \$1M or less in average gross receipts
  - Severely financially distressed employer—3<sup>rd</sup> quarter only
    - If gross receipts < 10% for same quarter in 2019
    - Then all wages are treated as qualified wages, even if > 500 employees in 2019



# ERC Update

- Infrastructure Bill: **ERC terminated 9/30/21**
  - Exception: Recovery startup
- Important to remember that there is still an amended return opportunity to claim either the 2020 and/or the 2021 ERC.



# R&D Credit

## PATH ACT Changes

- The Protecting Americans from Tax Hikes (PATH) Act of 2015 made 3 important changes to the credit
- The credit is now a **permanent benefit** in the tax code (previously a temporary provision)
- Qualified small businesses can use the credit to **reduce federal payroll taxes on Form 941**
  - **Qualified small business** means:
    - Gross receipts less than \$5M for the credit year, and
    - No more than 4 years of gross receipts preceding the credit year
  - In other words, this benefit is aimed at helping startups within their first 5 years
- Eligible small businesses can use the credit to **offset AMT**
  - **Eligible small business** is generally one with average annual gross receipts of \$50 million or less for 3 preceding tax years





# R&D Credit – Qualified Research Expenses (QREs)

- The costs used to compute the credit are:
  - **Wages** for individuals
    - ❑ Performing qualified research
    - ❑ Directly supervising qualified research
    - ❑ Directly supporting qualified research
  - **Supplies** used in the research process
    - ❑ Prototypes
    - ❑ Materials and supplies
    - ❑ Tooling costs
  - **Contractor payments**
    - ❑ Must analyze financial risk and retention of intellectual property rights
    - ❑ Generally reduced by 35% for every qualified dollar
  - **Cloud computing costs**
    - ❑ Must be used for R&D purposes



# R&D Credit

## CLAIM IF MEET 4 PART TEST:

### 1. Permitted Purpose

- Activities must relate to the **Function, Performance, Reliability or Quality** of a Business Component

### 2. Technological in nature

- Rely on principles of physical or biological sciences, engineering, or computer science

### 3. Elimination of Technical Uncertainty

- Activities must be intended to eliminate technical uncertainty relating to **Capability, Methodology or Best Design** of the Business Component

### 4. Process of Experimentation

- Developing on or more hypotheses/alternatives
- Testing, analyzing and refining the hypotheses/alternatives



# R&D Credit – Non-Qualified Activities

- The following activities **do not qualify** for the credit:
  - Research after commercial production or release
  - Adaptation of existing business components to a particular customer's requirements
  - Duplication of existing business components
  - Surveys (e.g., efficiency surveys, management surveys, marketing research, routine data collection, routine QC testing)
  - Foreign research
  - Research in the social sciences, arts, humanities
  - Research funded by any grant or contract
  - Research relating to cosmetics, taste, or seasonal design factors





# K-2 and K-3 Reporting In Full Force in 2022!!

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# Who Is Impacted?



S-Corporations, U.S. Partnerships and Foreign Partnerships

Domestic Activity  
International Activity



Reported by Partnership/S Corp via Schedule K-2

Reports partnership level income, deductions, credits



Reported to Partners/Shareholders via Schedule K-3

Reports share of income, deductions, credits  
Reconciled with other K-3s



Tax Years Beginning in 2021, Amplified in 2022



# What are Schedules K-2 & K-3?

- Extensive, complex, new tax forms required to be filed, starting with 2022 tax returns, for entities that qualify
  - For pass-through entities only (Partnerships & S Corps)
  - Only if entity reports international activities –OR–
  - If any of the partners/shareholders claim a Foreign Tax Credit, and may need the information
    - These rules apply even if all partners/shareholders are domestic

**Plain reading says that even partnerships and S corporations with absolutely ZERO foreign activities or owners may still have to file Forms K-2 & K-3**



# WHY?!?!

- To create more transparency and consistent reporting of tax attributes
- Assist with computing of returns for owners
- Replaces the “Foreign Transaction” section of the Schedules K & K-1



# Why Talk About This?

## Potential Penalties!!!

**File or show  
information  
on a  
partnership  
return**

\$210/per partner for each month (limited to 12-months) the failure continues, e.g. 2 partners x \$210 x 12 months = **\$5,040 penalty!**

**Furnish  
correct  
payee  
statements**

\$280 for each statement with respect to which such failure occurs

**File correct  
information  
returns**

\$280 may be imposed for each schedule K-1 for which a failure occurs

**Furnish  
information  
required  
under 6038**

\$10,000 penalty per entity, per year (Form 8865 only)





# Schedule K-2

There are 13 more pages!!!

**SCHEDULE K-2**  
**Form 1065**  
Department of the Treasury  
Internal Revenue Service

**Partners' Distributive Share Items—International**

OMB No. 1545-0123

2021

Go to [www.irs.gov/form1065](https://www.irs.gov/form1065) for instructions and the latest information.

Employer identification number (EIN)

**A** Is the partnership a withholding foreign partnership?  
Yes ☐ No ☐ If "Yes," enter your WFTB-EIN

**B** Is the partnership including the home office or any branch or a qualified derivatives dealer?  
Yes ☐ No ☐ If "Yes," enter your QID-EIN

**C** Check to indicate the type of Schedule K-2 that applies.

1	2	3	4	5	6	7	8	9	10	11	12
Does Part I apply? If "Yes," complete and attach Part I.	1	Yes	No	Does Part VI apply? If "Yes," complete and attach Part VI.	6	Yes	No	Does Part VII apply? If "Yes," complete and attach Part VII.	7	Yes	No
Does Part II apply? If "Yes," complete and attach Part II.	2			Does Part VIII apply? If "Yes," complete and attach Part VIII.	8			Does Part IX apply? If "Yes," complete and attach Part IX.	9		
Does Part III apply? If "Yes," complete and attach Part III.	3			Does Part X apply? If "Yes," complete and attach Part X.	10			Does Part XI apply? If "Yes," complete and attach Part XI.	11		
Does Part IV apply? If "Yes," complete and attach Part IV.	4			Does Part XII apply? If "Yes," complete and attach Part XII.	12			Does Part XIII apply? If "Yes," complete and attach Part XIII.	13		
Does Part V apply? If "Yes," complete and attach Part V.	5			Does Part XIV apply? If "Yes," complete and attach Part XIV.	14			Does Part XV apply? If "Yes," complete and attach Part XV.	15		
Does Part VI apply? If "Yes," complete and attach Part VI.	6			Does Part XVI apply? If "Yes," complete and attach Part XVI.	16			Does Part XVII apply? If "Yes," complete and attach Part XVII.	17		

**Part I Partnership's Other Current Year International Information**

Check boxes for additional specified information. See instructions.

1. Is the partnership a U.S. partnership?	<input type="checkbox"/>	2. Foreign tax information	<input type="checkbox"/>	3. Partner loan transactions	<input type="checkbox"/>
4. Foreign tax treatment	<input type="checkbox"/>	5. Form 5471 information	<input type="checkbox"/>	6. Dual consolidated loss	<input type="checkbox"/>
7. Foreign of and gas losses	<input type="checkbox"/>	8. Section 2039 disallowed deduction	<input type="checkbox"/>	9. Other forms	<input type="checkbox"/>
10. Section 2039 disallowed deduction	<input type="checkbox"/>	11. Dual consolidated loss	<input type="checkbox"/>	12. Other international items	<input type="checkbox"/>
11. Dual consolidated loss	<input type="checkbox"/>	12. Other international items	<input type="checkbox"/>	(attach description and statement)	<input type="checkbox"/>

**Part II Foreign Tax Credit Limitation**

**Section 1—Gross Income**

Description	(a) U.S. source	(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other category code	(f) Sourced by partner	(g) Total
1. Sales							
2. Gross income from performance of services							
3. Gross rental net estate income							
4. Other gross rental income							

For Paperwork Reduction Act Notice, see the Instructions for Form 1065.

Col. No. 1065(2) Schedule K-2 (Form 1065) 2021

**SCHEDULE K-2**  
**Form 1065**  
Department of the Treasury  
Internal Revenue Service

**Part II Foreign Tax Credit Limitation (continued)**

**Section 1—Gross Income (continued)**

Description	(a) U.S. source	(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other category code	(f) Sourced by partner	(g) Total
5. Guaranteed payments							
6. Interest income							
7. Ordinary dividends (include amount on line 6)							
8. Qualified dividends							
9. Dividend for future use							
10. Royalties and license fees							
11. Net short-term capital gain							
12. Net long-term capital gain							
13. Collectibles (281%) gain							
14. Unrecaptured section 1250 gain							

Schedule K-2 (Form 1065) 2021

**SCHEDULE K-2**  
**Form 1065**  
Department of the Treasury  
Internal Revenue Service

**Part II Foreign Tax Credit Limitation (continued)**

**Section 1—Gross Income (continued)**

Description	(a) U.S. source	(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other category code	(f) Sourced by partner	(g) Total
15. Net section 1231 gain							
16. Section 1231 loss							
17. Section 1231 gain							
18. Section 1231 loss							
19. Section 1231 gain							
20. Section 1231 loss							
21. Section 1231 gain							
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98. Section 1231 loss							
99. Section 1231 gain							
100. Section 1231 loss							

Schedule K-2 (Form 1065) 2021

**SCHEDULE K-2**  
**Form 1065**  
Department of the Treasury  
Internal Revenue Service

**Part II Foreign Tax Credit Limitation (continued)**

**Section 2—Deductions (continued)**

Description	(a) U.S. source	(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other category code	(f) Sourced by partner	(g) Total
20. Expenses allocable to sales income							
21. Expenses allocable to gross income from performance of services							
22. Expenses allocable to net estate income							
23. Net long-term capital loss							
24. Net section 1231 loss							
25. Other losses							
26. Research & experimental (R&E) expenses							
27. Charitable contributions							
28. Charitable contributions							
29. Charitable contributions							
30. Charitable contributions							
31. Charitable contributions							
32. Charitable contributions							
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93. Charitable contributions							
94. Charitable contributions							

# Schedule K-3 – 20 Pages Long

☐ Final K-3 ☐ Amended K-3

**Schedule K-3**  
**(Form 1065)**

**Partner's Share of Income, Deductions,  
Credits, etc.—International**

OMB No. 1545-0123

Department of the Treasury  
Internal Revenue Service

For calendar year 2021, or tax year beginning / / 2021, ending / /

**2021**

▶ See separate instructions.

Information About the Partnership		Information About the Partner	
<b>A</b> Partnership's employer identification number (EIN)		<b>C</b> Partner's SSN or Taxpayer Identification Number (TIN) (Do not use TIN of a disregarded entity. See instructions.)	
<b>B</b> Partnership's name, address, city, state, and ZIP code		<b>D</b> Name, address, city, state, and ZIP code for partner entered in C. See instructions.	

**E** Check to indicate the parts of Schedule K-3 that apply.

	Yes	No
1 Does Part I apply? If "Yes," complete and attach Part I . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
2 Does Part II apply? If "Yes," complete and attach Part II . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
3 Does Part III apply? If "Yes," complete and attach Part III . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
4 Does Part IV apply? If "Yes," complete and attach Part IV . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
5 Does Part V apply? If "Yes," complete and attach Part V . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
6 Does Part VI apply? If "Yes," complete and attach Part VI . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
7 Does Part VII apply? If "Yes," complete and attach Part VII . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
8 Does Part VIII apply? If "Yes," complete and attach Part VIII . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
9 Does Part IX apply? If "Yes," complete and attach Part IX . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
10 Does Part X apply? If "Yes," complete and attach Part X . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
11 Does Part XI apply? If "Yes," complete and attach Part XI . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
12 Reserved for future use . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
13 Does Part XIII apply? If "Yes," complete and attach Part XIII . . . . .	<input type="checkbox"/>	<input type="checkbox"/>

Schedule K-3 (Form 1065) 2021

Page **2**

Name of partnership EIN Name of partner SSN or TIN

**Part I Partner's Share of Partnership's Other Current Year International Information**

Check box(es) for additional specified attachments. See instructions.

<input type="checkbox"/> 1. Gain on personal property sale	<input type="checkbox"/> 4. Foreign tax translation	<input type="checkbox"/> 7. Form 8858 information	<input type="checkbox"/> 10. Partner loan transactions
<input type="checkbox"/> 2. Foreign oil and gas taxes	<input type="checkbox"/> 5. High-taxed income	<input type="checkbox"/> 8. Form 5471 information	<input type="checkbox"/> 11. Dual consolidated loss
<input type="checkbox"/> 3. Splitter arrangements	<input type="checkbox"/> 6. Section 267A disallowed deduction	<input type="checkbox"/> 9. Other forms	<input type="checkbox"/> 12. Other international items (attach description and statement)

**Part II Foreign Tax Credit Limitation**

**Section 1—Gross Income**

Description	(a) U.S. source	Foreign Source				(f) Sourced by partner	(g) Total
		(b) Foreign branch category income	(c) Passive category income	(d) General category income	(e) Other (category code )		
1 Sales							
A							
B							
C							
2 Gross income from performance of services							
A							
B							
C							
3 Gross rental real estate income							
A							
B							
C							
4 Other gross rental income							
A							
B							
C							
5 Guaranteed payments . . . . .							
6 Interest income							
A							
B							
C							
7 Ordinary dividends (exclude amount on line 8)							
A							
B							
C							

Schedule K-3 (Form 1065) 2021

For IRS Use Only





*We'll get you there.*

# Thank you!

Christa Baldridge, CPA

Tax Principal

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Allen LaCrosse, CPA

Tax Principal

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CPAs | CONSULTANTS | WEALTH ADVISORS

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# Manufacturing and Distribution Industry Update

Jennifer Clement, CLA

*We'll get you there.*

CPAs | CONSULTANTS | WEALTH ADVISORS

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# Balancing Act

**Cash Flow  
Working Capital**



**Being Prepared**

# Supply Chain Landscape



Pricing



Inventory



China Economy



Zero Covid



Risk



# Material Pricing

	Dec 2019	June 2020	Dec 2020	Feb 2021	May 2021	Aug 2021	Mar 2022	Aug 2022	Oct 2022
Aluminum (LME)	\$1,800	+ 5%	+ 10%	+ 19%	+ 37%	+ 45%	+ 128%	+ 35%	-3%
Steel (HC)	\$543	+ 1%	+ 28%	+ 34%	+ 91%	+ 71%	+ 55%	+ 8%	+4%
Stainless Steel (304)	\$1,930	+ 5%	+ 7%	+ 17%	+ 32%	+ 55%	+ 64%	+ 17%	+20%
Plastics (ABS)	\$1,879	- 1%	+ 41%	+ 45%	+ 68%	+ 63%	+ 23%	- 6%	-3%
Copper (LME)	\$6,155	+ 2%	+ 26%	+ 30%	+ 72%	+ 53%	+ 74%	+ 31%	+23%

Base

Peak

Source: Complete Manufacturing and Distribution



# Demand Fades

PMI readings show slump in Asian factories as demand drops



Source: S&P Global, Jibun Bank Japan PMI

Bloomberg

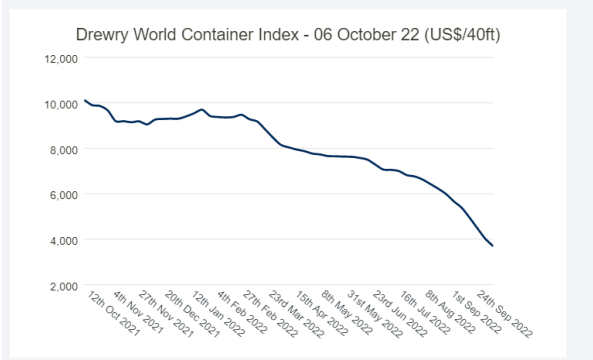




# Pricing: Container Rates

## World Container Index - 06 Oct

Drewry's composite World Container Index decreased by 8% to \$3,688.75 per 40ft container this week.



These are container freight rates for October, 2022 according to the [Freightos Baltic Index](#):

FBX Lane	Global	Asia – US West Coast	Asia – US East Coast	Asia – North Europe	North Europe – US East Coast
This Week	\$4,056	\$2,978	\$6,952	\$7,046	\$7,531
Last Week	-3%	-8%	-5%	-3%	5%
Last Year*	-59%	-82%	-63%	-52%	8%

\* Compared to the corresponding week in 2021

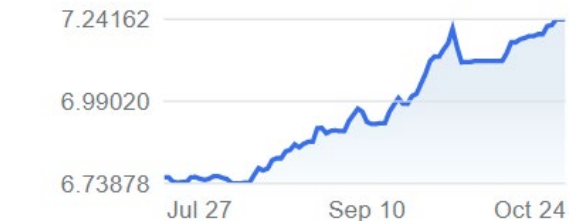
[Shipping Delays & Freight Cost Increases 2022 | Freightos](#)

Returning to 2018 levels?

[Drewry - Service Expertise - World Container Index - 04 Aug](#)



# Pricing: Currency




30D

60D


90D

- China exports to USA are cheaper
- 7.35 by end of 2022
- 7.5 within 2023

 **USD** US Dollar


1


USD EUR GBP BTC

 **CNY** Chinese Yuan R...

7.24157

CNY USD GBP ETH

Date < 24 October 2022 > 

Preview interbank rate +/- 0% 



# Pricing: Tariffs

## The U.S.-China Tariffs

Tariffs, by percentage rate, imposed by the U.S. and China on each other since March 2018

□ Imposed by the U.S. on China    ■ Imposed by China on the U.S.

### March/April 2018

□ \$40B  
■ \$3B

Steel and aluminum products from most countries (10% aluminum, 25% steel)  
Wine, pork, nuts, steel pipes, recycled aluminum (15% to 25%)

### July 2018

□ \$34B  
■ \$34B

Aircraft parts, semiconductors, microscopes (25%)  
Soybeans, wheat, electric vehicles, whiskey, seafood, cigars (25%)

### Aug. 2018

□ \$16B  
■ \$16B

Motorcycles, steam turbines, railway cars (25%)  
Beef, poultry, fiber-optic cables, motorcycles (25%)

### Sept. 2018

□ \$200B  
■ \$60B

Fabric, modems, chemicals, furniture, seafood (10%, raised to 25% in May 2019)  
Cosmetics, vodka, reptiles, wigs, diamonds, video games (5% to 10%, raised to 5% to 25% in May 2019)

### Sept. 2019

□ \$110B  
■ \$25B

Agricultural products, antiques, clothes, kitchenware, footwear (15%, dropping to 7.5% under an agreement announced Dec. 13 in which China promised a "corresponding" amount of tariff rollbacks)  
Agricultural goods (5% to 10% on top of existing tariffs ranging up to 25%), crude oil (5%)

Sources: Office of the U.S. Trade Representative, Bloomberg  
Note: Dec. 13 reference in Sept. 2019 box is for same year

As of  
November,  
2022...

Tariffs will be  
continued.



# Inventory

## Risk

Increased inventory levels  
now easing...



## Actions

Moved from JIT (Just in Time) to JIC (Just in Case); transitioning back to JIT – OR NOT!

- Demand catching up with supply
- Easing supply shortages could eventually take some pressure off inflation

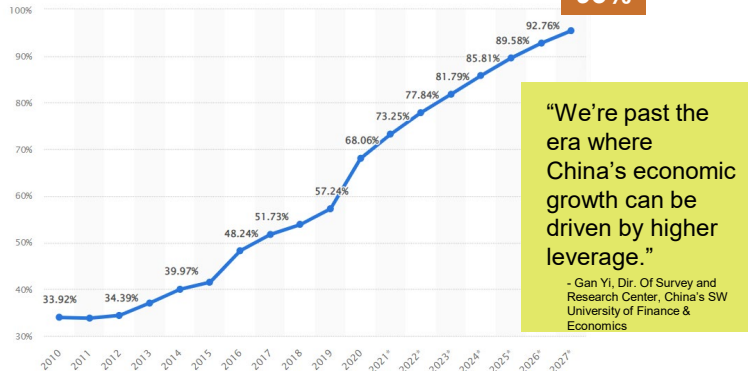
# Economy

Bottom line:  
Western companies betting on China for growth...trim forecasts?

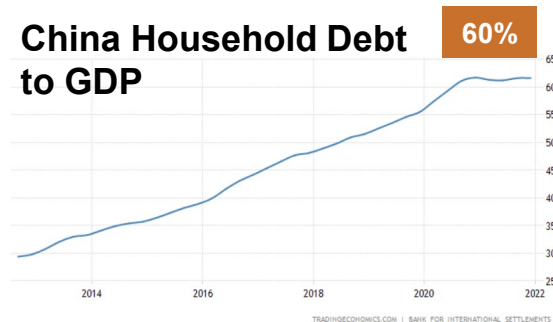
## 2022 China sales:

- ↓ 44% Starbucks
- ↓ 20% Nike

## National Debt to GDP Ratio



## China Household Debt to GDP



- Infrastructure
- Property
- Exports
- Household Consumption

**Lowering interest rates is not working...  
because consumers are not spending.**

- China's household debt to GDP ratio up 60%.
- 50% of China's GDP is dependent on consumer spending.

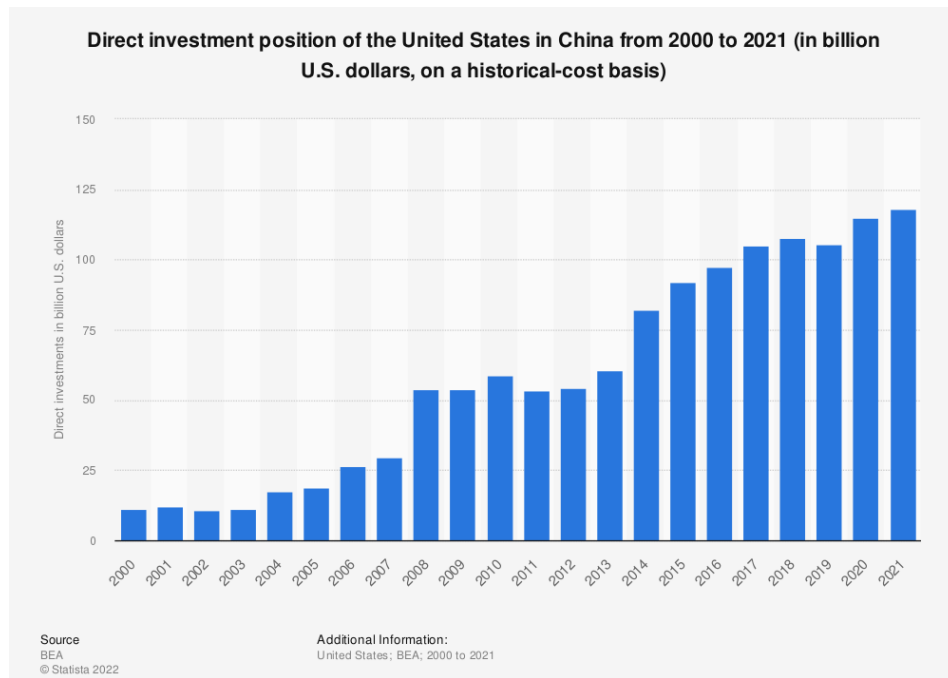
[Chinese Households' Pivot to Thriftiness Is Bad News for World Economy - Bloomberg](#)



# China Economy: FDI into China

BEIJING — Foreign direct investment (FDI) into the Chinese mainland, in actual use, expanded 17.4 percent year-on-year to 723.31 billion yuan (\$112B) in the first half of 2022, the Ministry of Commerce said on July 29.

[China's FDI inflow up 17.4% in H1 \(www.gov.cn\)](http://www.gov.cn)



Hi-Tech Manufacturing

↑ 31%

Hi-Tech Services

↑ 34%

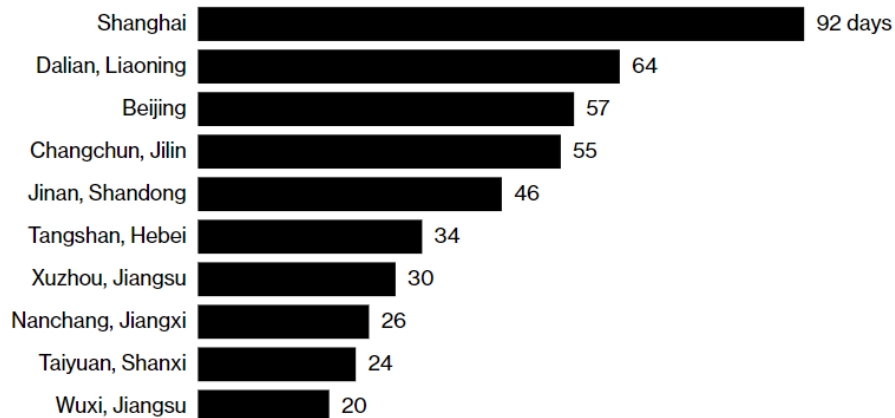


# Zero Covid

## Longest Lockdowns

Curbs have been imposed on a raft of key Chinese cities

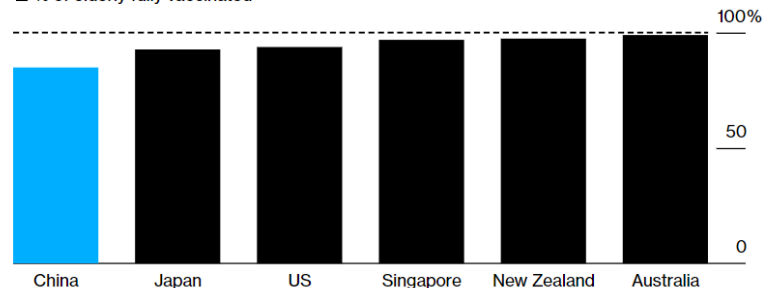
■ Accumulative days in full or partial lockdown since March 10, 2022



## Vaccine Defense

China lags behind on immunizing older people against Covid

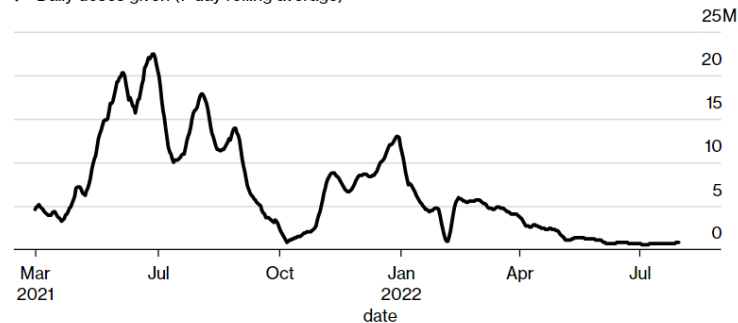
■ % of elderly fully vaccinated



## Losing Steam

China's vaccine rollout has slowed to a trickle

／ Daily doses given (7-day rolling average)



Source: National Health Commission



# Zero Covid: Travel

Passengers traveling to China must **get their nucleic acid test results from laboratories**, then **apply for health code** from the Chinese Embassy or Consulate General (based on the latest consular jurisdiction of nucleic acid test laboratories), travel before it expires and be prepared for checking by the airlines before boarding.

1. Foreign passengers can apply for health code at <https://hrhk.cs.mfa.gov.cn/H5/>.
2. Nucleic acid samples can be collected and tested at any legal laboratory institution with CLIA certification. Test reports should contain specific information such as name, passport number, date of birth, date of collection, date of report and the contact information of the laboratory. The Embassy will contact the issuing agency to verify the authenticity of all the submitted reports and certificates. If any of them cannot be verified, the health code will not be issued.
3. Test requirements before your departure:
  - A. **Within 48 hours before departure, take twice nucleic acid tests** with different test reagents at different laboratory. There must be an interval of over 24 hours between samplings. (e.g., If the flight departs on July 10, the first sampling time can be on July 8, and the second time can be on July 9).
4. The following documents are to be uploaded for health code application:
  - A. Nucleic acid test results, flight itinerary, passport, Chinese visa or resident permit.
  - B. If you have infection history / are a close contact / show symptoms, please upload supplementary documents according to the requirements below.
5. Passengers will receive a "green code" when all their test results are verified. Before boarding, passengers will be required to present "green code".
6. Passengers with infection history:
  - A. If you were diagnosed with COVID-19 or tested positive for nucleic acid, you are considered as having an **infection history**.
  - B. You can apply for a health code if you meet the following requirements:
    - **Take twice nucleic acid tests** with a sampling interval of over 24 hours in any laboratory in the U.S. and both tests return negative results.
    - Take a **self-quarantine for at least 2 weeks** and record your daily body temperature and health conditions after the second nucleic acid test. If you develop any symptoms such as fever, cough, diarrhea during the self-quarantine, take another nucleic acid test. If the result is negative, start a 2 weeks quarantine again. If the result is positive, you will need to wait until you recover and redo the whole process.
    - After completing the above procedures, follow this notice to perform **tests within 48 hours before boarding**. To apply for a health code, two additional nucleic acid test negative reports are required.
7. Close contacts/showing symptoms
  - A. Passengers who have had unprotected contact with confirmed, suspected or asymptomatic cases are considered as close contacts. Passengers with a positive antigen result are considered as close contacts as well.
  - B. Close contacts or passengers showing suspected symptoms are expected to self-quarantine for at least 5 days. If your health is not abnormal at all, follow this notice to perform tests within 48 hours before boarding.

It's complicated.





# Geopolitical Business Risk

## Four Scenarios

1. **“Competing while Cooperating” (10%):** While competing in many areas, China and the United States collaborate on investment, commerce and trade issues.
2. **Base Case (60%):** Economic ties remain intertwined, but political competition continues. Both sides recognize the risks of letting ties deteriorate too far but lack the incentive or political space to improve them.
3. **“Confrontation” (25%):** Deteriorating political relations spill over into other areas. Over time, China eventually provides Russia military support which could lead to secondary sanctions and tighter export controls.
4. **“Crisis” (5%):** A military incident over an issue such as Taiwan or the South China Sea leads to a dangerous confrontation.

## Clouds on the Horizon

### Outbound investment screening

Notification vs. approval

### HFCAA

Chinese U.S. listed company removed from US exchanges

### Taiwan Policy Act of 2022

Authorize \$4.5 billion over four years in Foreign Military Financing

### Chinese support for Russian military action

Integrated deterrence

### New 301 Investigation

Covering systemic issues not addressed by Phase 1



# 2022-23 Landscape in Europe

## Economy

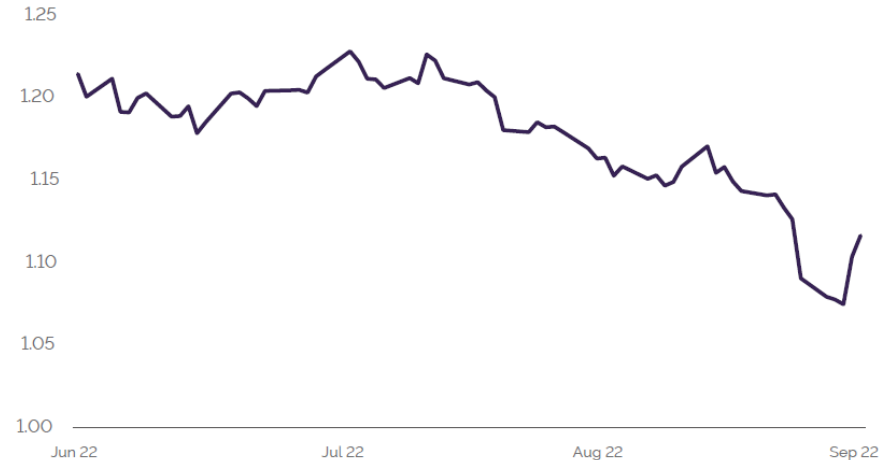
### Challenges

- Slower growth
- Lower valuations
- Xrate volatility
- Higher inflation, interest rates

### Impact for CLA Global Clients

Bargain investments?  
Risk premium negates  
lower valuation?

GBP/USD exchange rate (\$)



Source: Refinitiv DataStream/Evelyn Partners Investment Management LLP,  
data as at 30 September 2022



# 2022-23 Landscape in Europe

## Ukraine

### Challenges

- UK energy caps for consumers, businesses
- Price caps leading to lower energy supply

### Impact for CLA Global Clients

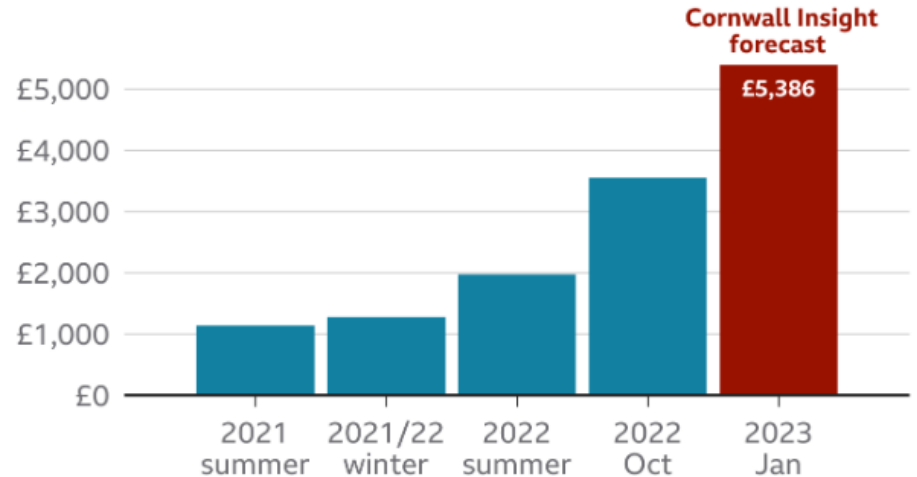
Energy intensive businesses will be difficult to forecast beyond 6 months.

Suppliers demanding deposits.

Cash flow impact.

## Energy price cap forecast to rise to £5,386

Annual bill for a typical household on a price capped dual-fuel tariff paying by direct debit



Source: Ofgem/Cornwall Insight, 26 Aug

BBC



# Takeaways



1. Volatility: Fact or Fiction?
2. Supply chain de-risking
3. Pricing is less a driver
4. Options for managing inventory
5. Balancing act...





*We'll get you there.*

# Thank you!

Jennifer Clement

Client Relationship Leader

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# Short Break

CLA exists to  
create opportunities —  
for our clients, our people,  
and our communities.



# Wealth and Economic Update: Navigating markets during volatility

Chris Moss, CLA Wealth Advisors



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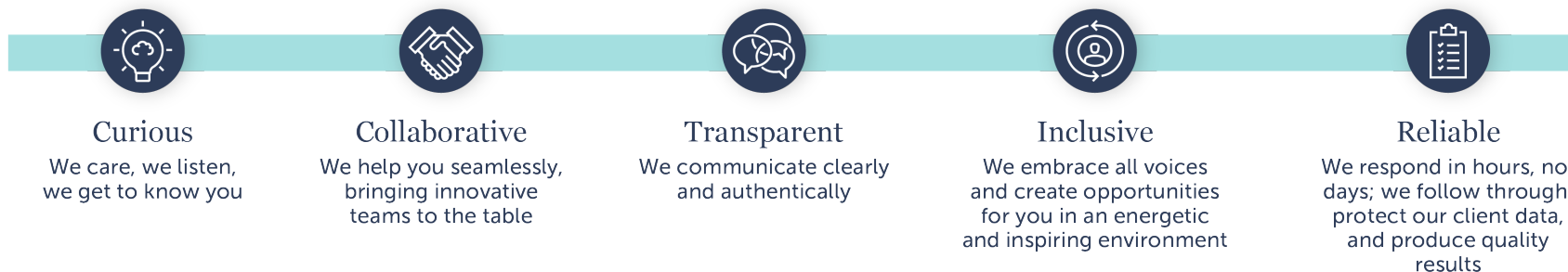




# The Four Essential Elements of the CLA Promise



## Driven by **Our Values**





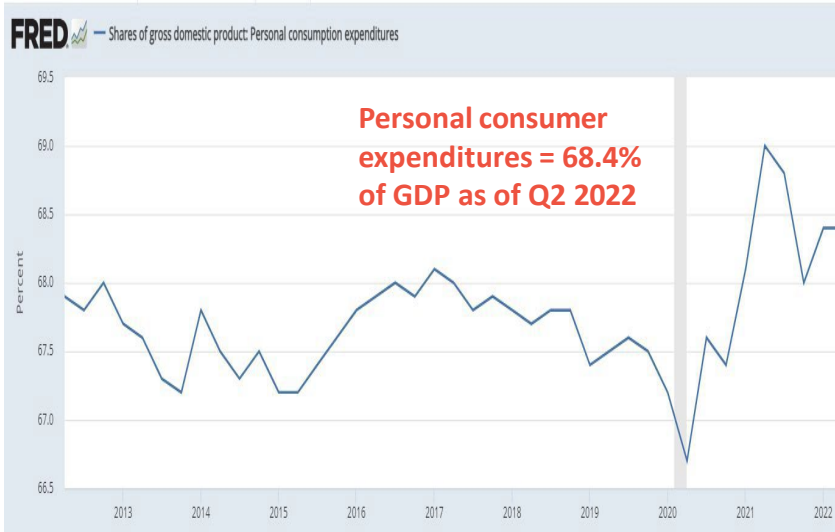
# Economic Observations

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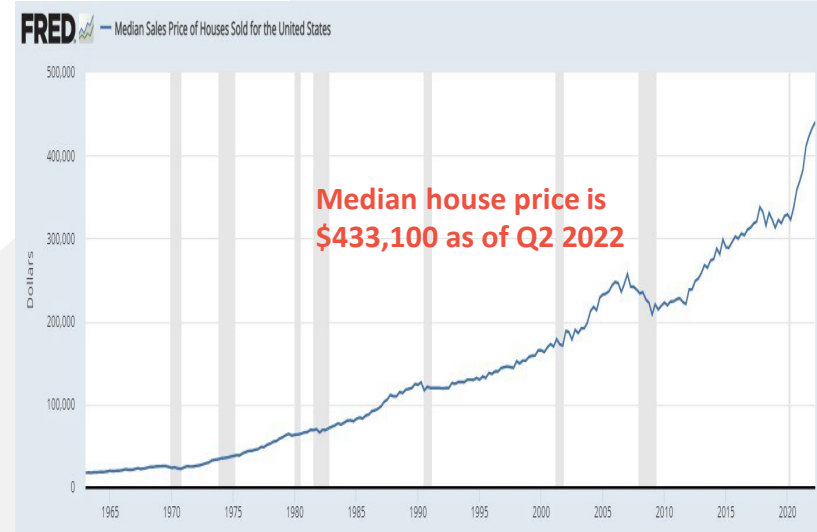
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# Economic Data Shows the Reopening is Real



Source: St. Louis Fed

Consumer spending is robust

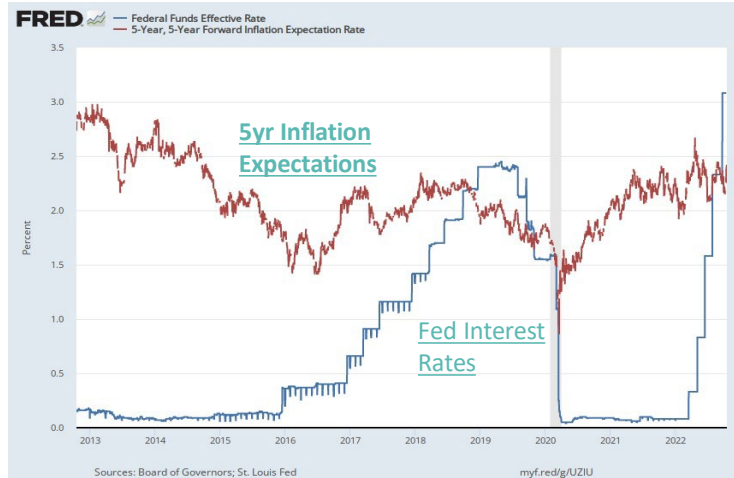


Source: St. Louis Fed

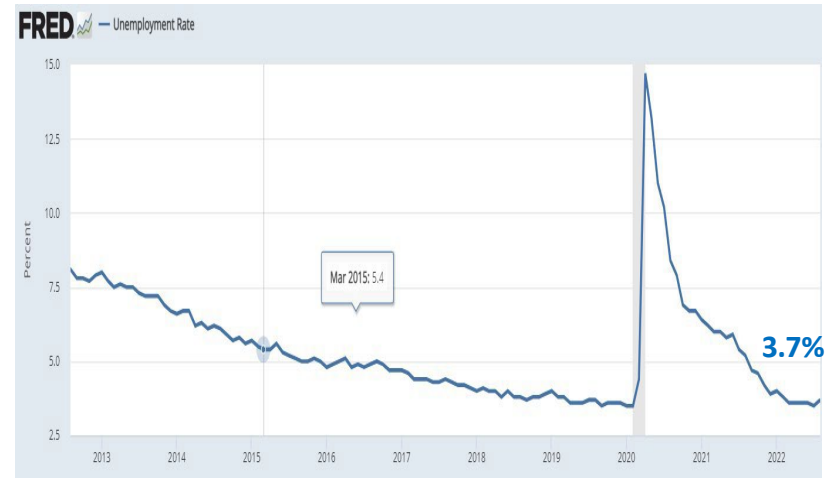
Housing prices hit new highs



# Economic Data Shows the Reopening is Real



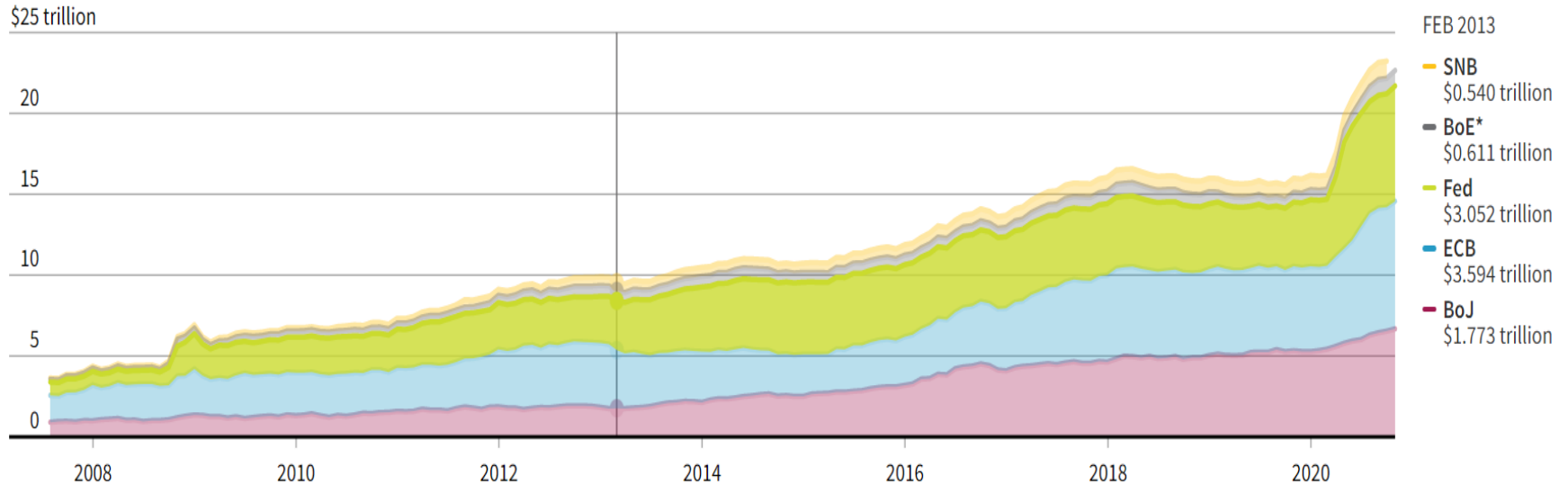
Source: St. Louis Fed



Higher inflation → Higher rates

Unemployment at pre-COVID levels

# Global Central Bank Stimulus is a Tailwind



## Central bank balance sheets

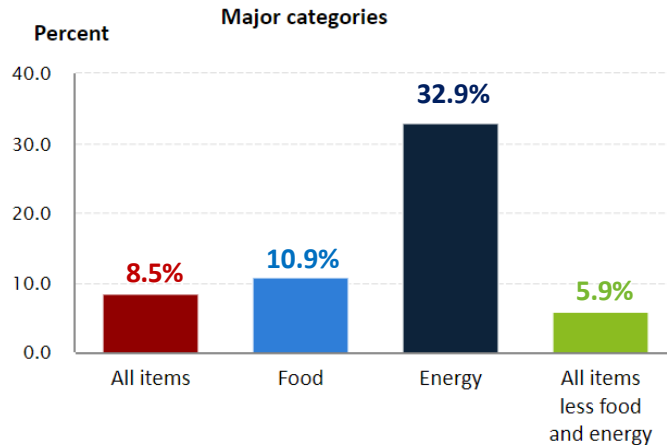
Assets for the European Central Bank, Bank of Japan, Federal Reserve, Swiss National Bank, and Bank of England

Source: Thomson Reuters



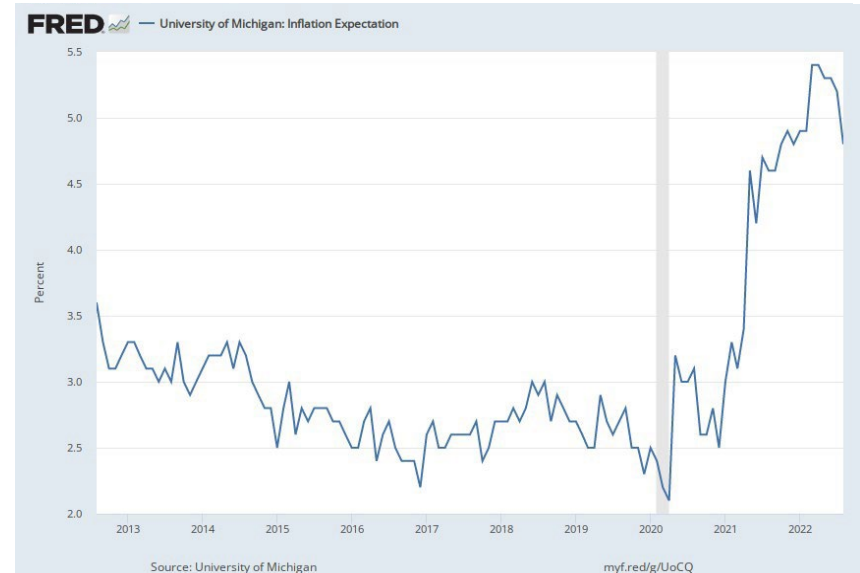
# Inflation is Likely to Remain Front and Center

12-month percentage change, Consumer Price Index, selected categories, July 2022, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Higher prices driven by energy ...



Source: St. Louis Fed

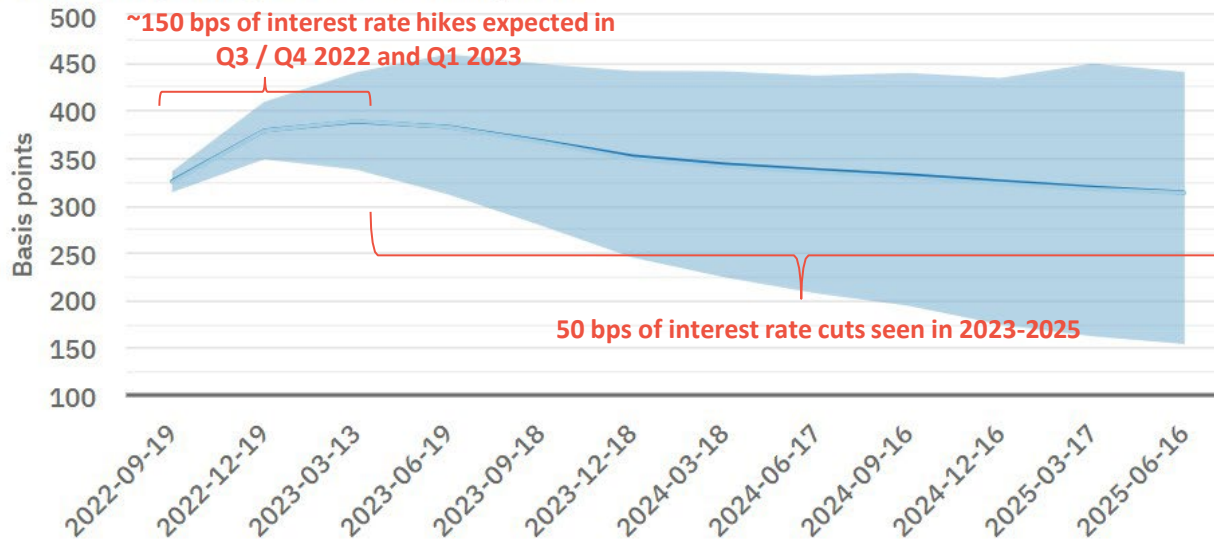
... Driving future inflation expectations



# Expect Interest Rates Hikes in 2022 but Cuts starting in 2023

## The Expected Future Path of the Three-Month Average Fed Funds Rate

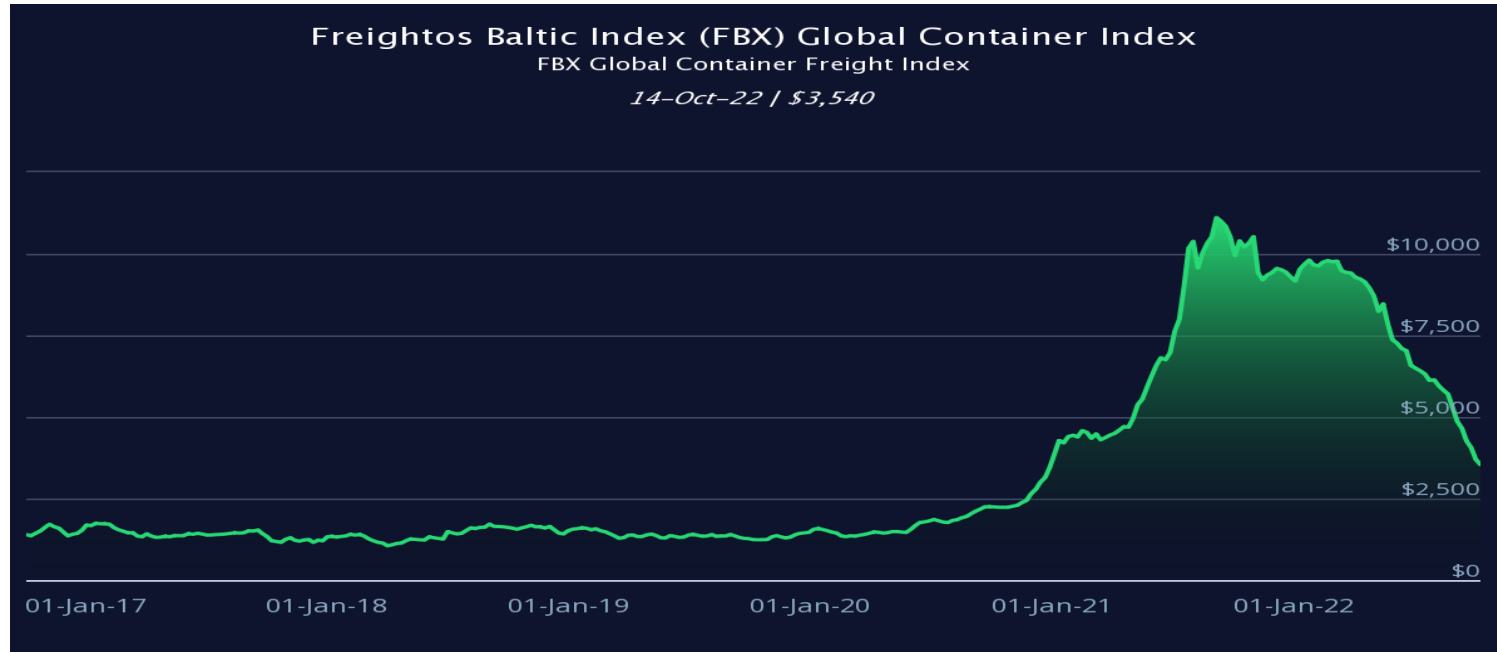
Current target range: 225 - 250 basis points



Source: Market Probability Tracker - Federal Reserve Bank of Atlanta ([atlantafed.org](https://atlantafed.org))



# Supply Chain Stress is Starting to Ease



Global shipping rates still elevated but off highs



Source: [Freight Rate Index / Freightos Baltic Container Index](#)

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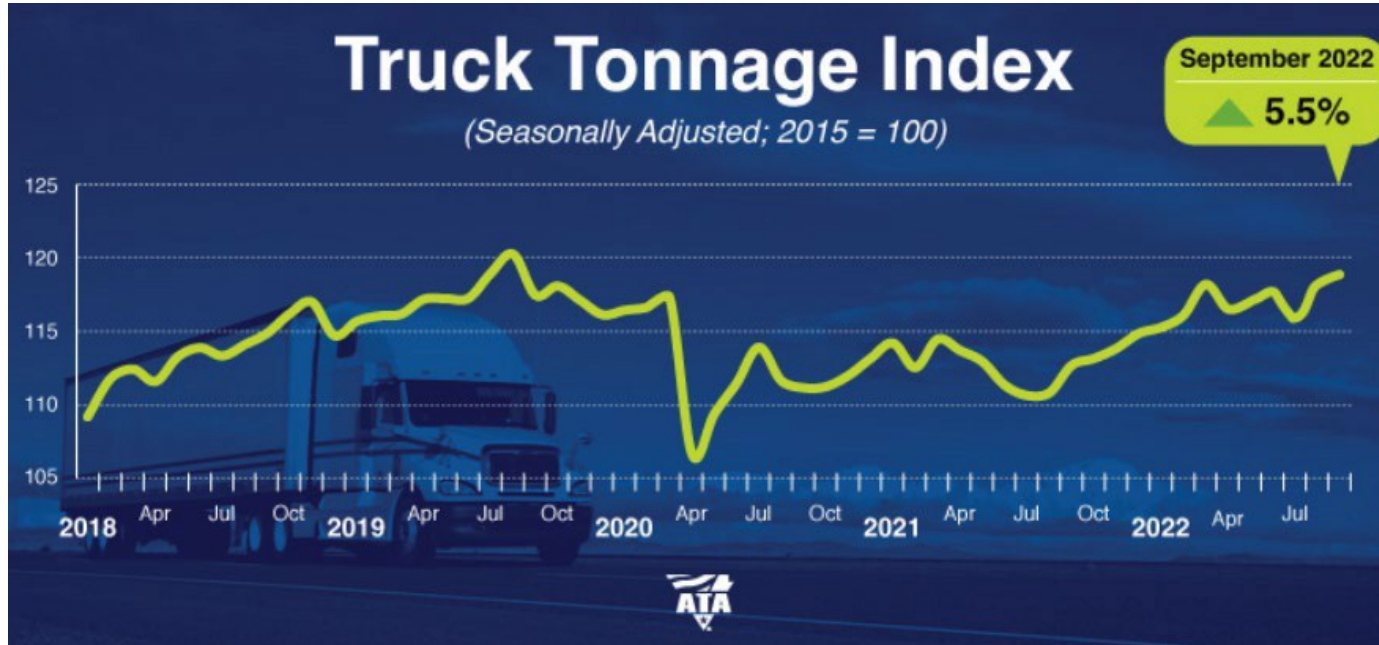


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27



# Industry Insights: Pick-Up Seen in For-Hire Trucking Tonnage



[Source: American Trucking Association](#)



# Market Observations

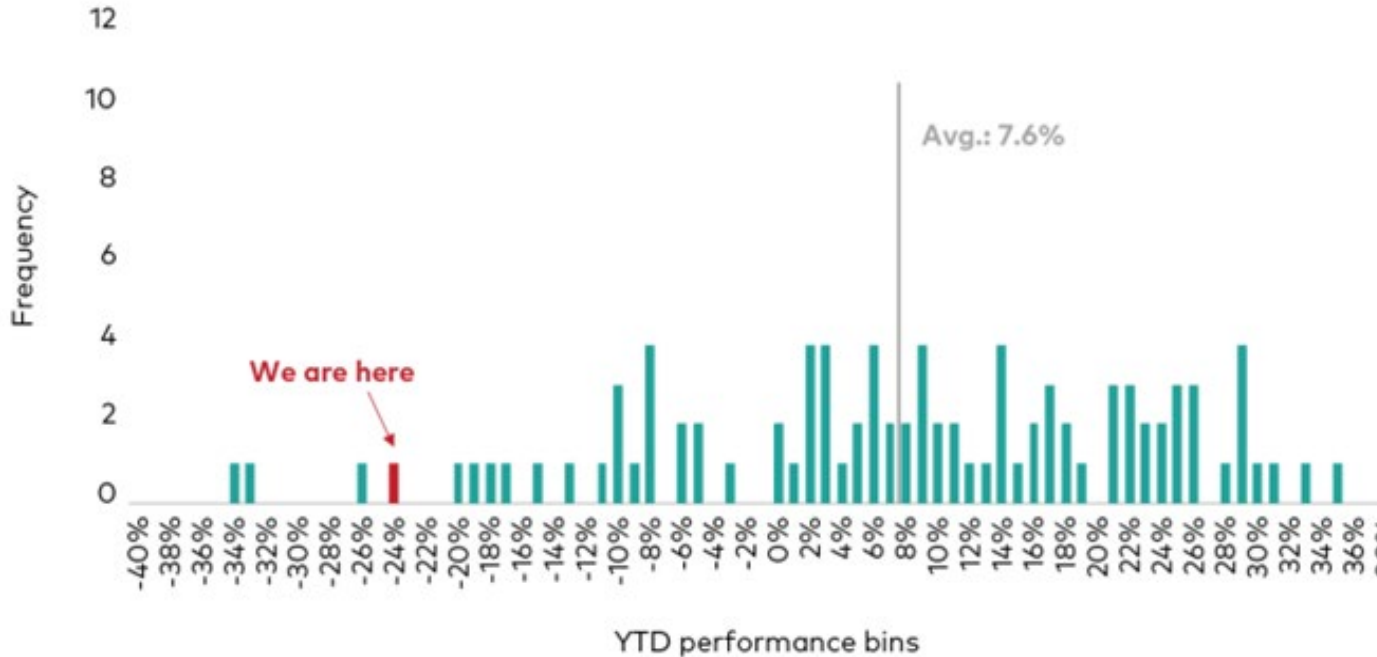
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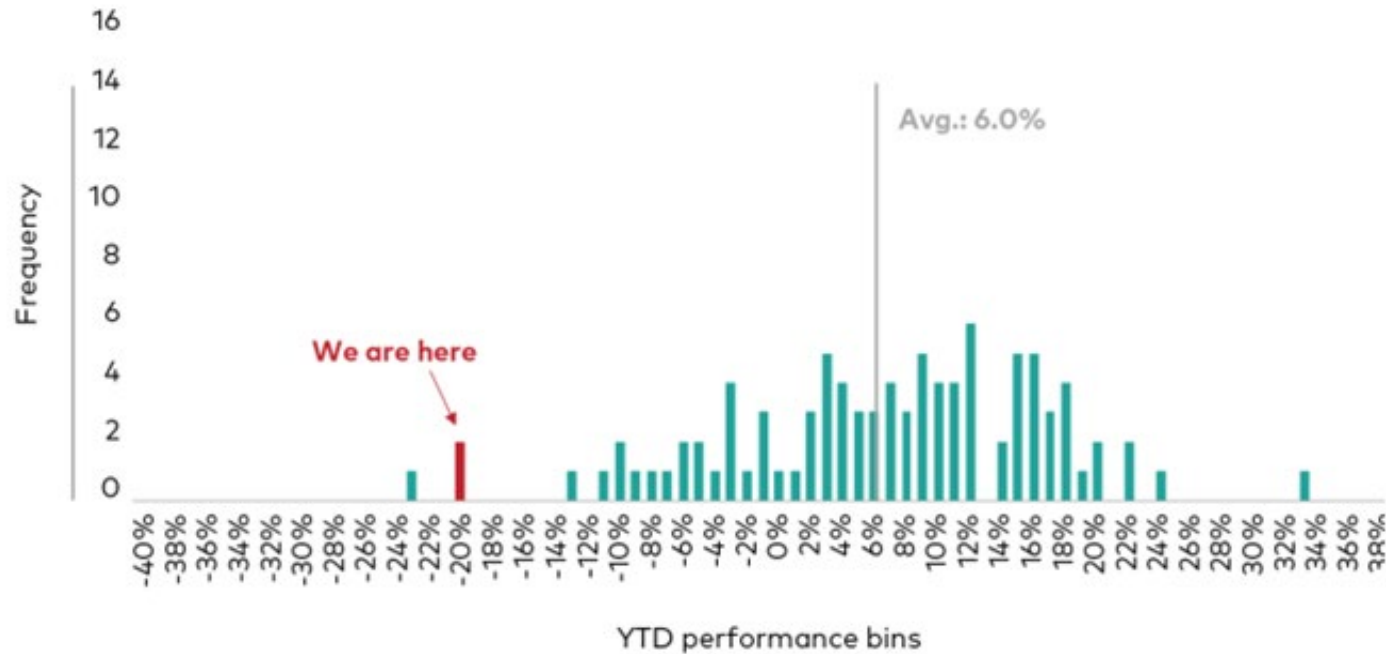
# Market Volatility is Extreme

a.) Distribution of YTD stock performance (1928-2022)



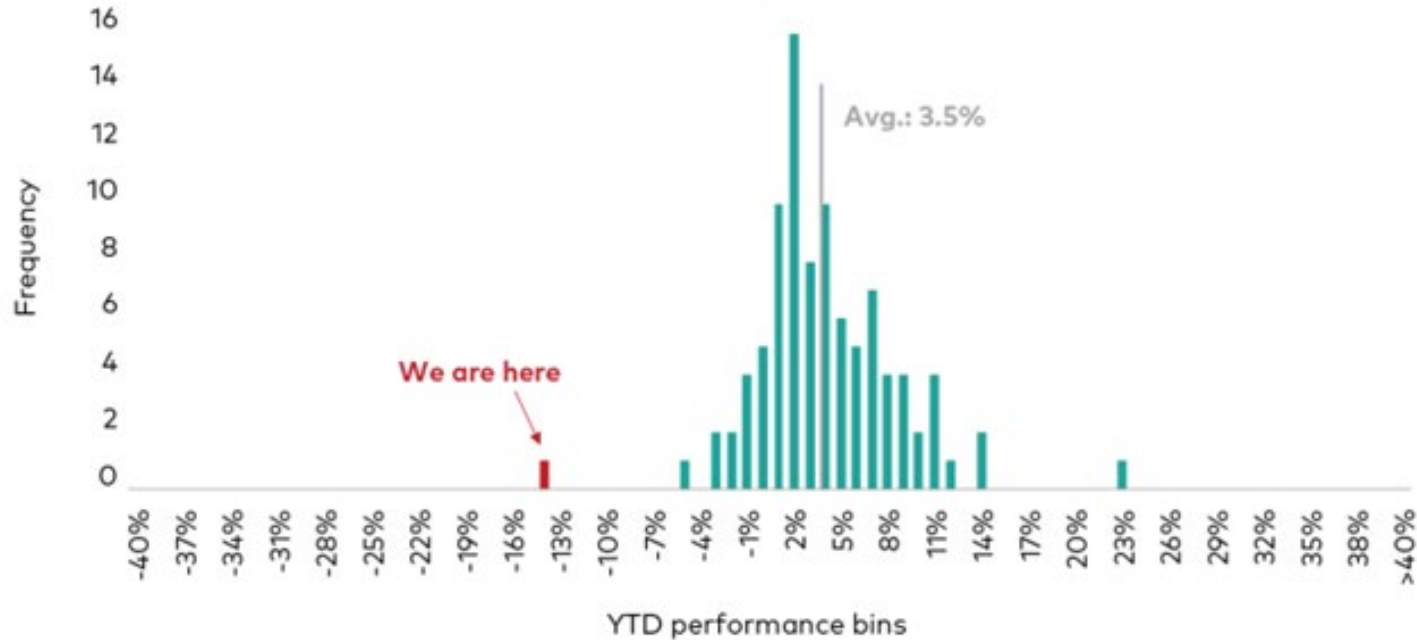
# Market Volatility is Extreme

c.) Distribution of YTD 60-40 performance (1928-2022)



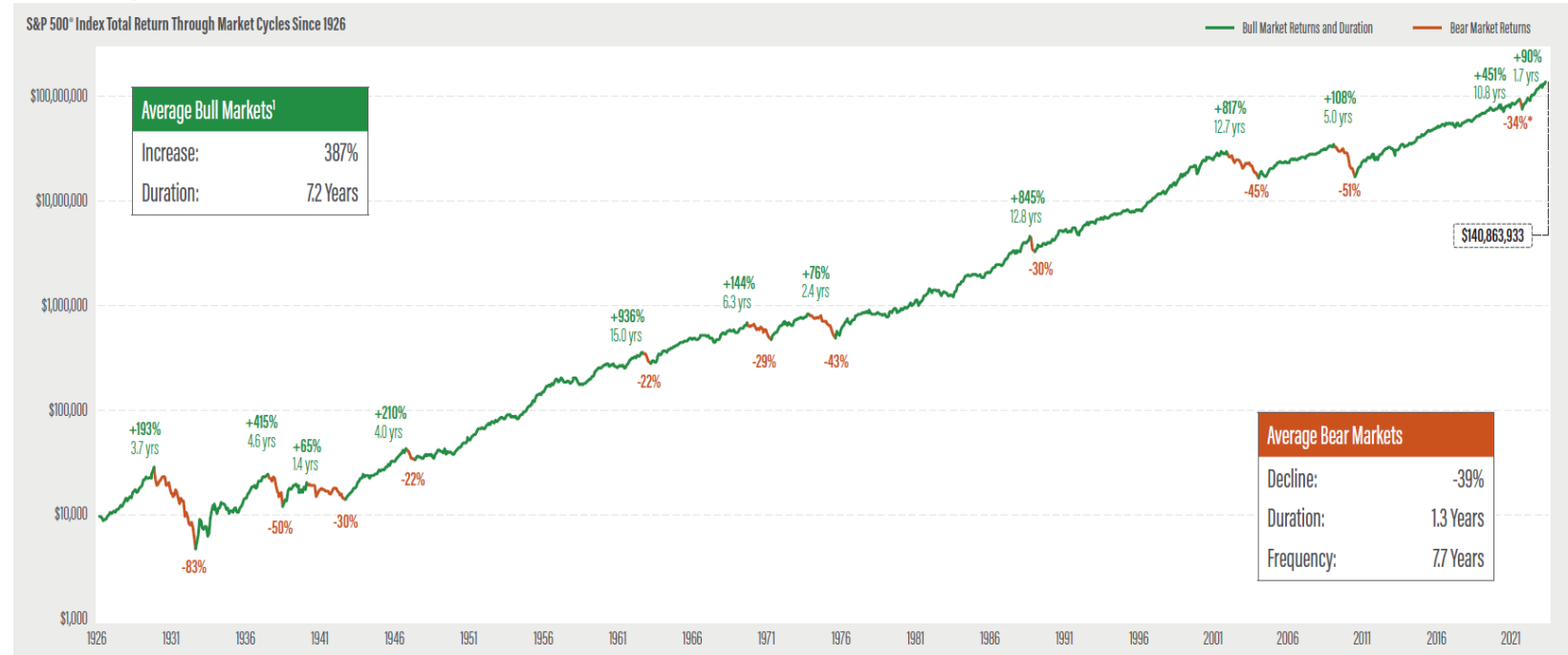
# Market Volatility is Extreme

b.) Distribution of YTD bond performance (1928-2022)



# Bull & Bear Cycles – An Historical Perspective

## The Law of Market Cycles



Source: FactSet, S&P Dow Jones Indices as of December 31, 2021. The index is unmanaged, is not available for investment and does not incur expenses. Daily performance is not available from 1926.  
Past performance is no guarantee of future results.  
¹ Average does not include current bull market.

\* This chart uses monthly returns although this most recent bear market uses daily performance for consistency with the rest of the brochure.



# Stay Disciplined and Take Advantage of Volatility

## **Buffett invests big chunk of Berkshire Hathaway's cash**

But the key change during the quarter was that Berkshire's mountain of cash shrank to \$106 billion from \$147 billion at the beginning of the year as it invested \$51 billion in equities. Buffett also spent \$3.2 billion repurchasing Berkshire stock.

**- Berkshire Hathaway Annual Meeting, April 30**





*We'll get you there.*

# Thank you!

Christopher Moss, CFA®

Senior Wealth Advisor

[chris.moss@CLAconnect.com](mailto:chris.moss@CLAconnect.com)

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# Digital Transformation: Harnessing Digital. Going Beyond Digitization.

Shary Dye, CLA



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# 20+ Years

## Construction Industry Experience

Commercial, Industrial, and Heavy Civil (GC's and Subcontractors)

# 18 Years

## Construction Software Specialization

Consulting, Implementation, Sales

ERP, Accounting, Job Cost, Project Management, Estimating, and mobile applications

Viewpoint, Sage, Maxwell Systems, Acumatica, Estimation, Quest Estimating, and more.

# 4 Years

## Public Accounting, CPA

Auditor for KPMG specializing in health care and construction verticals

Digital Practice at CLA – Leading Acumatica ERP team

# 500+

## Construction Organizations Served

Ranging from \$1M subcontractors to \$1B+ specialty, heavy civil and general contractors



**Shary Dye, CPA,**  
Shary.Dye@claconnect.com|  
608-347-1851

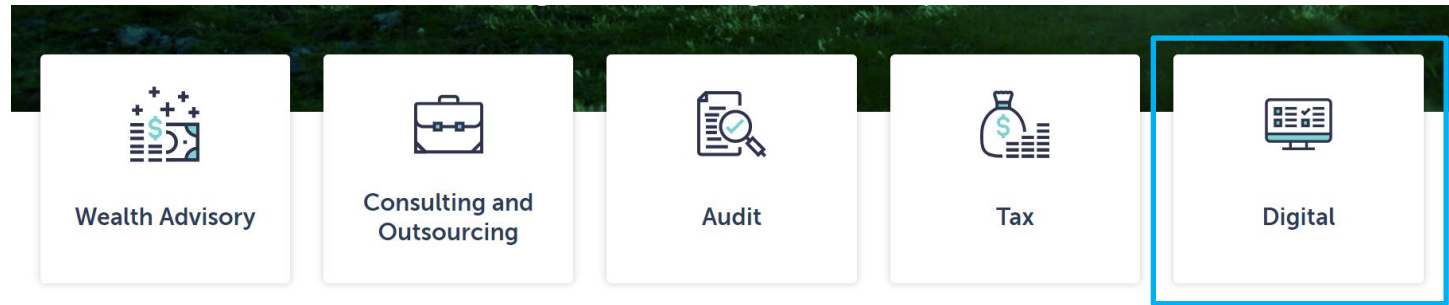
*My Passion: Evangelizing Technology to the Construction Industry*

*We'll get you there.*

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# Where is CLA now?



Collaborative  
Approach

- 7,500 Professionals
- 121 Locations
- 125+ Technologists in Digital



Customer  
Focused





# CLA Digital

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# CLA Digital Practice

## *CLA digital exists to help clients*



Grow faster



Increase productivity



Improve outcomes



Manage costs



Better Board and Donor  
Management



Improve competitiveness



Reduce customer/client churn



Reduce Risk



Improve employee retention

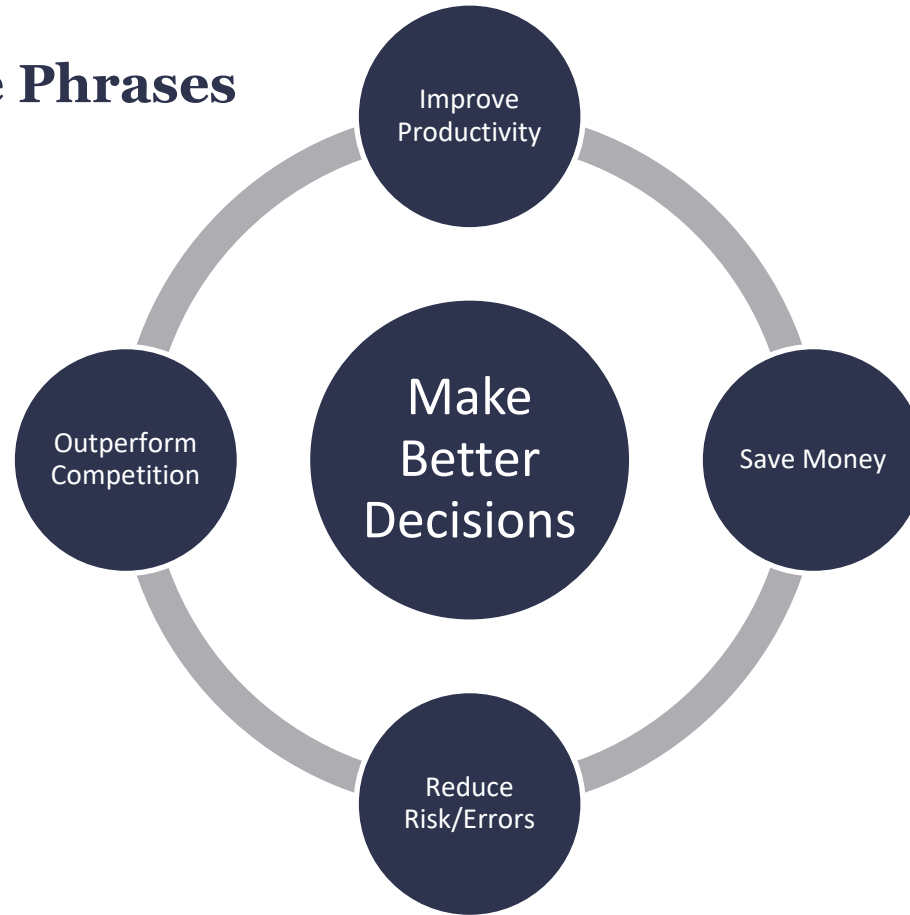


Prevent Disintermediation



# Value in Five Simple Phrases

---





# Digital Transformation has Become a Requirement.

---



# WHEN I WAS YOUR AGE...







**Baby boomers**  
**1946-1964**

Age: 58-76

**25%**

**Generation Z**  
**1996-2012**

Age: 10-26



**5%**

## **Current generations in the workforce**

**Generation X**  
**1965-1980**

Age: 42-57



**33%**



**35%**

**Millennials**  
**1981-1995**

Age: 27-41



# Digital Transformation

Industry  
Progress to Date

We have made progress towards  
*Digitization*

- We have experienced efficiencies in Digitizing Workflows and Tasks
- Fundamentally, it's predominately Business as Usual





# Digital Transformation

Industry  
Next Steps

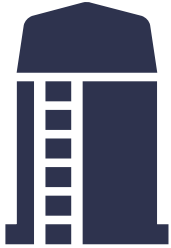
## We Need to Harness Digital to

- Predict outcomes, issues, risks
- Fundamentally change the way we operate and approach project delivery
- Uncover further process efficiencies and cost savings

*Digital Transformation is more than digitizing processes and tasks*



# Digital Silos vs Harnessing Data for Predictions



Yet.....

Still operate “the way we always have”

Still operate in silos – both people and data

Focus is still to look backwards at results and progress-to-date



**Not harnessing the power / value potential of Digital**

Harness data to Proactively monitor performance and risks

Predict risks and Outcomes

Fundamentally change the way we do business



# Digitization is not Digital Transformation



# Definitions



Digitization



AI



Predictive Analytics



Digital Transformation

**Digitization:** the process of converting information into a digital (i.e. computer-readable) format.

**AI: Artificial intelligence (AI):** Intelligence demonstrated by machines, as opposed to the natural intelligence displayed by animals including humans. (Google Search, Recommendation Ads – Amazon/Netflix, Siri and Alexa, Self Driving Cars)

**Predictive Analytics:** Use of statistical techniques from data mining, modelling, and machine learning that analyze current and historical facts to make [predictions](#) about future or otherwise unknown events. Exploit patterns found in historical and transactional data to identify risks and opportunities.

**Digital Transformation:** The adoption of Digital technology to transform services or businesses

Source: Wikipedia



# Predictive Analytics



Predictive Analytics

**Data-driven prediction (not logic or intuition driven)**

**Use historical data to understand past performance**

**Requires large quantities of data for accurate predictions**

**Uses automation and machine learning**

**Real-time, ongoing prediction of trends**



# Digitization – Simply the First Step

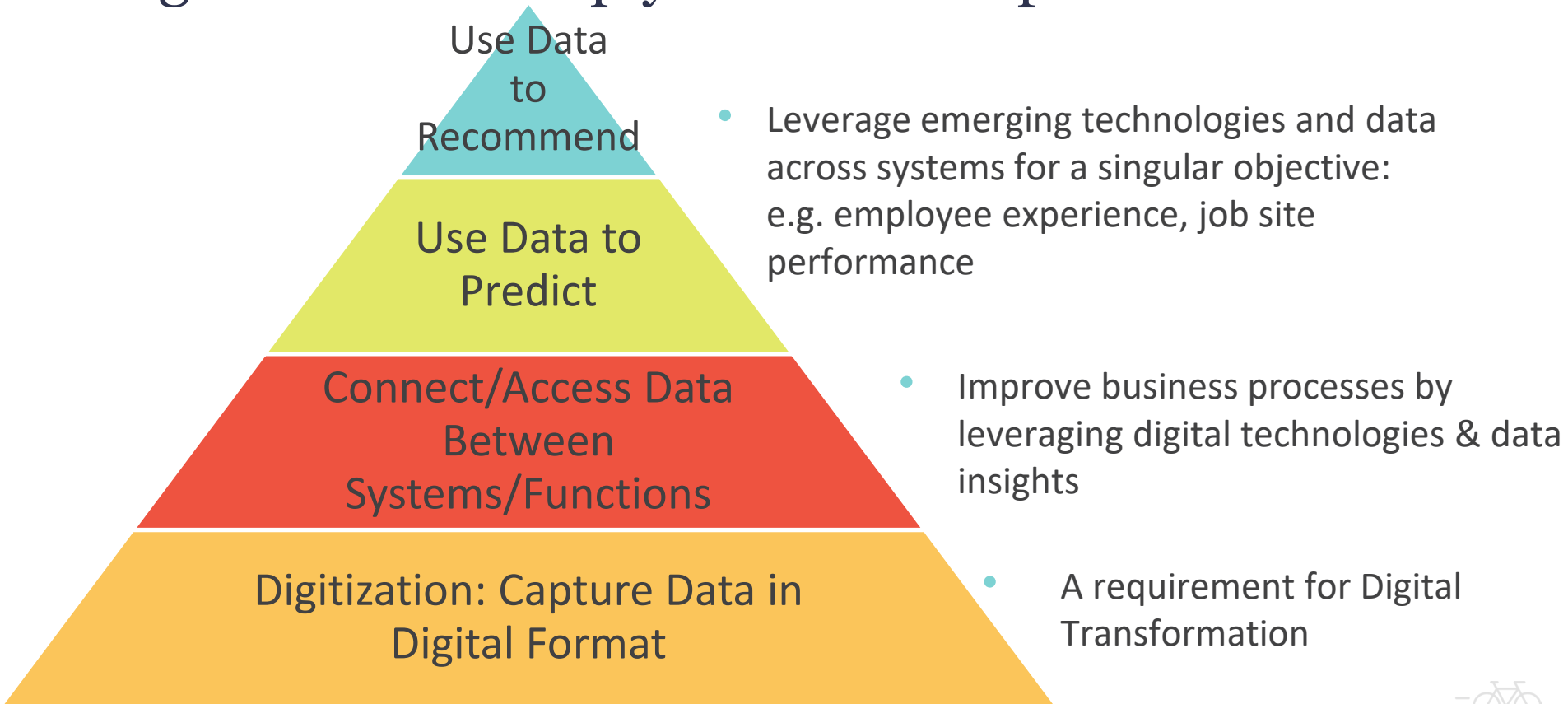


- A requirement for Digital Transformation
- Needs to be an Ongoing Investment/Reinvestment
- Provides the **DATA** for enacting other elements of Digital Transformation





# Digitization – Simply the First Step





# Industry Trends and Statistics

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The most  
dangerous phrase  
in the language is “we’ve  
always done it this way.”

Rear admiral Grace Hopper



# Workforce Shift - Employees Demand Technology

## Employee choice is no choice

Today's workforce is also a digitally native workforce. Therefore 20.8% will stick with or join an employer who provides them with the best tech for the job. Employee choice is also a significant satisfaction driver,

## A study of 1,000 office workers found...





# Digital Initiatives

## Real World Examples

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**33%**



**35%**

**Millennials**  
**1981-1995**

Age: 27-41

# CLA Digital Services Examples



## Catalyst Services

Assessments  
Benchmarking  
Process Re-Engineering Advisory  
Transformation Roadmap  
Change Management



## Data

Analytics & Reporting  
Early Warning Indication  
Loss Prevention  
Predictive Modeling  
Artificial Intelligence



## Automation

Software Implementation  
System Integration  
Process Automation  
Platform Optimization



# Ways CLA Can Help – Some Examples

---

- Employee Retention – Early warning indicators surfacing at-risk employees (Predictive Analytics)
- AI powered internal audit and anomaly detection (Fraud, overpayments, and more)
- AI driven preventive maintenance triggers
- Real-time Reporting, Analytics, & Dashboards (Across Platforms)
- Connect/Integrate ERP and Other Business Applications
- **ERP Solutions (Acumatica, Sage Intacct)**

## Digital

Rethink your business and turn emerging challenges into opportunities by working with a team that combines deep industry knowledge with technical know-how.





# Solution - Early Warning Indicator (EWI)

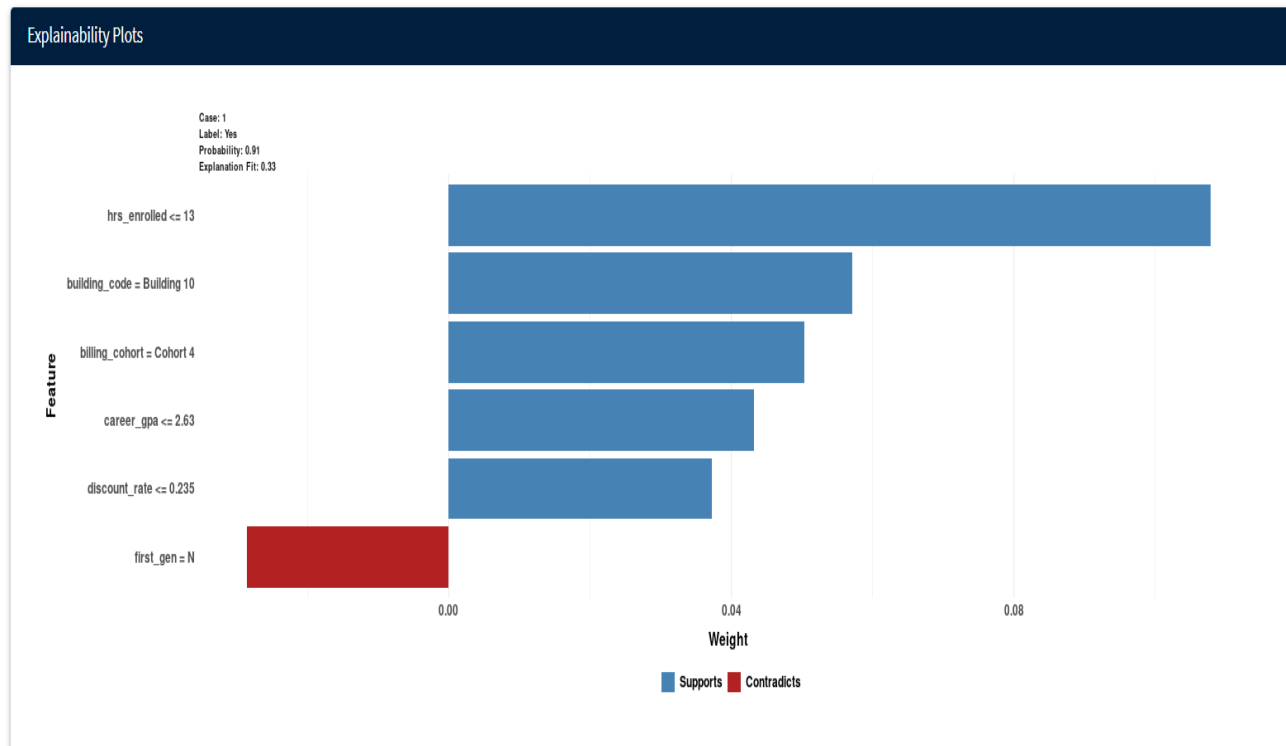
- Used Machine Learning to identify at-risk individuals
- Data based on factors provided by the client

Homeschooled	Num Sports	Double Major	Out Of State	Distance	F Event	Num Student	Major	Department	Advisor Name	Building Code	Prediction
N	Zero	No	No	4.39	Yes	2	Major 20	Department 4	Advisor 16	Building 10	92.73%
N	Zero	No	No	6.92	Yes	2	Major 20	Department 4	Advisor 16	Building 10	91.39%
N	Zero	No	Yes	3000	Yes	1	Major 20	Department 4	Advisor 16	Building 1	90.13%
N	Zero	No	Yes	3000	Yes	3	Major 20	Department 4	Advisor 16	Building 1	89.81%
N	One	No	No	33.91	Yes	18	Major 2	Department 7	Advisor 16	Building 9	87.44%
N	Zero	No	No	11.53	Yes	22	Major 6	Department 3	Advisor 16	Building 10	87.04%
N	Zero	No	No	112.17	Yes	14	Major 14	Department 7	Advisor 16	Building 10	86.81%
N	Zero	No	No	93.93	Yes	22	Major 15	Department 2	Advisor 16	Building 10	86.81%
Y	Zero	No	No	28.22	Yes	22	Major 6	Department 3	Advisor 16	Building 10	86.74%
N	Zero	No	No	25.12	Yes	33	Major 4	Department 2	Advisor 17	Building 10	85.42%



# Solution – Early Warning Indicator (EWI)

- This student – 91% chance of leaving
  - Less than 13 hrs enrolled
  - Lives off campus
  - Low GPA
  - Didn't get much scholarship (i.e., discount rate)
- This model can be tailored to use any data
  - Employee retention solution
  - Client retention solution



# Duplicate Payment Identification

## Vendor Potential Duplicate Payment Analysis

Data date range begins with Aug 29, 2020 and ends with Aug 27, 2021

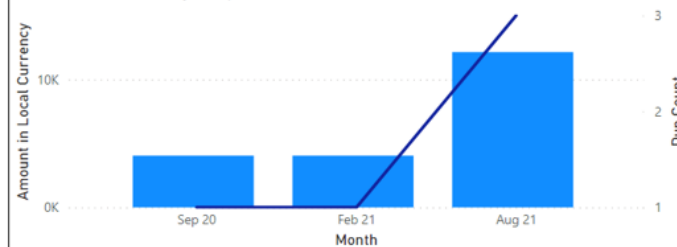
### Duplicates by Vendor Summary

Vendor Name 1	Count of Dup Amounts	Dup Count	Sum of Dup Amount
Example Vendor	1	5	20,249.30
<b>Total</b>	<b>1</b>	<b>5</b>	<b>20,249.30</b>

Find vendors with potential duplicates

### Amount in Local Currency and Dup Count by Month

Amount in Local Currency Dup Count



Trend results over time with counts, by type

### Duplicates by Vendor by Amount

Vendor Name 1	Amount Duplicated	Dup Count	Sum of Dup Amount
Example Vendor	4,200.00	3	12,600.00
	4,200.00	4	16,800.00
	4,200.00	3	12,600.00
	4,160.00	4	16,640.00
	4,150.50	5	20,752.50
	4,130.22	2	8,260.44
	4,062.33	11	44,685.63
	<b>4,049.86</b>	<b>5</b>	<b>20,249.30</b>
	4,032.00	3	12,096.00
	4,014.48	2	8,028.96
	4,000.00	12	48,000.00
<b>Total</b>		<b>2122</b>	<b>32,121,005.50</b>

Identify amounts by vendor to assess potential impact

Account Name 1	Document Number	Posting Date	Amount in Local Currency
Example Vendor	00745317	8/26/2021	4,049.86
Example Vendor	700003326	8/26/2021	4,049.86
Example Vendor	700003327	8/26/2021	4,049.86
Example Vendor	000106520	2/24/2021	4,049.86
Example Vendor	000101143	9/28/2020	4,049.86
<b>Total</b>			<b>20,249.30</b>

Details about specific potential duplicates



# Ways CLA Can Help – Some Examples

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- **ERP Solutions (Acumatica, Sage Intacct)**

## Digital

Rethink your business and turn emerging challenges into opportunities by working with a team that combines deep industry knowledge with technical know-how.



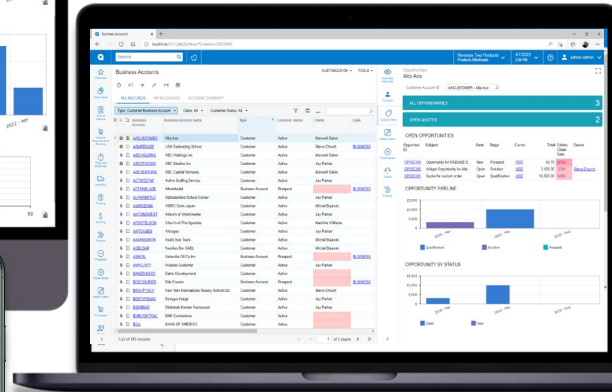


# Acumatica

The Cloud ERP



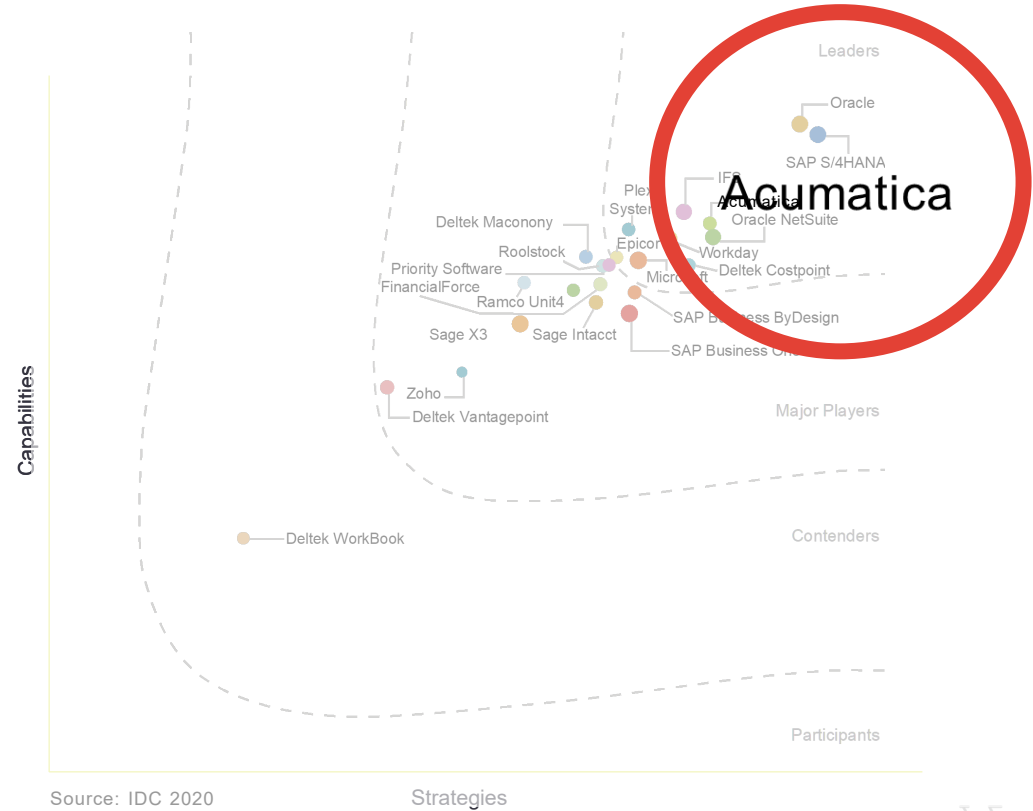
# Access Sales From Anywhere on any Device with Natural Language





## Acumatica a **Leader** in Midmarket Cloud ERP

“The references noted that Acumatica is simple and easy to use and reduces overall click count through streamlined workflows.”



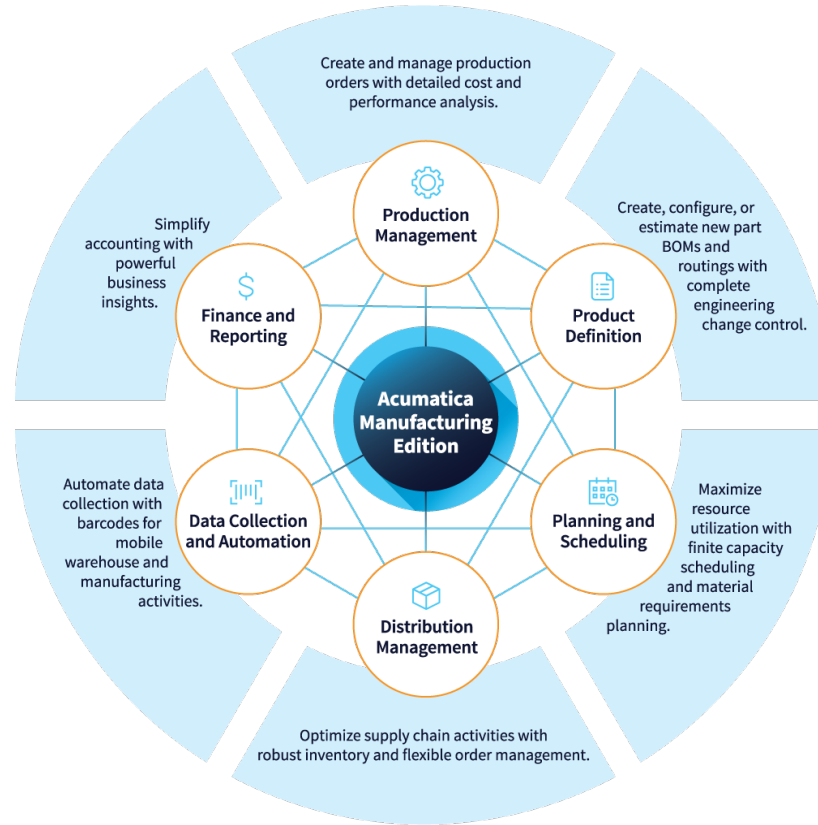


# Nucleus Research

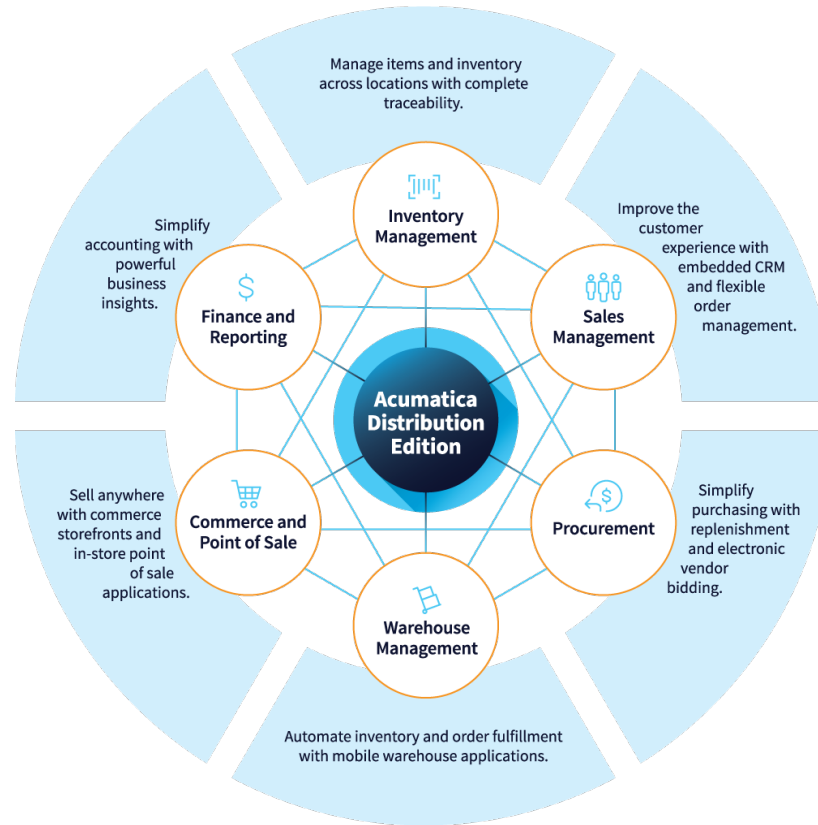
Ranked Highest in Usability



# Manufacturing Edition



# Distribution Edition



**Detailed Examples of  
Value that True Cloud ERP  
Delivers**



# Acumatica ROI Quotes from Customer Testimonials and Case Studies (In no particular order):

- Increased productivity
- \$750,000 savings in IT costs
- Gained remote access to the ERP, boosting productivity
- Reduced time to train new employees
- Cut payroll processing time nearly 100 percent, from 1.5 days to just 10 minutes
- Eliminated extra processing steps, streamlining operations, and saving time
- Providing more timely information to customers, unions and subcontractors
- Saving countless hours
- Boosted employee productivity
- Reduced onboarding and training time with an intuitive application
- Automated Work In Progress calculations, reducing 1.5 days of manual calculations to 10 minutes
- Eliminated status calls and inquiries from the field saving considerable time
- Paving the way for future growth
- Achieved accurate inventory management
- Uncovered misuse of resources
- Obtained accurate production-related data, improving cost center management boosting the bottom line
- Improved customer experience with the use of push notification, notifying customers of on-site deliveries
- Allowing them to build houses on-time and in-budget



# Acumatica ROI Quotes from Customer Testimonials and Case Studies (In no particular order):

- Allowing executives to get ahead of supply chain issues
- Gained ability to measure credit worthiness of vendors and customers
- Obtained critical data on which to make strategic decisions, growing revenues throughout the pandemic
- Eliminating errors and confusion while boosting profits
- Gained field access to critical data, allowing project managers to make better and faster decisions
- Eliminated the need for 50 banker boxes of paper annually, saving time locating older projects
- Avoided hiring additional staff in finance, scaling transaction volume more efficiently
- Improved the customer experience, shipping products 50 percent faster, exceeding consumer expectations
- Gained one centralized ERP, increasing business performance visibility for management
- Provided information instantly, shaving time spent gathering data for reporting from hours to minutes
- Easy-to-use solution, one that managers and employees love
- Improved inventory accuracy, streamlining operations and saving warehouse manager's time
- Lowered month-end closing from months to less than 11 days, freeing CFO's time
- Avoided hiring additional accounting staff as transactions grew, keeping employee count stable
- Returned 25 percent of accounting clerks time to complete more strategic finance initiatives



# Acumatica ROI Quotes from Customer Testimonials and Case Studies (In no particular order):

- Closed financial statements in a third of the time, closing in only 5 days rather than 15
- Gained real-time visibility into financial operations fortifying strategic business decisions
- Gained improved access to information and data from job sites
- Configured subcontractor insurance compliance workflow, lowering the company's risk profile
- Eliminated duplicate entry into multiple systems, saving employees time and reducing errors
- Obtained one week every month for CFO to spend on strategic business initiatives
- Shaved 10 hours per week of payroll supervisors time to take on new responsibilities
- Consolidated time and expense reporting into a single source of data, eliminating manual reconciliations
- Improved total gross margins at least 15 percent with better visibility into operations
- Eliminated time the Finance Team spent assisting project managers by 20 percent giving them more time for higher level tasks
- Gained an edge in recruiting new staff
- Automated and improved the vendor and subcontractor approval process
- Dramatically reduced time to invoice, improving cash flow



The background of the slide is a vibrant blue, densely populated with numerous speech bubbles of various colors including red, yellow, pink, and white. Each bubble contains a large, dark blue question mark, creating a pattern that suggests a multitude of questions or inquiries.

**Questions?**



# More Information: Contact CLA Digital



Shary Dye, CLA Digital Practice  
[shary.dye@CLAconnect.com](mailto:shary.dye@CLAconnect.com)  
608-347-1851

Contact any CLA office/partner

<https://www.claconnect.com/services/digital>





*We'll get you there.*

# Thank you!

Shary Dye, CPA

Director, Digital Practice Digital

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# Owner Transition Services

Lisa Horn, CLA

*We'll get you there.*

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# Learning Objectives

- Know when to start transition planning
- Understand what transition readiness is
- Leave with a tangible 3-step action plan



# Why Plan for Transition?

## More likely to:

- Meet personal/financial goals
- Leave behind a sustainable company
- Protect your legacy
- Take care of employees/family
- Capitalize on unforeseen opportunities



# Why Plan for Transition?

## Less likely to:

- Leave money on the table
- Rush the process
- See the business fail post transition
- Experience even greater loss from one of the 5 Ds



# The 5 Ds

Death

Divorce

Disability

Distress

Disagreement



Does the next generation understand how much work it is to run a business?  
Can this business even support a next generation?  
Will my team members feel that I abandoned them?  
Who has the knowledge I do?  
Is the next generation ready to run the business?  
Do my kids even want to be in the business?  
Will I be able to fully step away?  
Where do I go when I need the business?  
How much is my business worth?  
What if the next generation can't run it and I have to step back in?  
How much money do I need to retire?  
Is my leadership team strong enough?  
How will my customers handle me not being here?  
Will the next owners expect me to work in the business after I sell?  
Will my relationship be okay if I'm home more?  
If I sell the business how will I know the next owners will take care of my team?

# STARTING THIS PROCESS CAN FEEL OVERWHELMING.





# Bringing Owners “Peace of Mind”



# When Should You Start?

Now.



# The Truth Is:

- Your business should be prepared for an exit at anytime
- The fixes are not usually quick fixes – takes time
- Business transition is usually emotionally complex
- Your business is likely your biggest asset; you do not want to make any mistakes



# What Do I Need to Do?

- Three Pillars of a Successful Transition
  - ✓ Personal readiness
  - ✓ Personal financial readiness
  - ✓ Business readiness



# Pillar 1: Personal Readiness

Plan for what you will do in your next act after exiting your business.



# Pillar 2: Personal Financial Readiness?

Prepare financially for a lifestyle without the income from your business.



# Pillar 3: Business Readiness

Maximize the transferable value of your business.



# Buyer's Eyes

- Financial performance
- Growth potential
- Overdependence
- Cash flow
- Recurring revenue
- Unique value proposition
- Customer satisfaction
- Strength of the management team





# Best Thing That You Can Do

- Decentralize yourself – moving from the business being dependent on you to the business being independent of you



# Advisory Team

- Owner transition advisors
- Quality of earnings
- M&A/Investment banking
- Talent solutions
- Tax professional
- Wealth advisor
- Valuation
- Gift estate and trust
- Bankers
- Others as necessary



# What Does a Good Transition Consist Of?

The owner feels

- They were treated fairly
- A sense of accomplishment
- At peace
- That they have discovered a new sense of purpose
- Proud that the company carried on



# Key Takeaways

- Transitions can be complex and take time to navigate well.
- This is likely the biggest financial transaction of your life. Plan accordingly.
- Start early to reduce risk and maximize value and sustainability.
- Surround yourself with the right team of advisors



# Action Plan

Over the next 30 days:

1. Visualize where you will be one year after exiting your business.
2. Evaluate your current advisory team? Do you have the right people at the table
3. Identify and make one change in your business or in your behavior to decrease the dependence your business has on you.





*We'll get you there.*

# Thank you!

Lisa Horn, CEPA

Principal

Owner Transition Services

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# Closing Thoughts – Any Questions?

## THANK YOU!



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