

# Webinar to Begin Shortly

Quarterly Update – Q4 2021

## Event Disclaimer

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# Quarterly Update

## Q4 - 2021

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January 12, 2022

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# Housekeeping

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## CPE Credit

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- Polling questions to complete
- Certificates will be emailed

## Replay Link

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- Sent out subsequent to presentation
- PowerPoint will also be available

## Q&A

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- Submit any questions
- Questions will be addressed at end or via email

## Feedback Welcomed

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- Please submit feedback
- Goal of always getting better

# Upcoming Events

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- Lunch and Learn: European American Chamber of Commerce
  - “Lets Talk Taxes: A Legislative Update” and “The Power of Your Data: Insights and Analytics”
  - (January 13, 2022: 11:45 – 1:30pm *\*IN-PERSON EVENT\** Elliott Davis Greenville Office)
- Financial Services Q1 Update (April 7, 2022: 2:00 - 3:00pm)
- Keep checking - more to come!

-- Please visit [elliottdavis.com/events](https://elliottdavis.com/events) to register --

# Agenda

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- Leases: The Effect and Implementation of ASC 842
- Cybersecurity Trends and Current Priorities



# Presenters

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# Leases: The Effect and Implementation of ASC 842

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# ASC 842: Big Picture

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- Core idea – Lessees recognize assets and liabilities created from control over the use of a leased asset
- Effective for private companies for annual periods beginning after December 15, 2021
- Significant impact to balance sheet presentation
  - Right-of-use (ROU) asset
  - Accompanying lease liability
- Impacts income statement classification
  - Rent/lease vs. interest and amortization
  - EBITDA

# Lease Classification - Lessees

ASC 842 (new)	ASC 840 (old)
Operating	Operating
Finance	Capital

# Finance Lease Criteria

ASC 842 ( <i>finance lease</i> )	ASC 840 ( <i>capital lease</i> )
Title transfer	Title transfer
Purchase option is reasonably certain to be exercised	Bargain purchase option present
Lease term is for major part of economic life of leased asset	Lease term is at least 75% of the economic life of leased asset
Sum of lease payments is equal to or exceeds the fair value of the leased asset	Sum of lease payments are at least 90% of the fair value of the leased asset
Underlying asset is specialized and will have no alternative use at the end of the lease	

# Operating vs. Finance

	Operating lease	Finance lease
<b>Calculation of the asset at commencement</b>	Asset is established at the present value of future lease payments	
<b>Income statement impact</b>	Interest and amortization are combined as lease/rent expense	Interest and amortization are presented separately

# Discount Rates

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- Necessary to determine the appropriate discount rate for PV calculation
- Implicit rate in lease
  - Rate that causes the aggregate PV of the lease payments + amount the lessor expects to derive from the asset at end of lease term = FV of underlying asset and any deferred initial direct costs of the lessor
  - Takeaway: Uncommon that the implicit rate will be known as it requires the lessee to know certain facts from the lessor's perspective
- Incremental borrowing rate
  - Rate entity would incur if an outright purchase was financed through debt
- Private company election to apply the risk-free rate



# Basic Example

- Lease Terms:
  - Term: 4 years
  - Annual payments:
    - 1: \$10,000
    - 2: \$11,000
    - 3: \$12,000
    - 4: \$13,000
  - Rate: Implicit unknown; incremental = 6%

# Example – Finance vs. Operating

BOTH		FINANCE LEASE				OPERATING LEASE (SL)		
		Interest	Amortization	Total lease exp		Reduction in		
		(Liab x rate)	(ROU / Term)	(Int + AM)	ROU asset	Lease exp	ROU asset	ROU asset
						(SL of PMTs)	(SL - Int)	
Beg	\$ 39,596				\$ 39,596			\$ 39,596
1	\$ 31,972	\$ 2,376	\$ 9,899	\$ 12,275	\$ 29,697	\$ 11,500	\$ 9,124	\$ 30,472
2	\$ 22,890	\$ 1,918	\$ 9,899	\$ 11,817	\$ 19,798	\$ 11,500	\$ 9,582	\$ 20,890
3	\$ 12,263	\$ 1,373	\$ 9,899	\$ 11,272	\$ 9,899	\$ 11,500	\$ 10,127	\$ 10,763
4	\$ -	\$ 736	\$ 9,900	\$ 10,636	\$ -	\$ 11,500	\$ 10,764	\$ -
			\$ 39,597	\$ 46,000		\$ 46,000	\$ 39,597	

# Basic Example – Journal Entries

BOTH			FINANCE LEASE					OPERATING LEASE (SL)								
			Interest		Amortization		Total lease exp		Reduction in ROU							
Lease Liab			(Liab x rate)		(ROU / Term)		(Int + AM)		Lease exp		Asset					
									(SL of PMTs)		(SL - Int)					
ROU asset											ROU asset					
Beg	\$	39,596						\$	39,596				\$	39,596		
1	\$	31,972	\$	2,376	\$	9,899	\$	12,275	\$	29,697	\$	11,500	\$	9,124	\$	30,472
2	\$	22,890	\$	1,918	\$	9,899	\$	11,817	\$	19,798	\$	11,500	\$	9,582	\$	20,890
3	\$	12,263	\$	1,373	\$	9,899	\$	11,272	\$	9,899	\$	11,500	\$	10,127	\$	10,763
4	\$	-	\$	736	\$	9,900	\$	10,636	\$	-	\$	11,500	\$	10,764	\$	-
					\$	39,597	\$	46,000			\$	46,000	\$	39,597		

Inception:	FINANCE LEASE					OPERATING LEASE (SL)				
			DR	CR				DR	CR	
	ROU Asset	\$	39,596			ROU Asset	\$	39,596		
	Lease Liab			\$	39,596	Lease Liab			\$	39,596
EOY1:	Amortization	\$	9,899			Rent	\$	11,500		
	Interest expene	\$	2,376			Lease Liab	\$	7,624		
	Lease Liab	\$	7,624			Accum am - ROU			\$	9,124
	Accum am - ROU			\$	9,899	Cash			\$	10,000
	Cash			\$	10,000					

# Other Common Items - CAM

- Option 1: Include as lease component
  - Rolls up into the ROU asset
- Option 2: Separate from lease component
  - Must allocate a portion of the total consideration to the CAM
  - Impacts the initial calculation of ROU asset

# Other Common Items – Renewals

- Generally, this will be considered a lease reassessment
- Remeasure the liability to reflect the revised payments
  - Use the discount rate at date of remeasurement
  - Adjust the ROU by the amount of the remeasurement of the liability
  - If the adjustment reduces the ROU asset to \$0, the remaining reduction of the lease liability hits in the P&L
- Reassess lease classification based on criteria from earlier slide
  - If classification changes, adjust the remaining cost recognition pattern and presentation in the P&L to the new classification



# Disclosures

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- General description of leases
- Existence and terms regarding potential extensions/terminations
- Sublease information
- Significant judgements made in applying ASC 842
  - Determination of discount rate
  - Allocation between lease and non-lease components

# Disclosures - Continued

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- Amounts segregated for finance and operating leases
  - Cash paid for amounts included in the measurement of lease liabilities
  - Weighted-average remaining lease term
  - Weighted average discount rate

# Cybersecurity Trends & Current Priorities

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# Current Trends

The New York Times

## Ransomware Disrupts Meat Plants in Latest Attack on Critical U.S. Business

All of JBS's beef plants in the U.S. were shuttered or and many of its pork and poultry plants were affected to a union and Facebook posts meant for employees

Survey: Nearly Half of Manufacturers Suffered a Digital Attack in the Last Year

DIVE BRIEF

## FTC threatens enforcement on firms lax about Log4j vulnerability

Published Jan. 5, 2022

CYBERSECURITY DIVE

By David Jones  
Reporter

in f t p e

## WSJ PRO CYBERSECURITY

PRO CYBER NEWSLETTER

## Cyber Daily: Cyberattack Takes Down Systems at Molson Coors

March 12, 2021 8:56 am ET | WSJ PRO



CNN

Ransomware attackers used compromised password to access Colonial Pipeline...

1 month ago



Ransomware hackers demand \$70m after attack on US software firm Kaseya

1d ago

The New York Times

## T-Mobile Says Hack Exposed Personal Data of 40 Million People

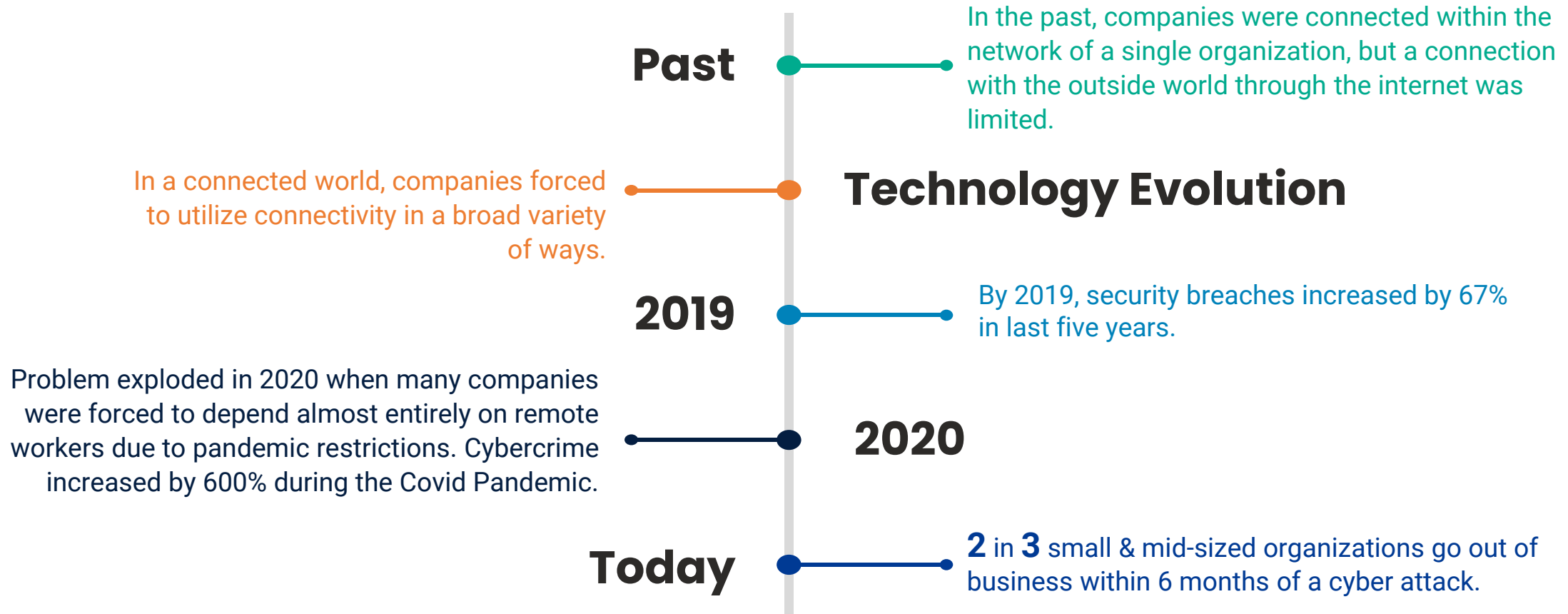
The company said that stolen files included the personal information of 7.8 million current customers and 40 million people who had applied for credit.

f t p e



Store in Manhattan. Justin Lane/EPA, via Shutterstock

# History of Cyberattacks



**Ransomware Attack Occurs Every 11 Seconds | Average Downtime for Businesses After an Attack is 9.6 Days**



# Top 7 Cyber Threats

1

**Phishing:** Long supply chain with interconnected companies | User of systems never intended to be connected externally | Fragmented systems across departments

2

**Ransomware:** Time is money, a.k.a., downtime is expensive!

3

**Internal Breaches:** Nearly 30% of attacks come from employees or other personnel with access to the company

4

**Equipment Sabotage:** Malware that accesses and interrupts Operational systems

5

**IP Theft:** Intellectual Property that is attacked, reproduced or transferred in seconds

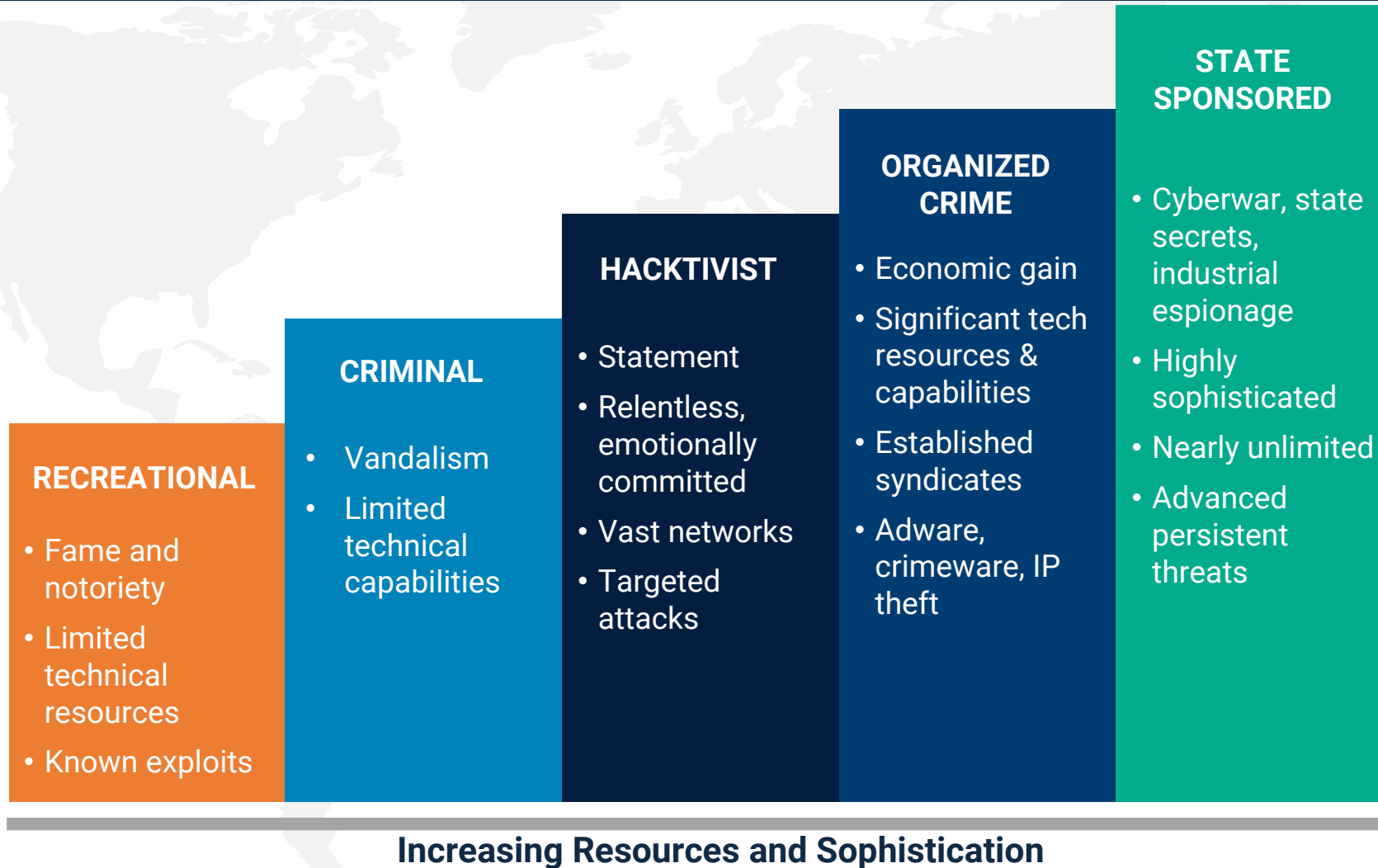
6

**Supply Chain Attacks:** Hackers gain access to major companies through partners and suppliers | Example: Colonial Pipeline in May 2021

7

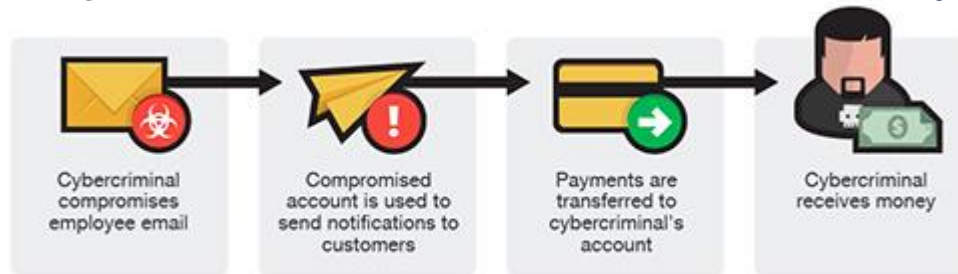
**Nation-State Attacks:** Nation-state threat actors are well-funded, highly trained, and have access to high-tech tools that could make them more difficult to detect

# Understanding Threats

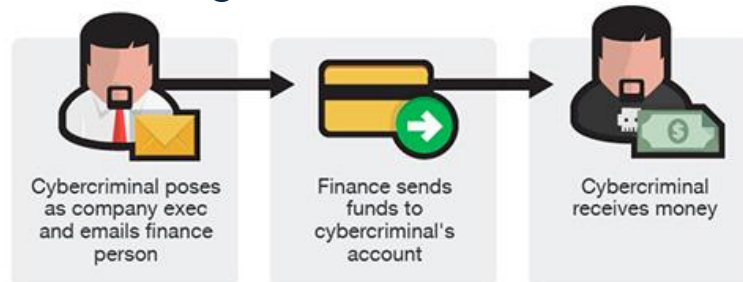


# It is Easier to Move Money

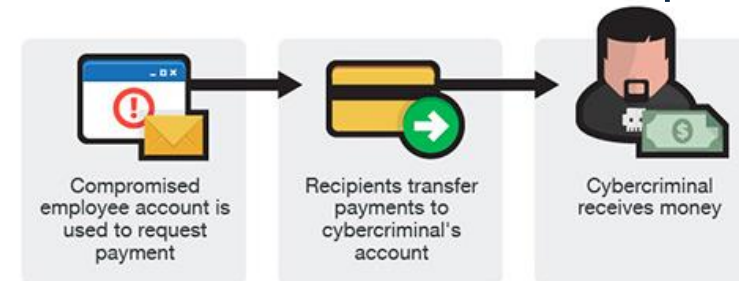
## Bogus Invoice Scheme From Third Party



## High Ranking Official Scheme

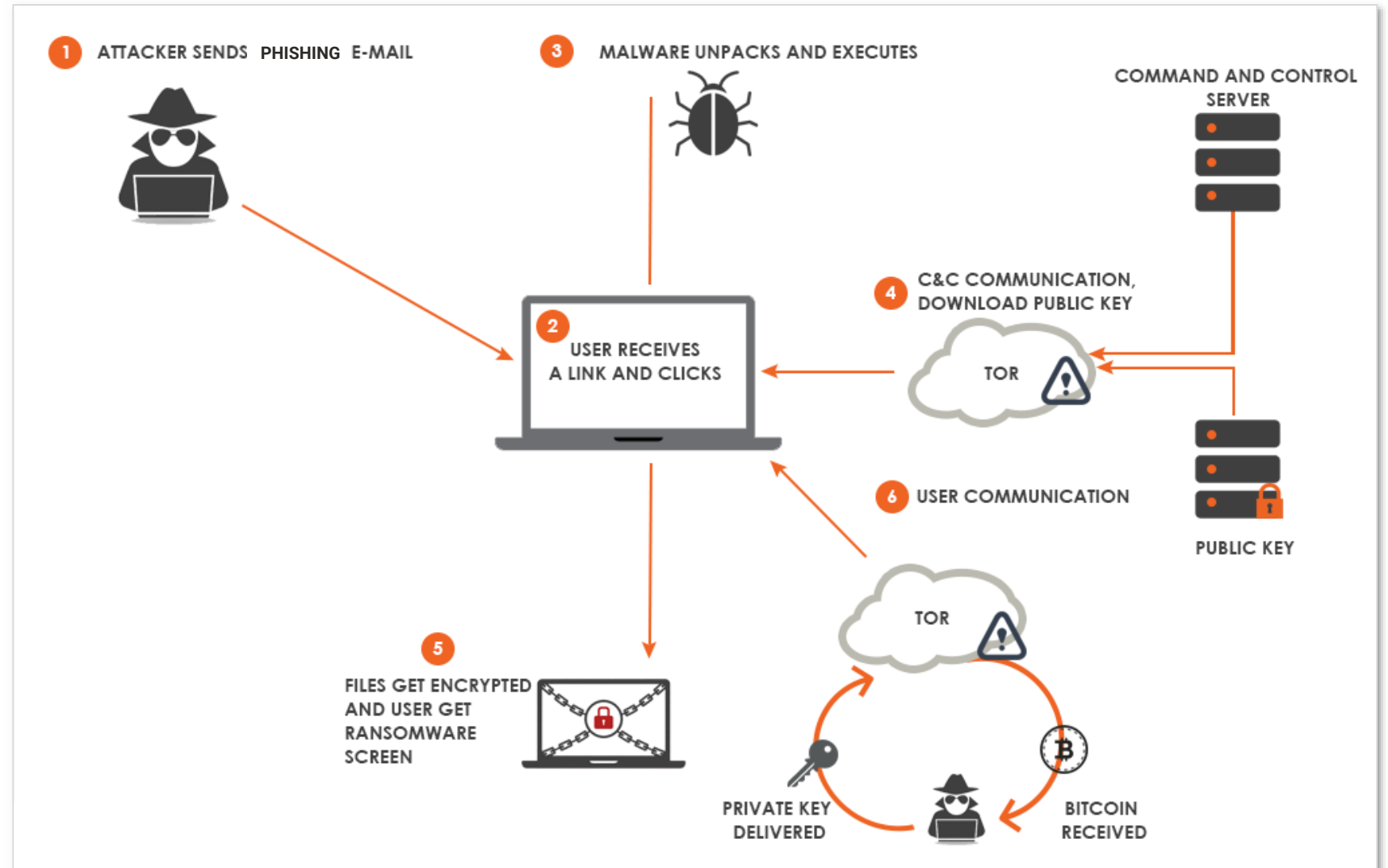


## Internal Email Account Compromise



# Ransomware Example

76% of attacks typically happen during the night or on weekends



# Initial Steps to Protection

## #1 Cybersecurity Assessment: A Scorecard to Measure Your Risk

- Designing a comprehensive cyber defense strategy begins with analyzing your current security posture
- It is critical you leverage a known cybersecurity framework to rate your cybersecurity program maturity
- Our proprietary scoring of the Center for Internet Security Critical Controls will give your organization an overview of its current cybersecurity posture

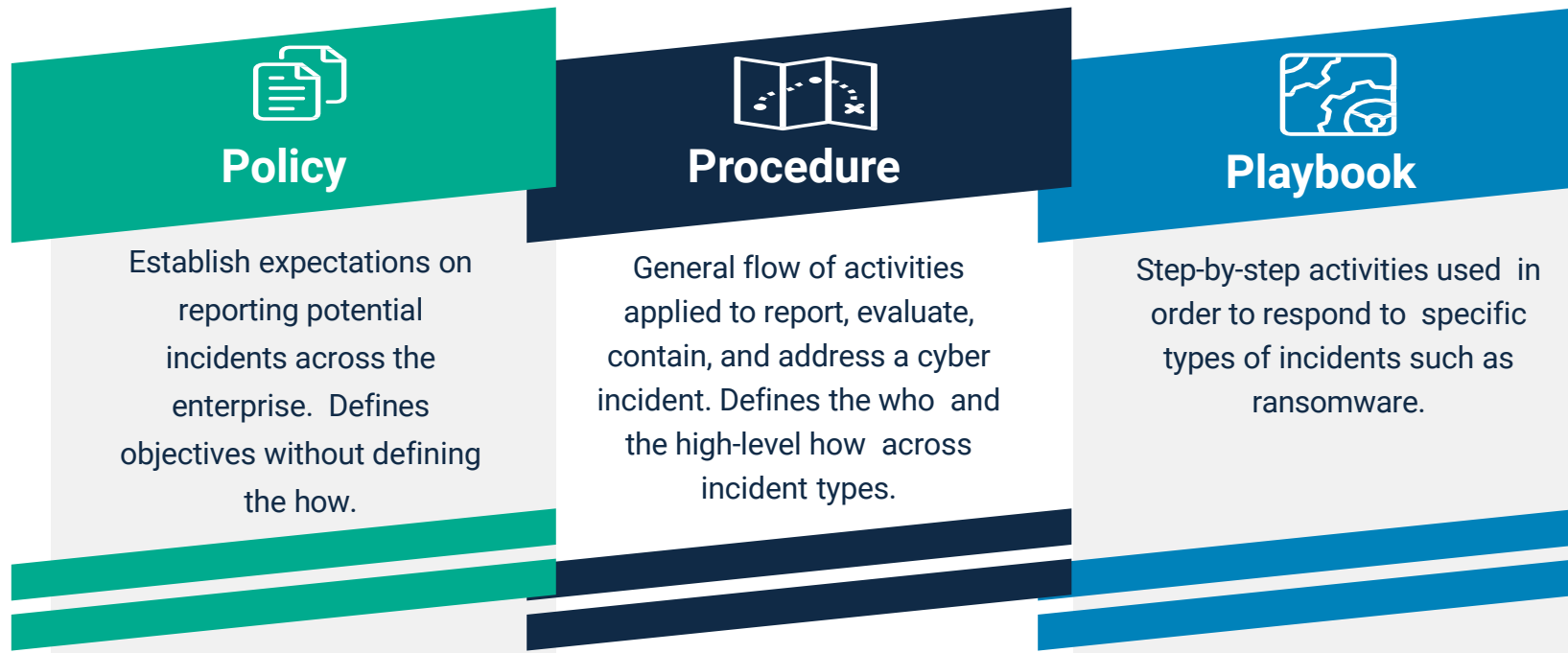
CIS Control	Policy	Implementation	Reporting	Weighted Average	Grade
1 Inventory and Control of Enterprise Assets	60%	77%	70%	75%	C
2 Inventory and Control of Software Assets	56%	71%	72%	70%	C-
3 Data Protection	48%	59%	57%	58%	F
4 Secure Configuration of Enterprise Assets and Software	79%	81%	85%	81%	B-
5 Account Management	70%	87%	87%	85%	B
6 Access Control Management	63%	86%	83%	83%	B
7 Continuous Vulnerability Management	46%	60%	58%	58%	F
8 Audit Log Management	53%	72%	72%	70%	C-
9 Email and Web Browser Protections	70%	87%	87%	85%	B
10 Malware Defenses	100%	100%	93%	99%	A+
11 Data Recovery	70%	93%	89%	90%	A-
12 Network Infrastructure Management	66%	80%	80%	79%	C+
13 Network Monitoring and Defense	57%	52%	52%	53%	F
14 Security Awareness and Skills Training	63%	79%	79%	77%	C+
15 Service Provider Management	53%	69%	69%	67%	D+
16 Application Software Security	67%	85%	84%	83%	B
17 Incident Response Management	42%	66%	28%	60%	D-
18 Penetration Testing	67%	80%	79%	79%	C+
<b>Overall Grade</b>	<b>63%</b>	<b>75%</b>	<b>73%</b>	<b>74%</b>	<b>C</b>



# Initial Steps to Protection

## #2 Develop an Incident Response Plan (IRP)

- Cyber incidents can change from minor disruptions to major data breaches based on how you respond
- A good IRP provides guidelines of what to do in case of a cyber attack; it includes things like – who to contact, what to do, where to meet, how to communicate, when to engage outside support, and more
- Approach should focus on preparing you and your organization with the processes, tools, and capabilities to identify and respond to a cyber attack



Q&A

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Thank You!

# About Elliott Davis

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Elliott Davis LLC is a leading business solutions firm offering a full spectrum of services in the areas of tax, comprehensive assurance, and specialized consulting services to diverse businesses, organizations, and individuals. The firm, which has been providing innovative solutions since its founding in 1920, leverages a network of nearly 800 forward-thinking professionals in major domestic markets and alliance resources across the globe.

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