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Texas Society of Certified Public Accountants

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RECOGNIZING OUR RISING STARS

By TXCPA Chairman Jason Freeman, JD, CPA-Dallas

Let's Chat!

I'd love to hear your feedback and answer your questions. Send me a note at chairman@tx.cpa.

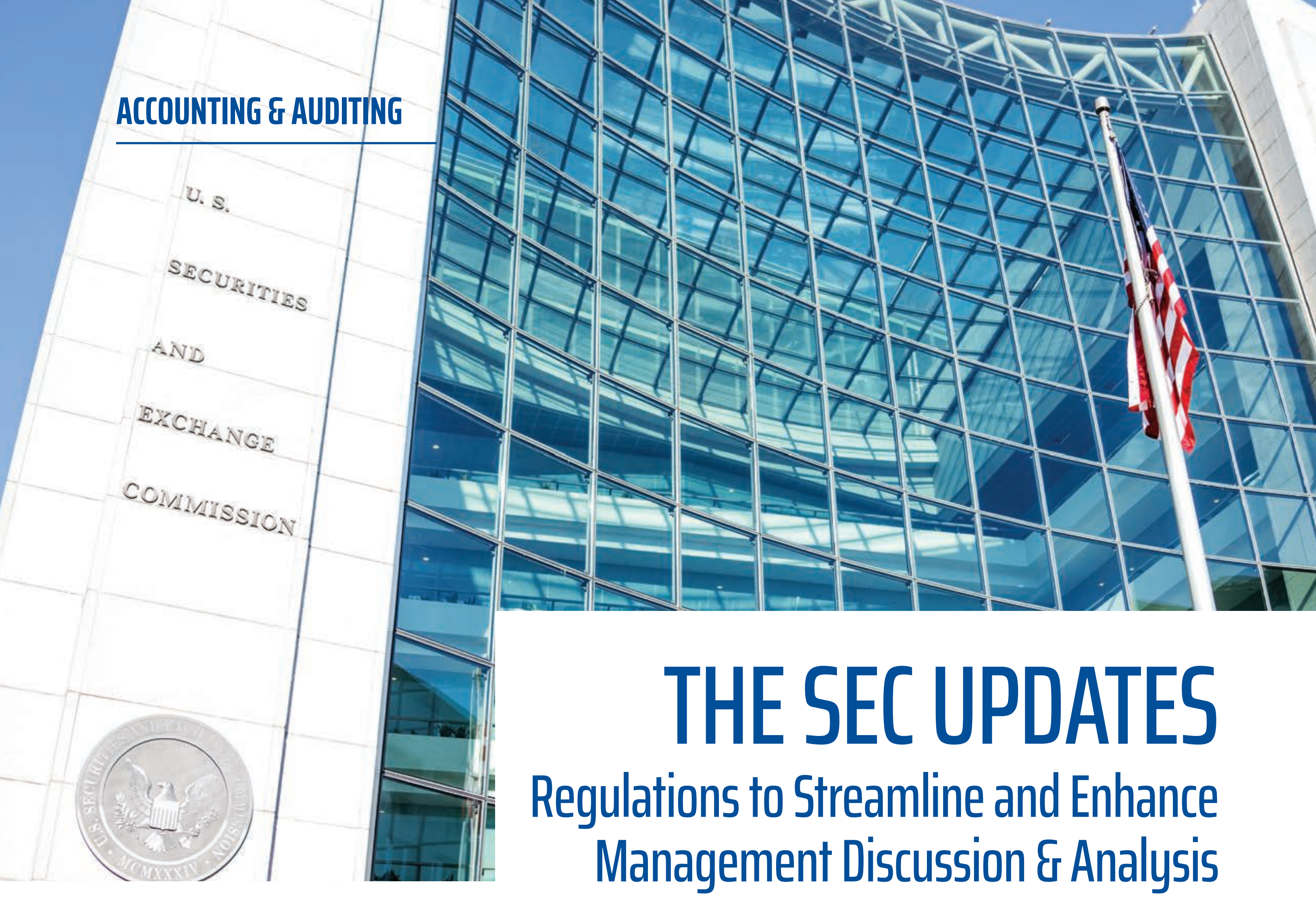
Your November/December issue of *Today's CPA* has arrived! Whether you're reading the print copy from your mailbox or clicking through the digital version at www.todays.cpa, we know you'll enjoy this issue. You won't want to miss the cover story on our 2021 Rising Stars – the future of our profession.

When reading their profiles beginning on page 18, we know you'll see the many reasons these 19 members were recognized as up and comers in TXCPA, the accounting profession and their communities. We send our heartfelt congratulations to each of these young CPAs and can't wait to watch them continue to soar.

We're seeking nominations for our 2022 Rising Stars and welcome your input. Visit www.tx.cpa to find details on submitting a nomination through our simple online process. The deadline is December 31, 2021.

Also coming up is our annual TXCPA Month of Service. This is an exciting time to be involved as we mobilize our 28,000 members to give back in December with financial literacy education and service. Contact your chapter to find out how you can be involved in planned outreach near you or visit the website to find resources in The CPA Advantage toolkit to prepare for outreach on your own.

We wish you the best this holiday season! We are very grateful for your membership and trust in TXCPA!



THE SEC UPDATES

Regulations to Streamline and Enhance Management Discussion & Analysis

By Don Carpenter, MSAcc/CPA

The Securities and Exchange Commission (SEC) has issued amendments to Regulation S-K to update information that is required to accompany the financial statements and supplemental disclosures in the quarterly 10-Q and annual 10-K. These revisions are intended to eliminate duplicative reporting and reflect the increased accessibility to financial filings available electronically.

Management Discussion & Analysis (MD&A) is the primary focus of the amendments, but other disclosures are affected as well. The requirement to include selected financial information for the preceding five fiscal years in tabular format under Item 301 has now been eliminated.

Likewise, Item 302 previously required that certain financial information be reported by quarter for the current and prior fiscal period. This requirement has also been eliminated unless a material retrospective change has been made that amends an included quarter, in which case the affected quarter must be included, as well as an explanation of the change. Both of these revisions reflect the SEC's view that prior period information is readily accessible electronically and duplicating that information is not beneficial.

Most of the amendments focus on MD&A. These changes may most effectively be described in list format:

1. Prospectively, MD&A will begin with a statement of the section's objective. The statement should make clear to the reader that the purpose of MD&A is to explain the financial results from the "perspective of management." This includes management's assessment of financial condition, results of operations and cash flows, as well as any material conditions or uncertainties that they consider might indicate these results are not indicative of future results.

2. Prior to amendment, registrants were required to disclose material capital expenditure commitments, as well as capital resources and liquidity. In addition, a tabular disclosure of contractual obligations was required as a separate disclosure later in MD&A. These requirements are now combined. Prospectively, the disclosure will address "material cash requirements" and the capital resources that will be relied upon to meet these requirements.

3. In the discussion of the results of operations, there is no longer a specific requirement that registrants discuss

the impact of inflation or price changes on results. These items need only be discussed if they are material to period comparisons or management believes they may become material.

4. A separate section discussing off balance sheet arrangements is no longer required. This requirement is being replaced with a requirement that off balance sheet items will be integrated into the overall MD&A discussion and analysis on a principles-based approach

The amendment stated that this approach should allow registrants to tailor the discussion to their specific circumstances. At a minimum, material commitments should be captured in the disclosure of cash requirements mentioned above.

5. A new section has been added to the regulation that requires discussion of material accounting assumptions, estimates or judgments. This is consistent with earlier SEC requirements regarding critical accounting estimates. Specifically, the new section requires that management disclose the degree to which these estimates or assumptions have changed in the reporting period and the sensitivity of reported amounts to underlying assumptions.

6. Previously, management was required to discuss changes in financial position from the prior fiscal year-end balance sheet to the most recently reported balance sheet and results of operations from the current year-to-date period with the same prior year period. If a quarterly income statement was also presented, it should be discussed in relation to the same prior year's quarter. The amendment will now allow for the quarterly comparison to be made using either the same quarter in the prior year or the immediately preceding quarter of the current fiscal year. If the preceding quarter is used, relevant financial information for that quarter must be presented or the prior EDGAR filing must be identified.

Application of these amendments is required beginning in the fiscal year ending on or after August 9, 2021 (year ending December 31, 2021, for calendar year-end companies). Early application is permitted if companies comply with the amended, but any company that complies early must comply with all provisions in the amendment.

This update to Regulation S-K follows closely behind an amendment issued in 2019 that updated reporting requirements regarding the registrant's description of its business, disclosure of material legal proceedings and the format and nature of its risk factors.

These two amendments taken together reflect the SEC's focus on the evolving environment within which financial disclosures exist. They also offer an opportunity for filers to take a fresh look at their disclosures and update their filings to meet the need of their creditors and investors.

About the Author

Don Carpenter is clinical professor of accounting at Baylor University. Contact him at Don_Carpenter@baylor.edu.

By Jim Martin, CPA, and John M. Collar

Tax Planning Around Changing Charitable Contribution Law

As tax professionals, CPAs are conditioned to expect annual tax law changes and to then assist clients in preparing for the changes. Taxpayers, on the other hand, have varying levels of understanding of tax law changes and are motivated by many things other than income tax planning.

Some tax law changes substantively affect taxpayers and may offer opportunities for taxpayer benefit if properly planned for. This article focuses on recent tax law changes that dramatically reduced the number of taxpayers who itemize. It then examines the level of charitable giving, possibly in anticipation of the changes in the tax law related to itemized deductions.

Put another way, we ask the questions: If taxpayers knew that the deductibility of their charitable contributions would be dramatically changing next year, would they give more or less this year to incur a tax benefit? Further, was this tax-driven decision to increase or decrease charitable giving possibly affected by taxpayer religiosity? Or was the taxpayer's anticipatory level of giving possibly affected by suspension of the Pease limitation in 2018?

Finally, this research is particularly timely. It is based on IRS provided taxpayer data for the nearly 1/3 of individual taxpayers who itemized before 2018. As explained herein, future research using IRS data will be far less comprehensive given the huge drop in the number of itemizing taxpayers beginning in 2018.

The typical individual taxpayer will calculate his/her federal taxable income by deducting the larger of his/her itemized deduction or standard deduction from adjusted gross income. The *Tax Cuts and Jobs Act* (TCJA) was signed into law in October 2017, with most of the resulting tax law changes taking effect in 2018.

One of the more substantive changes was the marked increase in the standard deduction. In 2017, the standard deduction for a single taxpayer was $6,350 and a married filing jointly was $12,700. In 2018, the standard deductions were increased to $12,000 for single and $24,000 for married filing jointly taxpayers. In addition, changes were made that restricted or eliminated the deductibility of casualty losses, home mortgage interest, state and local taxes, and miscellaneous items as itemized deductions.

The effect of increasing the standard deduction and the new restrictions on itemized deductions has reduced the percentage of taxpayers who itemize from approximately 30% pre-TCJA to approximately 10% post-TCJA. Charities have voiced concerns that if most taxpayers no longer can deduct their itemized deductions, will their expenditures for charitable contributions be reduced?

The answer to that question will come from the analysis of 2018 information and thereafter. Much of that information on charitable contributions will have to come from non-IRS sources, will only represent approximately 10% of taxpayers and is beyond the scope of this article.

The 2018 heretofore mentioned changes that reduce available tax information for itemized deductions such as charitable contributions occurred not because the IRS stopped reporting information to the public. Taxpayers still make contributions and in limited cases, still deduct them. The 2018 change occurred because tax law changes effective in 2018 essentially ended the itemized charitable contribution deduction for the majority of taxpayers who had previously itemized. The IRS information is still there, but it now only includes the roughly 10% of individual taxpayers who still itemize.

This article's analysis is essentially a last look at reliable broad-spectrum charitable contribution information from the IRS. The analysis is in three parts.

Part 1: What are recent trends in charitable giving levels? Our analysis focuses on taxpayer contribution levels by income segment, including the average contribution amount for each income level.

Part 2: Focusing on 2017, is there any evidence of taxpayers increasing or decreasing their contributions in anticipation of tax law changes in 2018?

Part 3: If evidence exists that taxpayers at a certain income level increased their giving in 2017, did this level of increased giving vary by state? Further, did states with greater levels of religiosity more rigorously participate in this charitable contribution "front loading?"

Recent Trends in Charitable Giving

IRS tax statistics are published annually and provide detailed income and deduction information for 10 income brackets. To simplify the analysis, these 10 brackets were combined to form three income tertiles.

IRS bracket #1 includes information for taxpayers with taxable income below a dollar. This bracket was excluded from analysis since those taxpayers typically do not itemize.

IRS brackets #2-4 were combined to form tertile #1. These were taxpayers who earned from $1 to $49,999.

Similarly, IRS brackets #5-7 were combined for tertile #2 with taxable earnings of $50,000 to $199,999. IRS brackets #8-10 were combined to form tertile #3, with earnings above $199,999. Calculations of two data points were calculated for years 2014-2017 for each income tertile. These data points were:

- Percentage of taxpayers making a charitable contribution deduction; and
- Average charitable contribution per taxpayer.

As expected, results in Table 1 show the average charitable contributions trending upward over time for all income tertiles, while the percentage of taxpayers actually claiming the charitable contribution deduction trended slightly downward over time for all tertiles. Total charitable contributions deducted for all individual taxpayers went from $147.8 billion to $152.5 billion during the 2014-2018 period.

Table 1. Charitable Contribution Trends (All Income Levels)

Percent of Taxpayers With Deductible Charitable Contributions	1st Income Tertile ($1-$49,999)	2nd Income Tertile ($50,000-$199,999)	3rd Income Tertile ($200,000 and above)
2014	7.90%	47.82%	85.98%
2015	7.77%	46.74%	85.93%
2016	7.94%	46.45%	85.98%
2017	7.75%	45.29%	85.10%
Average Charitable Contribution Per Taxpayer			
2014	$2,414	$3,648	$19,864
2015	$2,518	$3,752	$19,883
2016	$2,571	$3,817	$21,142
2017	$2,649	$3,926	$21,585

Table 2. Charitable Contribution Compound Annual Growth Rate (All Income Levels)

Compound Annual Growth Rate of Charitable Contributions Per Taxpayer	1st Income Tertile ($1-$49,999)	2nd Income Tertile ($50,000-$199,999)	3rd Income Tertile ($200,000 and above)
2014-2016	3.21%	2.29%	3.17%
2017	3.03%	2.87%	2.10%

Evidence of Possible "Front Loading" of Charitable Contributions in 2017

"Front loading" is the increase in the amount of a deduction, such as charitable contributions, in a given year by accelerating the payment of the deductible expenditure from a future year.

This acceleration could be because the expenditure is deductible in the year of acceleration (such as 2017) and not in the year it was originally expected to be made (such as 2018). Front loading is legal and can be a good tax strategy.

Table 2 was prepared to compare the annual percentage increase in charitable contributions deducted in 2017 for the average taxpayer when compared to the compound average annual percentage increase in the 2014-2016 period. If the 2017 increase is greater than increases in prior periods, it could be an example of front loading.

The 2017 calculations of the percentage increase were made separately for each of the three income tertiles. Results showed that the 2017 percentage increase in individual taxpayer contributions for the lowest income tertile was slightly lower than in prior years. The highest income tertile showed a considerably smaller increase in 2017 when compared to the compound annual growth rates for 2014-2016. These smaller increases would not be evidence of front loading of contributions for these income brackets.

No additional analysis was done to identify reasons for this decrease.

Given there are many motives for making charitable contributions other than the tax benefit, these other motives should be considered.

Certainly, the lack of financial wherewithal to accelerate contributions may have constrained the first tertile (lowest income) decrease. The third tertile's (highest income) smaller increase could actually reflect the opposite of front loading, that is a shift in charitable contributions from late in 2017 to 2018. Reasons for this include a new ability to take advantage of the TCJA's suspension of the Pease limitation beginning in 2018. This high income tertile also includes

Charities have voiced concerns that if most taxpayers can no longer deduct their itemized deductions, will taxpayer expenditures for charitable contributions be reduced?

Table 3. State Ranking by Religiosity

Tier 1 Religiosity States (Lowest Religiosity)	Tier 2 Religiosity States (Lower Religiosity)	Tier 3 Religiosity States (Average Religiosity)	Tier 4 Religiosity States (Higher Religiosity)	Tier 5 Religiosity States (Highest Religiosity)
Hawaii	Delaware	New Jersey	Texas	Alabama
New York	Idaho	Florida	Utah	Mississippi
Alaska	Illinois	Indiana	Kentucky	Tennessee
Washington	California	Maryland	Virginia	Louisiana
Wisconsin	Minnesota	Nebraska	Missouri	Arkansas
Connecticut	Nevada	Wyoming	South Dakota	South Carolina
Maine	Rhode Island	Arizona	Ohio	West Virginia
Vermont	Montana	Michigan	New Mexico	Georgia
Massachusetts	Oregon	North Dakota	Iowa	Oklahoma
New Hampshire	Colorado	Pennsylvania	Kansas	North Carolina

Calculated from the Pew Foundation Religious Landscape Study: https://www.pewforum.org/religious-landscape-study/

Table 4. Percentage of Taxpayers with Taxable Income Claiming a Charitable Contribution Deduction

Percent of Taxpayers With Deductible Charitable Contributions	(Lowest Religiosity)	(Lower Religiosity)	(Average Religiosity)	(Higher Religiosity)	(Highest Religiosity)
2014	28.05%	27.88%	24.48%	21.72%	22.31%
2015	27.96%	27.84%	24.50%	21.77%	22.33%
2016	28.10%	28.22%	24.76%	22.04%	22.65%
2017	28.08%	28.38%	24.94%	22.31%	22.59%

Table 5. Charitable Contribution Trends 1st Income Tertile ($1-$49,999)					
Percent of Taxpayers With Deductible Charitable Contributions	(Lowest Religiosity)	(Lower Religiosity)	(Average Religiosity)	(Higher Religiosity)	(Highest Religiosity)
2014	7.70%	8.21%	8.19%	6.68%	8.03%
2015	8.03%	8.43%	8.33%	6.80%	8.27%
2016	7.97%	8.25%	8.11%	6.60%	8.10%
2017	8.17%	8.41%	8.20%	6.68%	8.23%
Average Charitable Contribution Per Taxpayer					
2014	$1,903	$2,039	$2,298	$2,687	$3,246
2015	$1,972	$2,119	$2,389	$2,813	$3,399
2016	$2,005	$2,166	$2,447	$2,887	$3,445
2017	$2,056	$2,229	$2,513	$2,973	$3,564
Compound Annual Growth Rate of Charitable Contributions Per Taxpayer					
2014-2016	2.67%	3.07%	3.18%	3.66%	3.02%
2017	2.48%	2.81%	2.65%	2.91%	3.32%

Table 6. Charitable Contribution Trends 2nd Income Tertile ($50,000-$199,999)					
Percent of Taxpayers With Deductible Charitable Contributions	(Lowest Religiosity)	(Lower Religiosity)	(Average Religiosity)	(Higher Religiosity)	(Highest Religiosity)
2014	47.98%	49.33%	44.57%	41.03%	43.53%
2015	49.35%	50.50%	45.64%	41.87%	44.93%
2016	49.99%	51.00%	45.89%	41.82%	45.17%
2017	51.35%	52.45%	46.90%	42.55%	46.02%
Average Charitable Contribution Per Taxpayer					
2014	$2,768	$3,190	$3,540	$4,289	$5,004
2015	$2,834	$3,285	$3,643	$4,414	$5,144
2016	$2,888	$3,340	$3,711	$4,480	$5,224
2017	$2,966	$3,419	$3,825	$4,609	$5,391
Compound Annual Growth Rate of Charitable Contributions Per Taxpayer					
2014-2016	2.16%	2.33%	2.39%	2.20%	2.18%
2017	2.68%	2.37%	3.06%	2.88%	3.20%

the most likely set of taxpayers who would still be itemizing in 2018 and thereafter. This delay in giving would allow for a greater tax benefit from charitable contribution in 2018 for some high-income taxpayers when compared to 2017, a year when the Pease limitation was in effect.

The Pease limitation was enacted by the Omnibus Budget Reconciliation Act of 1990. It serves to reduce the deductibility of certain itemized deductions, including charitable contributions, for higher income individuals. The reduction in itemized deductions is equal to the lesser of 3% of taxpayer AGI above a threshold (e.g., $313,800 for married filing jointly in 2017) or 80% of the taxpayer's itemized deductions. This deduction limitation was in effect in 2017, but suspended beginning in 2018 under the TCJA.

The second tertile (middle income) did show a marked increase in 2017 contribution growth over the 2014-2016 percentages. This unsurprising result could be evidence of a set of taxpayers with the financial wherewithal to accelerate charitable contributions into 2017 from 2018. These taxpayers could view 2017 as the last year in which the deduction of itemized deductions is practical given the announced increase in the 2018 standard deduction for 2018 and thereafter.

Analysis of Charitable Contributions and Religiosity

People possess varying levels of religiosity, that is, the feeling of being religious. In 2014, the Pew Foundation completed a religious landscape study that sought to calculate the level of religiosity by state.

This study was used as this article's basis to rank each state by its level of religiosity. Information for all 50 states was used to divide the states into five categories: Lowest Religiosity, Lower Religiosity, Average Religiosity, Higher Religiosity, and Highest Religiosity. Table 3 lists the states placed in each of these categories.

To facilitate the analysis of the possible impact of religiosity on charitable contributions, Table 4 was prepared, which calculates the annual percentage of taxpayers (with positive taxable income) who claimed a charitable contribution deduction in each of the years 2014-2017.

In examining the Table 4 results for all taxpayers, those states with the lowest and the lower levels of religiosity consistently had a greater percentage of taxpayers claim charitable contribution deductions

Table 7. Charitable Contribution Trends 3rd Income Tertile ($200,000 and Above)					
Percent of Taxpayers With Deductible Charitable Contributions	(Lowest Religiosity)	(Lower Religiosity)	(Average Religiosity)	(Higher Religiosity)	(Highest Religiosity)
2014	86.34%	87.20%	84.72%	82.23%	86.68%
2015	87.35%	88.02%	85.87%	82.73%	87.51%
2016	87.78%	88.27%	85.73%	82.15%	87.55%
2017	88.19%	88.61%	85.85%	81.72%	87.51%
Average Charitable Contribution Per Taxpayer					
2014	$23,673	$18,802	$16,637	$20,211	$21,538
2015	$22,195	$18,871	$16,975	$19,128	$23,084
2016	$23,532	$21,752	$17,440	$19,322	$24,939
2017	$23,369	$19,074	$19,649	$22,388	$27,184
Compound Annual Growth Rate of Charitable Contributions Per Taxpayer					
2014-2016	-0.30%	7.56%	2.39%	-2.22%	7.61%
2017	-0.70%	-14.04%	11.24%	13.70%	8.26%

when compared to the taxpayers in states with the average, higher and highest religiosity.

This surprising result prompted a deeper dive into the information to see if some of this behavior could be linked to income levels within the various levels of religiosity. The further analysis discussed below also revisits the possibility of front-loading behavior in 2017 in the varying religiosity groups.

Separate calculations were made for each of the three taxable income tertiles. Whereas Table 4 groups all income levels together, Tables 5 through 7 extend the analysis and examine each income segment separately.

Charitable Contributions and Possible Front Loading in the Lowest Income Tertile

Table 5 calculates three things: the percentage of taxpayers in the lowest income tertile ($1-$49,999) making charitable contributions, the average amount of those contributions, and the compound percentage increase or decrease for the periods 2014-2016 and 2017, the year prior to the tax law change. Separate calculations are made for each level of religiosity within the income tertile.

Notable findings include the following:

- The percentage of taxpayers within this income level who made charitable contributions was fairly consistent across all levels of religiosity except for those taxpayers in the higher religiosity segment. This segment displayed a notable lower percentage of taxpayers making contributions when compared to the other religiosity segments.
- The average dollar contribution per taxpayer in this income tertile increased as the level of religiosity grew. This was true for all years.
- When checking for possible front loading in 2017, there was little observable evidence of possible occurrence. Evidence of possible front loading would have been a marked increase in the annual contribution growth rate in 2017 when compared to 2014-2016.

Charitable Contributions and Possible Front Loading in the Middle Income Tertile

Table 6 calculates the same data points as Table 5 for the middle income tertile ($50,000-$199,999) by level of religiosity. Notable points include the following:

- The percentage of taxpayers in this middle income tertile who make charitable contributions was fairly consistent across the levels of religiosity except for those taxpayers in the higher religiosity segment. The higher religiosity segment displayed the lowest percentage of contributing taxpayers.
- The average contribution per taxpayer in this income tertile increased in all years as the level of religiosity grew.
- When looking for evidence of possible front loading, in 2017, the highest religiosity segment showed the greatest increase in 2017 giving when compared to the 2014-2016 levels. This highest level of religiosity showed the greatest example of possible front loading.

Charitable Contributions and Possible Front Loading in the Top Income Tertile

Table 7 calculates the same data points as Table 5 and 6 for the top income tertile ($200,000 and above) by level of religiosity. Notable points include:

- Like the other income tertiles, the percentage of taxpayers who made charitable contributions was lower in states with higher religiosity.
- The average contribution per taxpayer was actually greatest in the lowest and the highest religiosity segments. Unlike the other income tertiles, the average contribution per taxpayer did not increase every year in all cases.
- When looking for evidence of possible front loading, the percentage increases for the top three religiosity segments showed possible front loading in 2017. However, the average change in giving actually showed a decrease in 2017 for the two lowest levels of religiosity. Motives for the behavior of the top three religiosity segments could include delaying contributions until 2018, while the decreases associated with the lower two levels of religiosity could reflect taxpayers delaying giving and taking advantage of the suspension of the Pease limitation.

Changes in Behavior

Compared to 2018, tax laws in place in 2017 included a relatively low standard deduction and made it easier for taxpayers to deduct charitable contributions as an itemized deduction. Some taxpayers at lower income levels still found it advantageous to take advantage of the standard deduction, while taxpayers with greater levels of income were more likely to itemize in the periods analyzed.

Changes in tax law evoke changes in behavior. In anticipation of the 2018 tax change, an opportunity to front load contributions existed in 2017. Possible evidence of this front loading was present for income levels of $50,000-$200,000 and income levels above $200,000.

The 2018 tax law change also suspended the Pease limitation. This offered some high-income taxpayers a tax savings opportunity for contributions made in 2018 when compared to contributions made in 2017. Some possible evidence of taxpayers taking advantage of this was present in 2017 for taxpayers with incomes above $200,000.

A taxpayer's level of religiosity may also affect their willingness to take advantage of these tax law changes. For the middle-income taxpayers ($50,000-$200,000), there is evidence of possible front loading by taxpayers in the top three religiosity segments

There is even greater evidence of this possible behavior in the top three religiosity segments of high-income taxpayers (above $200,000).

When examining the information for a possible delay in taxpayer charitable contributions from 2017 into 2018 to avoid the Pease limitation, some evidence of this behavior was noted for the two lowest levels of religiosity in high-income taxpayers.

Compared to 2018, tax laws in place in 2017 included a relatively low standard deduction and made it easier for taxpayers to deduct charitable contributions as an itemized deduction.

Because charitable contributions are motivated by reasons other than tax savings, additional research into the other drivers of charitable contributions and their timing is warranted.

About the Authors: Jim Martin, CPA, is an MPA graduate of the University of Texas at Austin and is the Henrietta and G.W. Snyder Jr. Professor in Business at Washburn University in Topeka, Kansas. He can be reached at jim.martin@washburn.edu. **John M. Collar** holds a Bachelor of Arts from the University of Kansas and is a student in the Washburn MAcc program. He can be reached at john.collar@washburn.edu.

Save the Date for TXCPA's Midyear Board of Directors and Members Meeting in January

Mark your calendar now for our next Midyear Board of Directors and Members Meeting on January 21-22, 2022, at the Westin Irving Convention Center at Las Colinas, Irving. This year's meeting will again be sponsored by CPACharge.

Go to the Leadership Meetings area of TXCPA's website at www.tx.cpa for more details about the meeting.

December is TXCPA Month of Service

Again this year, TXCPA's Branding and Community Outreach Committee has identified financial literacy as a focus area for service and education during TXCPA Month of Service. Later this fall, contact your chapter for local engagement opportunities, or visit TXCPA's website to learn more about how you, your firm or your company can participate in TXCPA Month of Service coming in December!

Leadership Nominations Results for 2022-2023 Positions

The following individuals were nominated for terms beginning June 1, 2022, and have consented to serve, if elected by the TXCPA members. Election of officers, directors-at-large, members of the Nominations Committee, and members of the Executive Board will be conducted through an electronic ballot sent to members in November.

Officers
Tim S. Pike (Dallas), Chairman-elect (Chairman 2023-2024)
Angela M. Ragan (Central Texas), Treasurer-elect (Treasurer 2023-2024)
Jesus (Jesse) Dominguez (Austin), Secretary (2022-2023)

Executive Board (Three-year Term Expiring 2025)
Misty G. Mata (Corpus Christi)
Amy L. Taylor (East Texas)

Directors-at-Large (Three-year Term Expiring 2025)
Christine (Christy) Bessert (Fort Worth)
David A. Crumbaugh (Austin)
Travis L. Garmon (San Angelo)
Ryan M. Gibson (Abilene)
Lucas LaChance (Dallas)
Stanley (Chip) B. Majors (Southeast Texas)
Bryan P. Morgan (Austin)*
Martha E. Piekarski (El Paso)
Ben Simiskey (Houston)
Lindsey Skinner (Central Texas)
Veronda F. Willis (East Texas)
Katelyn Woods (Fort Worth)

**Transferring to San Antonio in 2022*

Directors-at-Large (To Fill Unexpired Terms)
Omar Rodriguez (El Paso) – Term Ending 2024
Billy Kelley (Permian Basin) – 1-year Term 2022-23

Nominations Committee (2022-2023)
Jeremy Crow (San Antonio
Bradley S. Elgin (Houston)
Daniel Gomez (El Paso)
Jennifer G. Johnson (Dallas)
Robert (Logan) Kendrick (Brazos Valley)
Stacey L. McGee (Abilene)
Tracie L. Miller-Nobles (Austin)
Stephanie A. Shaner (Fort Worth)
Jeremy Triska (Southeast Texas)
Chad L. Valentine (Permian Basin)

As TXCPA immediate past chairman in 2022-2023, Jason Freeman (Dallas) will automatically serve as chair of the 2022-2023 Nominations Committee. Bradley Elgin was appointed as vice chair. In accordance with the TXCPA *Bylaws* Article VIII(4), the two most recent past chairs, Jerry Spence (Corpus Christi) and Lei Testa (Fort Worth) will also serve as members on the 2022-2023 Nominations Committee.

The Nominations Committee also recommends that the names of the following individuals be forwarded to the American Institute of Certified Public Accountants as representatives from Texas to serve on the AICPA Council:

AICPA Council
Omolara (Lara) A. Akinboye (Austin) – Three-year Term May 2023-May 2026
Darrel W. Groves (Houston) – Three-year Term May 2023-May 2026
Renee Prince (Fort Worth) – Three-year Term May 2023-May 2026
William (Bill) H. Sims (Dallas) – Three-year Term May 2023-May 2026
Jeremy Myers (Austin) – One-year Designee May 2023-May 2024

TXCPA's 2021 Rising Stars

By DeLynn Deakins, *Today's CPA* Managing Editor

Through the Rising Stars Program, TXCPA recognizes CPA members 40 years old and younger who have demonstrated significant leadership qualities and active involvement in TXCPA, the accounting profession and/or their communities. A TXCPA selection committee named the following 19 up and comers based on their contributions to the accounting profession and their communities. We now introduce you to the members, in alphabetical order, who are the Rising Stars honorees for 2021.

Elizabeth Bailey, CPA | Austin Chapter | Tax Manager | Pope Shamsie & Dooley LLP

Elizabeth Bailey provides both compliance and consulting services to clients, and prepares tax provisions and returns for both public and private companies.

In her professional career, she has shown continued success, a desire to assume new responsibilities and a strong commitment to the CPA profession.

She has been involved in TXCPA Austin's Leaders Emerging in the Accounting Profession (LEAP), community service activities and served on the chapter's Executive Board.

Christine Bessert, CPA | Fort Worth Chapter | Manager | BKD LLP

Christine Bessert provides tax compliance for an array of clients in multiple industries while also helping to develop newer associates.

She has become one of only a few energy and natural resource (ENR) tax compliance and consulting experts throughout her firm of nearly 3,000 people. She worked directly with the firm's tax software developers to enhance depletion capabilities within their returns.

She is a committed volunteer for TXCPA, her chapter and in the community.

Jonathan Cameron, CPA, CGMA | Fort Worth Chapter | Director of Finance/CFO | Southwest Christian School Inc.

Jonathan Cameron leads the team responsible for accounting, payables, tuition billing and financial aid at Southwest Christian School. He also presents financial reports to the board of trustees.

He and the business office staff have replaced cumbersome, manual processes with automated processes, streamlined quarterly financial reports, increased cash reserves and formed an investment committee to provide advice on preparing for the future.

Under his guidance, TXCPA Fort Worth's largest annual event - Members CPE Day - was transformed from a multi-room event with multiple speakers to a successful online program. He also serves on the Accounting Program Advisory Council for the Tarrant County College Connect Campus.

Sarah DeVore, CPA, CFE | Fort Worth Chapter | Project Accountant | D.R. Horton/DHI Communities

At D.R. Horton/DHI Communities, Sarah DeVore records journal entries, reviews expenses and provides coding. She also reviews job costs for budget variances, prepares monthly balance sheet reconciliations and reviews employee expense reimbursements.

While serving in the U.S. Army, she was selected to be a member of the Fort Huachuca installation Honor Guard team. The Honor Guard is responsible for the ceremony of burying a fallen soldier. Serving as a member of this team was a privilege and an honor.

As a committed volunteer, she helped to expand TXCPA Fort Worth's student outreach efforts and reached out to firm leaders to identify soft skills they would like students to have. With this information, she then organized a student outreach event for more than 265 students.

Stephanie Ferguson, CPA | Austin Chapter | Managing Director | BKD LLP

Stephanie Ferguson oversees a full client load and directs staff to manage BKD LLP's Austin office, with emphasis in business/entity tax return preparation and planning.

She built a specialty cryptocurrency practice in her firm and works with clients on IRS audits and issues related to blockchain technology. She sits on BKD's cryptocurrency committee and handles the tax and accounting issues for the firm's largest crypto clients.

She is considered to be an intentional leader who leads by example and cares about the wellbeing of the people who work with and for her.

Lindsey Fontenot, CPA | Southeast Texas Chapter | Associate II | Andersen

Lindsey Fontenot gained experience in the accounting profession by working her way up through the ranks to her current position at Andersen Tax LLC. She also has experience in customer service, organization and leadership.

She has served on the TXCPA Southeast Texas Board of Directors as secretary and as chair of the chapter's Scholarship Fundraising Committee, and researched, developed, organized and implemented the chapter's first-ever Virtual Walk and Run event. The event raised more than $1,200 for Lamar accounting student scholarships.

She also participated in the Leadership Beaumont class of 2020-2021, where her team's project focused on raising awareness about the struggles local businesses face to open and keep their businesses running. The program created lasting positive impacts in the community.

Taylor Franta, CPA | Dallas Chapter | Audit Planning Manager | Howard LLP

Taylor Franta manages the performance and completion of attestation engagements, participates in the retooling of processes used internally for engagement completion, performs and assists with professional and technical staff development training, and assists in research and implementation of new technologies.

As a member of TXCPA Dallas, she has served as both member and chair of the Awards Committee, as a member of the Vision Committee and CPE Council, as well as a member of the chapter's Finance Committee.

She is a graduate of the University of North Texas and has returned to her alma mater to give input on curriculum and teaching practices, has been an active part of the UNT Junior Accounting Advisory Board, served as a guest lecturer, and has been involved in a formal mentorship program that helps guide student ambitions and career trajectory.

Lorena Hernandez, CPA | Rio Grande Valley Chapter | Cameron County Auditor | Cameron County, Texas

Lorena Hernandez is currently the Cameron County Auditor, appointed by the District Judges of Cameron County, Texas on Sept. 16, 2021. She oversees all financial aspects and audit oversight of the county and is responsible for the preparation of the county's Annual Comprehensive Financial Report (ACFR). Earning her CPA license at the age of 24, her previous experience includes managing the finances of the Port of Brownsville as CFO, as well as audit and tax services in public accounting, and internal auditing.

She completed her Master of Accountancy from the University of Texas Rio Grande Valley, where she also adjuncts, having taught an undergraduate course on "Ethics for Accountants." She is an active member of TXCPA, AICPA and GFOA.

She volunteers her time and accounting expertise to assist local non-profits and has been invited to her alma mater as a guest speaker to share her experience as a first-generation student, encouraging accounting students to obtain their CPA license.

Amanda Klein, CPA | Austin Chapter | Tax Manager | Cary, Trlica & Wood, P.C.

Mandy Klein's practice focuses on federal tax compliance, including matters related to individual, corporate, partnership, trust, and estate and gift taxation. She has worked extensively with high-net worth family groups, including closely held businesses, family partnerships and family trusts.

Her industry experience includes real estate, construction, manufacturing, technology and professional services. She is regarded as a detail-oriented CPA who is committed to helping clients achieve their long-term goals by providing high-quality client service that incorporates their complete financial situation.

She completed the TXCPA Austin Pathway to Leadership Program and has been active in LEAP and community service activities. She also served on TXCPA Austin's Executive Board as the manager of education and leadership.

Christina Koucouthakis, CPA, CGMA | San Antonio Chapter | Senior Director, Financial Reporting | USAA Real Estate

Christina Koucouthakis primarily works on executive management and investor reporting at a real estate investment management company with over $26 billion in assets under management. She performs investment management analysis, reporting and forecasting, and works on collaborative projects focused on improving reporting and processes.

She is a former elementary school teacher and NCAA Division II collegiate volleyball player, both of which lit her passion to become involved in student-focused volunteering opportunities.

She has served on TXCPA San Antonio's Board of Directors, was selected as Young CPA of the Year for 2020, and served double duty as co-chair of both the Jr. Duel in Ol' San Antonio and Education and Accounting Careers committees. She exhibits a drive to enrich students' lives through financial literacy and bringing awareness of diverse career paths available to CPAs.

Thomas Neuhoff, CPA, CFP®, PFS | East Texas Chapter | CFO | Herd Family Office

Thomas Neuhoff manages planning opportunities and compliance needs in his role as CFO of a single-family office. He coordinates CPAs, attorneys and investment advisors to maximize the after-tax impact for families and the community.

During the chaotic time of the pandemic, he jumped in and researched day-by-day legislative changes and related impacts. He shared information within his firm, on social media with their clients, and also within the east Texas community of business professionals.

He currently serves on the Leadership Tyler Board and is involved with Mentoring Alliance as an advocate and mentor. Previously, he founded Give Victory Foundation, a 501(c)(3) organization that existed to help homeless men and women get back on their feet, literally and figuratively. In two years, they were able to put over 500 new pairs of shoes and socks on the feet of the homeless and raise tens of thousands of dollars to meet pressing needs.

Meredith McKeehan, CPA | Permian Basin Chapter | Audit Senior Manager | Weaver

As Audit Senior Manager, Meredith McKeehan oversees and manages audit, review and compilation engagements in the oilfield service, manufacturing, construction, not-for-profit, and government industries.

She also builds content for trainings and schedules all of the client work.

She is on the Board of TXCPA Permian Basin, where she's highly involved in chapter activities and recruiting new members. She's also very involved at her church and sits on the board of several nonprofits, including Meals on Wheels, which provides meals to the homeless and low-income families.

Rising Star Nominations Now Open!

If you have a friend or colleague who has shown innovative leadership qualities within the accounting profession, their local community or TXCPA, we want to hear from you! Anyone can nominate a rising star, but the nominees must be TXCPA members. Submit your nominations on the TXCPA website. Nominations must be completed by December 31, 2021.

Ruth Olivares, CPA, CFE | San Antonio Chapter | Manager | ATKG, LLP

Ruth Olivares performs and reviews financial statement reviews and compilations for individuals and various industries, and investigates and analyzes data used in litigation in the areas of business valuation, marital estates and forensic accounting.

She is a very active member in TXCPA San Antonio, where she has served as vice president and on the Board of Directors, co-chaired the Young Accounting Professionals (YAP) Committee, chaired the Member Involvement Committee, supported other outreach projects, and more.

She is also a board member of the Alamo Kiwanis Club and Select Federal Credit Union.

Omar Rodriguez, CPA | El Paso Chapter | Manager, ESG and Sustainability Services | PwC

Omar Rodriguez is a CPA and FSA credential holder with over nine years of experience that includes providing audit, assurance and accounting advisory services. His recent experience includes assisting clients with their evaluation and implementation of new accounting pronouncements, complex transaction accounting, financial and non-financial reporting, and other advisory services.

In his community, he serves on the University of Texas at El Paso Accounting Information Systems Advisory Council, the El Paso Opera Board of Trustees and the TXCPA El Paso Board of Directors. His prior service included serving within the Young CPAs (YCPA) of El Paso and for Project Bravo.

He is an EMBA Candidate, and a member of TXCPA, AICPA and the Association of Latino Professionals for America (ALPFA).

Hyun "Crystal" Shin, CPA | Dallas Chapter | Director of Business Development | EisnerAmper

In her position at EisnerAmper, Crystal Shin takes ownership of the sales process by identifying and securing new opportunities for the firm. She also develops close relationships with strategic partners and C-level executives in various industries.

She has been an active member of the TXCPA Dallas B&I Committee and was recognized as a Committee Member of the Year. As a committee member, she assisted on project management and marketing for "Behind the Scenes" events, helped produce an encore effort on the blockchain topic, and assisted in an event that was co-hosted with the Dallas Bar Association.

She is passionate about giving back to the community and has served the children's ministry within her church, has been a speaker for various speaking engagements, and is a board member of 4word: Dallas, a community of professional Christian women.

Peter Simon, CPA | Southeast Texas Chapter | Manager | Edgar, Kiker & Cross, PC

Peter Simon's responsibilities include tax compliance, financial reporting, write-up and bookkeeping, payroll compliance, and staff training.

He ran track for Louisiana State University and was a part of two national title teams. He is enrolled in the class of 2021-2022 Leadership Southeast Texas.

He is currently serving as a member of the Board of Directors for TXCPA Southeast Texas and the Beaumont Public Schools Foundation. He is also serving as Membership Committee chair for TXCPA Southeast Texas, playing a key role in personal outreach, and is a member of TXCPA's Diversity and Inclusion Committee.

Catherine Speer, CPA | Permian Basin Chapter | Shareholder and Assurance Partner | Whitley Penn

Catherine Speer advises clients on audit and accounting in the energy, manufacturing and construction industries, as well as governmental and nonprofit organizations.

She is currently serving as TXCPA Permian Basin's 2021-2022 vice president and has been an active member of the Board of Directors.

She enjoys giving back to her profession and community through service on the University of Texas Permian Basin Internal Audit Committee and as president on the board for the Samaritan Counseling Center.

Brittin Stange, CPA | Corpus Christi Chapter | Tax Manager | Carr, Riggs & Ingram

Brittin Stange supervises, trains and mentors tax seniors, staff, interns and bookkeepers. He also prepares and reviews tax returns for individuals and businesses across numerous industries, provides consulting services and tax planning, and builds, develops and maintains client relationships.

He has served on the TXCPA Corpus Christi Board of Directors and jumped right in, participating in student and community activities as needed. He has also persuaded some of his coworkers to participate in chapter activities.

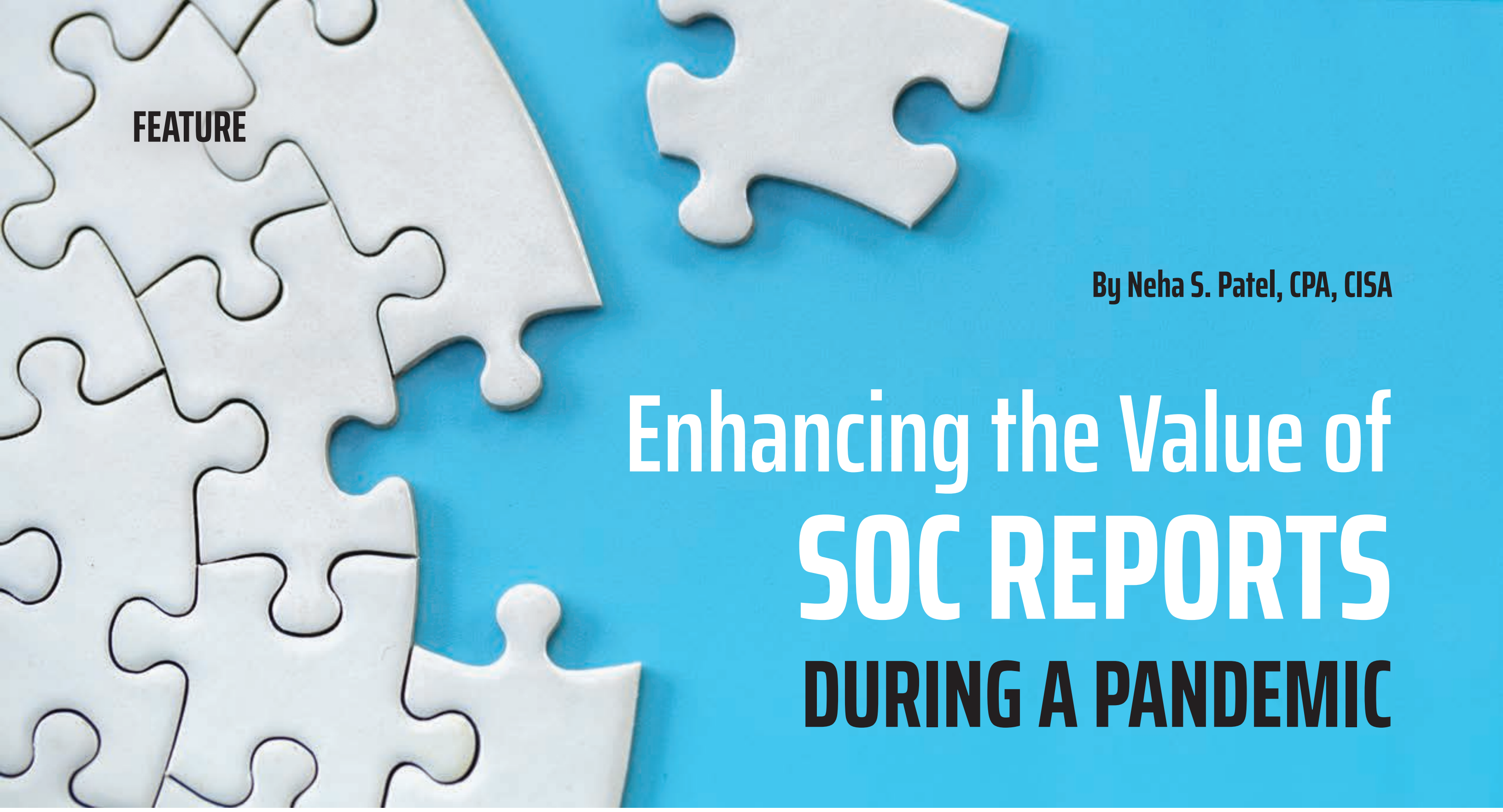
With a desire to help those in need, he assisted in recovery efforts after Hurricane Harvey left a path of destruction. He continues to assist with providing meals for those in need and believes that helping people is at the core of the accounting profession.

Katelyn Woods, CPA | Fort Worth Chapter | Audit Senior Manager | Whitley Penn

In her position at Whitley Penn, Katelyn Woods performs and manages audits of private companies, with a focus on the energy industry.

She was a recipient of the Elijah Watt Sells Award. To receive this award, a cumulative score average above 95.5 must be achieved across all four sections of the CPA Exam. In addition, the Texas State Board of Public Accountancy asked her to speak at her induction ceremony, as she received one of the top scores in Texas on the CPA Exam during that time period.

As a member of TXCPA Fort Worth's Board of Directors, she has brought great perspective to leadership decisions. She is a firm representative for Santaccountants and coordinates one of the largest collection centers for TXCPA Fort Worth. She also serves on the Junior Accounting Advisory Board for the University of North Texas. Additionally, through TXCPA, she became involved with Academy4, a mentoring program for 4th graders in economically disadvantaged schools around Fort Worth.



FEATURE

By Neha S. Patel, CPA, CISA

Enhancing the Value of SOC REPORTS DURING A PANDEMIC

As CFO of a retail hardware chain, Isabel has just completed a presentation at the company's quarterly board meeting. Board members had plenty of questions about how Isabel and her team had maintained internal controls and monitoring key processes during the global pandemic. She was already compiling a mental list of new risks that would need to be added to an updated risk assessment.

Isabel's first move was to work with Daniel, the company's director of internal audit, to conduct a thorough review of the company's current risk assessment and update the list of critical knowledge components.

A primary area of concern was the company's dependencies on critical third parties. These service organizations include business partners that manufacture and distribute products, as well as vendors that provide cloud-based inventory management systems.

Questions included: *How had the pandemic changed the ability of these vendors to deliver critical services? Was it time to conduct a review? What information did Isabel and Daniel need from these third parties to ensure their company's ability to continue operations?*

Scenes like this one have taken place in countless organizations as businesses have adapted to changes brought about by the pandemic. What steps have these companies taken to shore up their operations and maintain strong internal controls?

As in any successful relationship, communication is key. Businesses and the companies that provide their outsourced services need to be able to effectively communicate with each other so that there is a shared understanding of how changes in the marketplace may impact risk management, expected commitments and overall operations.

As businesses and their service organizations adapt to the realities of the pandemic, they can use a System and Organization Controls, or SOC, report as a critical communications tool to maintain and strengthen overall operations.

A SOC audit is not a certification. There is no pass or fail rating that comes with any audit. The SOC audit provides transparency about the internal control structure and assurance that the design and operating controls are effective.

A SOC report is a published audit report that includes a detailed description of the service organization's control environment and control activities that have been implemented to meet customer expectations, as well as an auditor's judgment and test of procedures to validate that those expectations have been achieved.

All SOC examinations must conform to the Statement on Standards for Attestation Engagements (SSAE) issued by the Auditing Standards Board. The current SSAE No. 18 offers these five different reporting options, which are designed for different audiences.

1. **SOC 1** reports focus on evaluating internal controls over *financial reporting* related to the outsourced service offering. This information can be crucial for companies that

need to comply with Sarbanes-Oxley, FDICIA or FFIEC. The boundaries of the scope are determined by (a) the types of services delivered to customers and (b) the risks that are pertinent to users of these services.

SOC 1, Type 1 reports are intended to provide auditors with information about the design of controls at a service organization as of a *specific date*.

SOC 1, Type 2 reports are intended to provide information about the design of controls at a service organization and the results of tests of effectiveness for *a period of time*.

2. **SOC 2** reports focus on evaluating compliance with prescribed requirements, such as contract compliance, HIPAA and more commonly, the Trust Services Principles (TSPs). The examination can provide transparency over a company's internal controls as it relates to security, availability, processing integrity, confidentiality and privacy.

   SOC 2, Type 1 reports are intended to provide auditors with information about the design of controls at a service organization as of a specific date.

   SOC 2, Type 2 reports are intended to provide information about the design of controls at a service organization and the results of tests of effectiveness for a period of time.

3. **SOC 3** reports are used for the same purpose as a SOC 2, but are an abridged version for the reader.

4. **SOC for Cybersecurity** is designed for management to evaluate their own internal cybersecurity posture.

5. **SOC for Supply Chain** provides insight into internal controls in systems used to produce, manufacture or distribute products.

Why Would a Service Organization's Internal Controls Matter?

For companies that outsource critical functions like payroll processing, claims processing, cloud services and data hosting, a SOC report gives assurance of the service organization's internal control environment. It provides management and internal auditors with transparency about a service organization's processes and gives assurance regarding the design and operating effectiveness of the control activities a service organization has in place.

> A primary area of concern was the company's dependencies on critical third parties.

For organizations that provide outsourced services, an updated SOC audit offers the opportunity to provide their customers with up-to-date information about any changes resulting from the pandemic or other recent circumstances. Used effectively, a SOC report can be a valuable tool that allows a company and its outsourced service organizations to fully understand how each works symbiotically to address mutual risk management goals.

For example, for a company that outsources transactional processing, like payroll services, a SOC report would include information related to relevant processes and internal controls that relate to the payroll services provided. The updated SOC report allows the company to stay abreast of any changes that could impact its payroll dependencies.

Putting the Pieces Together

A SOC audit or report isn't just a check-the-box service to be placed on a shelf once it is completed. Used effectively, it can provide valuable insight into the service provider's operations, which can in turn improve a company's performance.

Because each SOC audit is tailored based on a service organization's environment, each report is customized to a particular service offering. By focusing on Risk Assessment, Monitoring, Controls Assessment and Reporting, management may gain a more accurate picture of the service organization's current operations post-pandemic.

Risk Assessment

First and foremost, every organization should perform a risk assessment to evaluate the impact of the current environment on operations. At a minimum, the risk assessment should identify specific threats to achieving entity objectives, service commitments, system requirements and business objectives, as well as controls in place to mitigate the risk of those threats.

Some companies needed to downsize their operations or reduce their workforce during the pandemic, which may have impacted how they performed internal control processes. Controls may be modified and require more time, training or resources to operate. A thorough risk assessment will help identify truly vulnerable areas and guide decision making for how to mitigate them.

For users of services, the focus should be on the organization and identifying critical outsourced services. Assess the impact of those dependencies on the company.

For service organizations, the focus should be on how COVID impacted the delivery of services to customers. Assess the impact to existing processes, including how controls may have been modified during the pandemic.

Here are a few questions to ask:

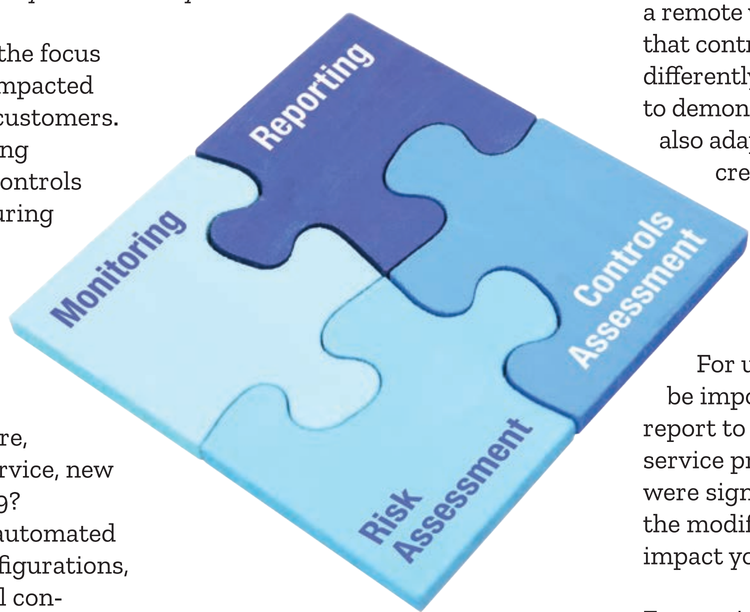
- What has changed in the operation (i.e., organization structure, remote work, new service, new tools) since COVID-19?
- Which controls (i.e., automated system controls, configurations, alert monitoring) will continue to operate as previously designed regardless of new COVID-19 operations?
- Which controls (i.e., manual, physical) do not operate as designed?

Similarly, when there are significant changes to outsourced services, the service auditor, an independent CPA firm that performs a SOC audit, may also need to design and perform different procedures, vary the timing of planned procedures or perform further procedures in response to the reassessed risks.

Monitoring

Surveys of businesses throughout the country are documenting the negative impact of COVID-19. For example, the US Census Bureau's Small Business Pulse Survey revealed that three-quarters of small business respondents across the country experienced a large or moderate negative effect as a result of the pandemic. This makes monitoring activities to ensure services are meeting expectations even more critical.

If obtaining a type 2 SOC report, a company should be able to evaluate whether the service organization effectively performed control activities during the period covered by the examination. A type 1 report can provide insights on the design of controls, but not the operating effectiveness of those controls.



For users of services, it may be important to identify independent procedures to monitor critical dependencies, especially if a report will not be issued near-term. This can enable the company to have timely oversight to assess risk management vulnerabilities and to determine whether additional controls will need to be implemented within their own organization in the meantime.

For service organizations, additional monitoring procedures may need to be implemented, especially if there are differences in control ownership or operation. New policy and/or procedure documents may need to be created to help control owners and operators understand their roles and responsibilities for the new control operation. Initially, the control operation should be spot-checked frequently to ensure the new control is up and running effectively.

Controls Assessment

Even though it may not be possible to meet in person, the service auditor still needs to have access to all relevant information and to appropriate personnel. Navigating a remote workforce may mean that control activities are executed differently and that documentation to demonstrate those activities are also adapted. Travel restrictions may create challenges for service auditors who perform audit procedures using physical inspection or observations.

For users of services, it will be important to review the audit report to understand whether your service provider's control processes were significantly modified and how the modified control activities may impact your risk management.

For service organizations, the service auditor will evaluate whether the information is sufficiently reliable for the examination, including the completeness and accuracy of that information. Although the nature, timing and extent of procedures may vary depending on the importance of the information or the related control, the service auditor's procedures may include observing controls as they are performed, inspecting relevant reports or lists, and conducting walkthroughs of related processes and controls.

The service auditor needs to carefully document all procedures to demonstrate that the requirements of the attestation standards were met, particularly since the procedures may differ from those performed before social distancing and other restrictions were in place.

Reporting

With over a year into the pandemic, leadership changes, layoffs or other disruptions in service may all warrant an additional disclosure to help customers understand the impact to their risk. Acknowledging significant changes in the internal control environment and instances of controls not operating are critical to evaluating alternative risk management strategies. It may seem obvious, but reporting these findings is a critical step in identifying problem areas and addressing them with meaningful changes.

For users of services, reviewing the audit report will again be important. Just as in the controls assessment, businesses will need to understand whether their service provider's control processes were significantly modified and how the modified control activities may impact their risk management.

Service organizations need to consider whether changes to their operations represent a significant disclosure during the examination period.

The service organization may want to work with its service auditor to decide whether the examination period should be revised to account for significant changes in the environment. Non-operation of controls should be disclosed if mitigating controls have been designed, developed and implemented, and whether an 'emphasis of matter' paragraph should be added to describe actions taken during the impacted period.

A Finished Puzzle

By focusing on these four pieces of the puzzle, a business will be able to better understand its own control environment and the impact of critical services on which it relies.

Attention to these areas will help a service organization continue to deliver transparency and showcase its commitment to its customers.

Over time, these steps should be repeated as companies and their service organizations navigate the path to new normal operations. In doing so, they may find that disruptions as a result of the pandemic led to new and better ways to operate. The pieces may be shaped differently than before, but the puzzle is stronger than ever.

About the Author: Neha S. Patel, CPA, CISA, is a partner in charge of IT advisory services at Weaver, a national accounting firm. An AICPA System and Organization Control (SOC) Specialist, she focuses on delivering SOC audits, Sarbanes-Oxley compliance and other technology consulting services. She can be contacted at neha.patel@weaver.com.

TXCPA CPE

UPCOMING CPE PROGRAMS

CPE EXPO

December 6-7 | December 6 only | December 7 only
San Antonio

December 13-14 | December 13 only | December 14 only
Houston

December 16-17 | December 16 only | December 17 only
Dallas

2021 Audits of Employee Benefits Plan Conference
Texas School District Conference Refresher
Fall Cluster - Four-hour Courses

November 29-30
San Antonio

Webcast - Federal Tax Updates with Steve Tillinger

November 18
December 3
January 12
February 8

Professional Issues Update

FREE CPE Webcast for Members
CPE Hours: 2
November 17, 2021
February 23, 2022

TXCPA Passport

The Passport offers a one-year subscription with unlimited access to more than 100 CPE hours and a variety of topics. Cost: Members $199 | Nonmembers: $329

View the complete schedule and register now in the Education area of our website at tx.cpa/education/cpe or call the TXCPA staff at 800-428-0272 (972-687-8500 in Dallas) for assistance.

CPE ARTICLE

Helping Auditors Add Critical and Key Audit Matters to Audit Reports

By Alan Reinstein, DBA, CPA, and Myles Stern, Ph.D., CMA

CURRICULUM: Accounting and Auditing

LEVEL: Basic

DESIGNED FOR: Auditors; CPAs in industry and public practice

OBJECTIVES: To discuss key audit matters (KAMs) and critical audit matters (CAMs) and the disclosures required by the standards-setting bodies in audit reports, as well as requirements of laws and/or regulations

KEY TOPICS: New non-issuers auditor's report KAM requirements, sources of suggested CAM/KAM wording, required language for CAMs, and a summary and examples of CAM disclosures.

PREREQUISITES: None

ADVANCED PREPARATION: None

Auditing standards boards globally seek to enhance the information content and transparency of audit reports. In 2015, International Standard on Auditing 701, *Communicating Key Audit Matters in the Independent Auditor's Report* was issued by the International Auditing and Assurance Standards Board (IAASB). Adopted in several countries, this standard requires key audit matter (KAM) disclosure for listed companies, or when required by a specific law or regulation. The standard also permits the auditor of a non-listed company to disclose KAMs voluntarily. All companies that wish to comply with IASB standards should adhere to the provisions of Standard 701.

Public Company Accounting Oversight Board (PCAOB) Release 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, required auditors of large accelerated filers of SEC reports to describe their critical audit matters (CAMs) in auditors' reports for annual periods ending on or after June 30, 2020. This standard applies to all filers for annual periods ending on or after December 15, 2021.

While many audit firms have already reported CAMs, all auditors should recognize that these communications to the audit committee provide information that:

- Relates to accounts or disclosures that are material to the financial statements, and

- Involves especially challenging, subjective or complex auditor judgment.

While not listing required CAMs or identifying potentially significant risks to include in a CAM, PCAOB asks auditors to assess which challenging, subjective or complex judgments constitute CAMs. AS 3101.12 includes the following criteria for possible CAMs:

- The auditor's assessment of risks of material misstatements;
- The degree of auditor judgment related to areas in the financial statements that involve management applying significant judgment or estimation, including estimates with significant measurement uncertainty;
- The nature and timing of significant unusual transactions and the extent of audit effort and judgment related to these transactions;
- The degree of auditor subjectivity in applying audit procedures to address the matter or assess the results of the procedures;
- The nature and extent of audit effort required to address the matter, including the extent of specialized skill or knowledge needed or the nature of consultations outside the engagement team regarding the matter; and
- The nature of audit evidence obtained regarding the matter.

New Non-Issuers Auditor's Report KAM Requirements

In 2019, the Auditing Standards Board (ASB) issued SAS No. 134 (AU-C 701), *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. Effective for audits of financial statements for periods on or after December 15, 2021 (with earlier application allowed), auditors of non-issuers may include key audit matters (KAMs) in the auditor's report "that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance."

The standard also permits the auditor of a non-listed company to disclose KAMs voluntarily.

KAMs can relate to material accounts or disclosures, or especially challenging, subjective or complex judgments to communicate to the audit committee. Specifically, auditors should report KAMs only if they are "engaged to do so." Presumably, some users of these audited financial statements – perhaps lenders or audit committee members – will find KAM reports helpful and will press the company to engage its independent auditor to report on KAMs. Also, companies considering public offerings may seek KAM reports. Still, while the demand for KAMs is unknown, audit reports would normally exclude KAMs unless the engagement letter requires such procedures.

KAMs will require much auditor attention in areas of high assessed risk of material misstatement or of significant management judgment, such as significant events or transactions. AU-C 701 states that KAM reports do not substitute for required financial statement disclosures that are management's responsibility, expressing a modified opinion when required, reporting going concern issues, or issuing a separate opinion on individual matters.

Before offering suggestions for auditors who may soon need to report CAMs/KAMs for the first time, we make two observations. One, both PCAOB Release 2017-001 and SAS 134 are comprehensive pronouncements dealing with many aspects of audit reports. Two, while some reporting details differ, critical (CAM) and key (KAM) audit matters are conceptually identical.

Sources of Suggested CAM/KAM Wording

PCAOB's staff publication, "Implementation of Critical Audit Matters: The Basics" (https://pcaobus.org/Standards/Documents/Implementation-of-Critical-Audit-Matters-The-Basics.pdf), provides general CAM reporting guidance.

Further resources for auditors' CAM and KAM reports include the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system (https://www.sec.gov/edgar/searchedgar/companysearch.html); a commercial product, Audit Analytics database (AADB); and annual reports from company websites.

The first source provides information by company name or Standard Industry Classification, and the second summarizes all publicly available CAM disclosures, including 6-digit North American Industry Classification System (NAICS) and 70 accounting issues (e.g., going concern, intangible assets and goodwill impairment) as classified by the Audit Analytics research staff. Because KAM reporting is not yet implemented and such reports likely will not be made public, auditors should rely on existing CAM reports for guidance.

While not endorsing the AADB, we used its content to find many interesting ideas to assist auditors in developing their own CAMs/KAMs. We viewed 4,513 CAMs on 2,668 audit reports of client years ending from June 2019 through November 2020, where Big Four firms provided 4,152 CAMs (92.0% of the total) on 2,446 (91.7%) audit reports. We found that the number of CAMs per audit varied little across industry sectors, using 2-digit NAICS codes. Excluding industries with less than 12 audit reports (to avoid distortions from small samples), auditors issued 1.69 CAMs per audit report, ranging from 1.52 (Sector 481 "Other Services") to 1.92 (Sector 61 "Educational Services").

Regarding specific accounting issues, 13.6% of all CAMs involved *goodwill or goodwill and intangible assets*. Some major industries that disclosed this topic included 27.3% for Sector 81 "Other Services," 27.1% for Sector 42 "Wholesale Trade," and 22.2% for Sector 56 "Administrative and Support and Waste Management and Mediation Services."

Next, 11.4% of all CAMs showed *revenue from customer contracts* issues, including 36.4% for Sector 54 "Professional, Scientific, and Technical Services," 26.8% for Sector 51 "Information," and 21.5% for Sector 23 "Construction." *Business combinations* appeared in 11.2% of all CAMs, especially 30.0% for Sector 71 "Arts, Entertainment, and Recreation," 21.7% for Sector 61 "Educational Services," and 15.6% for Sector 62 "Health Care and Social Assistance."

Exhibit 1 presents our cross-tabulation of CAM topics by industry sectors. Due to space limitations, we deleted from this table industry sectors and CAM topics with fewer than 20 entries, leaving 4,187 CAMs from the original 4,513. We found that virtually all CAM reports refer to associated financial statement footnotes. Each CAM report generally describes:

1) The nature of the CAM, related footnote(s) and pertinent lines in the financial statements;

Exhibit 1. CAM Topics by Industry Sector

	Industry Sector																	
CAM topic	21	22	23	31	42	44	48	51	52	53	54	56	61	62	71	72	81	Total
Accounts/loans receivable	2	2	2	5	1	2	2	3	9	2	3	3	1	5		3		45
Allowance for credit losses		1		10	2			3	228	1	5			2		2		254
Asset retirement and environmental obligations	22	4		14	4		4		2			9					2	61
Business combinations	19	15	4	172	13	10	7	64	125	7	28	7	5	7	9	13	2	507
Deferred and capitalized costs		3		3		1	9	19	13		4	1				2		55
Deferred income taxes	9	9	2	58	5	1	2	21	20	2	8	2	2		2	2		145
Depreciation and amortization	3			1			2	9	6	2		4			1			28
Derivatives and hedging	1	6		1	1		2	1	6	1						1		20
Equity investments and joint ventures	2	10		15	1	3	6	10	26	1	4	2		1				81
Goodwill	24	11	10	241	29	21	23	47	41	11	25	18	2	7	4	6	5	525
Goodwill and intangible assets	2		1	45	9	5	2	10	3		1		1	1		6	1	87
Insurance contract liabilities			1	4		1			80	2				1		1		90
Inventory	2		9	101	8	13		3		1	2						2	141
Leases				6	3	2	8	2	9	4	2	1				3		40
Long-lived assets	28	13	2	23	5	8	1	6	2	1						4		93
Other contingent liabilities	13	13	10	73	12	17	17	16	50	4	8	16		6	1	10	4	270
Other debt		2		19		3	1	17	8	2	3		1		1			57
Other income taxes	9	1		61	5	5	1	12	5	4	7					3		113
Other intangible assets	7	1		64	3	8	3	11	10	1	4	2	1		2	1		118
Other revenue	1	1		10			1	10	17	1	4	3	1	1	1	1		52
Pension and other post-employment benefits	2	3		28	4		6	9	3	1								56
Policy changes	2	1		26	3	23	3	21	23	1	3	1	2	1	3	9	1	123
Property, plant and equipment	28	11	2	17	2	6	22	9	19	5		1		1		11	1	135
Proven and unproven reserves	67	4		9														80
Real estate investments			1	1					64	2						1		69
Regulatory assets and liabilities	2	53						1										56
Research and development expenses				30							1							31
Revenue from customer contracts	3	8	14	180	8	5	24	128	28	5	78	4	2	8	3	14	3	515
Sales return and allowances	1			104	4	2		6	3		5							125
Uncertain tax positions	9	1	1	88	7	10	2	22	17		12	4				4		177
Warranty liabilities		1	2	33	1									1				38
Total	258	174	61	1442	130	146	148	460	817	61	207	78	18	42	27	97	21	4187

Code	Industry sector (2 Digit NAICS Code)
*11	Agriculture, Forestry, Fishing and Hunting
21	Mining
22	Utilities
23	Construction
31	Manufacturing (includes codes 32 and 33)
42	Wholesale Trade
44	Retail Trade (includes Code 45)
48	Transportation and Warehousing (includes Code 49)
51	Information
52	Finance and Insurance
53	Real Estate Rental and Leasing
54	Professional, Scientific and Technical Services
*55	Management of Companies and Enterprises
56	Administrative and Support and Waste Management and Remediation Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
*92	Public Administration
*99	Unclassified

*Omitted from table: less than 12 audit reports

2) Why the topic is critical to the audit;
3) The audit procedures performed regarding the topic (such as using fair value specialists to assess the reasonableness of management's forecasts of future cash flows); and
4) Outcomes of the audit procedures and other key observations about the matter.

As shown below, the auditor should not provide a separate opinion on the topic.

Required Language for CAMs

PCAOB requires an auditor issuing CAMs to use this introductory language:

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

The ASB requires similar introductory language for KAMs:

Key audit matters are those matters that were communicated with those charged with governance and, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

PCAOB also requires auditors determining that no CAMs exist to state:

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

the *Tax Cuts and Jobs Act*), deferred tax asset unrecognized benefits and accounting for income taxes. Next, goodwill/intangibles often involve significant management and auditor judgment relating to impairment and amortization. Auditors often noted different assumptions, reporting units or difficult to measure intangible assets.

CAMs regarding contingent liabilities include estimating legal contingencies, requiring auditing judgments on how management considered multiple potential outcomes and identifying the most likely outcome. Also, CAMs involving revenue recognition cover such areas as subscription services,

While conceptually similar, CAM reporting is mandatory while KAMs will be disclosed only when specifically included in the audit engagement.

Summary of CAM Disclosures

We next summarize results reported in the Center for Audit Quality's Critical Audit Matters: A Year in Review, https://www.thecaq.org/wp-content/uploads/2020/12/caq-critical-audit-matters-year-in-review-2020-12.pdf. Early CAM adopters focused on four key areas: taxes, goodwill/intangibles, contingent liabilities, and revenue. These likely arose from their often challenging, subjective and materiality assessment bases. Other areas include sales returns and analyses, business combinations, pensions, and asset retirement. We comment below on topics from both studies – ours and the Center for Audit Quality's.

First, tax CAMs focused on such areas as the somewhat subjective impact of new federal tax laws (e.g.,

long-term contracts and royalties. Interesting disclosures also arose based upon specific industries (e.g., financial and energy services), changing regulatory landscapes and the need to hire experts to assess environmental matters.

Examples of CAM Disclosures

For illustrative purposes, here are parts of accelerated-filer CAMs for three different accounting issues in three different industries.

Accounting for Impairments, Technology Industry (Palo Alto Networks)

As of July 31, 2019, the Company completed the acquisition of Demisto, Inc. for net consideration of $474.2 million, the acquisition of RedLock Inc. for net consideration of

$158.2 million, and the acquisition of Twistlock Ltd. for net consideration of $378.1 million. As discussed in Note 6 to the consolidated financial statements, the Company accounted for these acquisitions as business combinations.

Auditing the accounting for acquisitions was complex due to the significant estimation uncertainty in determining the fair values of identified intangible assets, which primarily consisted of developed technology of $156.7 million and customer relationships of $27.6 million. The significant estimation uncertainty was primarily due to the sensitivity of the respective fair values to underlying assumptions about future performance of the acquired businesses and due to the limited historical data on which to base these assumptions.

The significant assumptions used to form the basis of the forecasted results included revenue growth rates and technology migration curves. These significant assumptions were forward-looking and could be affected by future economic and market conditions.

Accounting for Income Taxes (Estée Lauder)

As discussed in Note 2 to the consolidated financial statements, the Company is subject to income tax in each tax jurisdiction in which it operates. The Company maintains offices in over 50 countries and has key operational facilities located inside and outside the United States that manufacture, warehouse or distribute goods for sale in approximately 150 countries and territories.

We identified the evaluation of the accounting for income taxes as a critical audit matter. The Company's global structure required complex auditor judgment to evaluate the Company's interpretation and application of tax laws in relevant jurisdictions and the income tax impact of the legal entity ownership structure.

Goodwill Impairment Testing, Wholesale Drug Industry (Cardinal Health, Inc.)

At June 30, 2019, goodwill related to the Company's Medical segment, including the Medical Unit, was $5.7 billion. As discussed in Note 4 to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level.

Auditing management's annual goodwill impairment test for the Medical Unit was challenging because this reporting unit's fair value had an impairment in the previous year and there is significant judgment required in determining the fair value of the reporting unit.

In particular, the fair value estimate was sensitive to significant judgmental assumptions, including the revenue growth rate, gross margin, distribution, selling, general and administrative expenses, and company-specific risk premium, which are affected by expectations about future market or economic conditions.

Important Information for Financial Statement Users

CAMs and KAMs are challenging, subjective and complex areas, where auditors provide useful information that many financial statement users will analyze carefully. While conceptually similar, CAM reporting is mandatory while KAMs will be disclosed only when specifically included in the audit engagement.

Due partly to the newness of the standards and the limited authoritative guidance, it is difficult to identify and communicate CAMs/KAMs.

CAMs and KAMs are challenging, subjective and complex areas, where auditors provide useful information financial statement users can analyze carefully.

Audit firms that will now report CAMs/KAMs for the first time should examine existing CAMs from actual audit reports, particularly for topics and industries pertinent to their clients.

These CAMs will help auditors decide whether a topic should be a CAM/KAM and how to report it, thus helping financial statement users to better understand the audit process, as well as the key decisions of the auditors.

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HELPING AUDITORS ADD CRITICAL AND KEY AUDIT MATTERS TO AUDIT REPORTS

By Alan Reinstein, DBA, CPA, and Myles Stern, Ph.D., CMA

***Today's CPA* offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.**

1. The International Auditing and Assurance Standards Board (IASB) issued Standard 701, entitled:
a. *Communicating Key Audit Matters in the Independent Auditor's Report*
b. *Communicating Key Assurance Matters in the Independent Auditor's Report*
c. *Communicating Critical Audit Matters in the Independent Auditor's Report*
d. *Communicating Critical Assurance Matters in the Independent Auditor's Report*

2. Which types of companies should adhere to the provisions of Standard 701?
a. Public U.S. companies receiving CPA audit reports
b. Non-public U.S. companies that wish to comply with U.S. GAAP
c. Large non-public U.S. companies receiving CPA audit reports
d. All companies that wish to comply with IASB standards

3. PCAOB Release 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, requires independent auditors of U.S. public companies to report critical audit matters (CAMs) that:
i. Relate to accounts or disclosures that are material to the financial statements.
ii. Involve especially challenging, subjective or complex auditor judgment.
a. i. only
b. ii. only
c. Neither i. nor ii.
d. Both i. and ii.

4. Which of the following does *not* represent an AS 3101.12 potential CAM disclosure criterion?
a. The auditor's decision to significantly raise client audit fees
b. The auditor's assessment of risks of material misstatements
c. The degree of auditor judgment related to areas in the financial statements that involve management applying significant judgment or estimation, including estimates with significant measurement uncertainty
d. The nature and extent of audit evidence obtained regarding the matter

5. The demand for KAM reports will likely:
a. Often be large, since most practitioners see much demand for them
b. Depend largely on how audit committee members and bankers/lenders view their use
c. Be small given their large variance from CAM standards
d. Be large because they are easy for the independent auditor to prepare

6. Each CAM report generally describes each of the following *except*:
a. The nature of the CAM, related footnote(s) and pertinent lines in the financial statements
b. An assessment of whether management adequately disclosed the issue in one or more footnotes
c. Why the topic is critical to the audit
d. Outcomes of the audit procedures and other key observations about the matter

7. According to results reported in the Center for Audit Quality's *Critical Audit Matters: A Year in Review*, early CAM adopters focused on four key areas, including taxes, goodwill/intangibles, contingent liabilities, and revenue.
a. True
b. False

8. CAMs regarding contingent liabilities include:
a. Estimating legal contingencies
b. Requiring auditing judgments on how management considered multiple potential outcomes
c. Identifying the most likely outcome
d. All of the above

9. The authors reviewed 4,513 CAMs on 2,668 audit reports of client years ending from June 2019 through November 2020. Big Four firms provided:
a. Over 90% of the CAMs and 90% of the total audit reports
b. 50% of the CAMs and 90% of the total audit reports
c. 50% of the CAMs and 50% of the total audit reports
d. 80% of the CAMs and 80% of the total audit reports

10. CAMs involving revenue recognition cover such areas as subscription services, long-term contracts and royalties.
a. True
b. False

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$1,700,000 gross. TX CPA firm near Amarillo, established 1991. Large client base. Tax, audit, payroll, bookkeeping, etc. Staff in place and partners open to staying on as needed. Large office building with tenants also available. Contact greg.lake1@gmail.com.

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Gross $170k-Sale Pending
Eastern Brazos Valley Area Gross $650k
Eastern Central TX Gross $350k
Central Fort Bend County Gross $800k-Sale Pending
Uvalde County Gross (New lower price!) $729k
Texas County, OK Gross $400k
S Central NM Gross $162k

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$386,000 gross. San Antonio CPA firm. 94% tax (51% individual, 43% business, 6% other), 6% accounting, over 60% cash flow, long-term employee in place. TXC1076

$1,078,687 gross. Heart of Texas CPA firm. 83% tax (65% individuals, 30% business, 5% other), 11% accounting, 5% audits, 1% other, cash flow 45%. TXC1077

$449,000 gross. Heart of Texas CPA firm. 80% tax, (78% inv., 13% bus., 9% other), 11% bkkpng, 9% audits/reviews, cash flow around 43%, staff in place, owner available to stay on as employee after sale if needed. TXC1078

$1,789,085 gross. Austin CPA firm. 75% tax (43% individual, 52% business), 22% accounting, 3% other services, turn-key with experienced professional and support employees in place, owner also available for short transition. TXC1079

$2,322,782 gross. Austin CPA firm. 38% accounting, 58% tax (59% bus./32% ind./9% trusts and misc.), 4% consulting services, cash flow near 70%, staff in place, owners available to assist with transition. TXC1080

$763,000 gross. New Braunfels CPA firm. 38% tax (46% individual, 42% business, 12% other), 20% bkkpng/PR, 31% audits, 10% consulting, 1% comp/review, staff in place and seller available to assist with smooth transition. TXC1081

$510,000 gross. NW of Dallas CPA firm. Tax 72%, accounting 28%, strong fees, solid cash flow, experienced staff in place, turn-key location in desirable DFW community. TXN1526

$620,000 gross. SW of Ft. Worth CPA firm. Accntng 15%, tax 75%, payroll/compliance/misc. 10%, great location, quality clients, dedicated staff. TXN1534

$320,000 gross. Grapevine tax and acctng firm. Tax 74%, accounting 19%, payroll 6%, quality client base of high-net-worth individuals and businesses, staff in place and seller available to assist with transition, turn-key practice in desirable community. TXN1556

$560,000 gross. NW of DFW CPA firm. 70% tax, 30% accounting, strong cash flow with 70% of revenues from business clients, experienced staff in place and owner available to assist with transition. TXN1557

$307,000 gross. North Texas CPA practice. Tax 65%, accounting 35%, solid fee structure, experienced staff, and the perfect size starter or add-on practice. TXN1558

$312,000 gross. S. of Ft. Worth CPA firm. Tax 74%, accounting 26%, cash flow over 70%, loyal client base, turn-key opportunity or profitable addition to area firm. TXN1559

$2,252,000 gross. Collin Co. CPA firm. Premium client base of businesses and high-net worth individuals, 80% tax plus year-round income via acctng/consulting services, strong fee structure and experience staff. TXN1561

$100,000 gross. Young County, TX practice. Profitable practice with strong fees and cash flow to owner of nearly 80% of gross income. Tax prep makes up about 76% of the gross income. TXN1563

$1,274,000 gross. North TX CPA audit practice. Specialized in two niche industries with strong staff in place. Growing, profitable practice that generates cash flow to owner of about 45% of gross income. TXN1565

$282,000 gross. Dallas, TX virtually operated CPA practice. 98% of income from monthly accounting services with focus on not-for-profit businesses. TXN1571

$363,000 gross. Dallas, TX CPA practice. Tax 65%, accounting and consulting 35%, strong fees and cash flow above 50% of gross. TXN1568

$86,700 gross. Irving, TX CPA practice. Loyal client base of individuals and businesses. Strong fees and low overhead yield cash flow to owner above 70% of gross. Perfect starter or add-on practice. TXN1572

$283,000 gross. SE Texas CPA firm. Tax 60%, bkkpg 40%, turn-key practice with staff in place, friendly clients, owner available to assist through tax season. TXS1232

$1,700,000 gross. N. Houston CPA firm. Great mix of services, including tax, bookkeeping and consulting, experienced staff in place, turn-key but some flexibility regarding location. TXS1264

$189,000 gross. Corpus Christi area CPA firm. Revenues balanced between tax and bkkpng, year-round cash flow, turn-key practice in wonderful community, loyal client base. TXS1272

$250,000 gross. W. Houston CPA firm. Balanced mix of bkkpng and tax with a few annual compilations, prime location, diverse/loyal client base, owner available for transition. TXS1275

$588,000 gross. NW Houston CPA firm. Accounting 10%, tax 79%, other 11%, year-round revenue with great cash flow. Loyal clients and CPA staff in place to support new buyer. TXS1280

$575,000 gross. N. Houston Beltway area CPA practice. 60% tax and 40% accounting. Year-round work with strong staff in place. Turn-key opportunity perfect for individual CPA or a firm looking to add another office. TXS1282

$1,022,000 gross. West TX (S. Plains) CPA firm. 49% tax (66% individual, 32% business, 2% other), 38% bookkeeping/payroll, 4% consulting, 9% compilation/reviews, solid cash flow around 48%, experienced staff in place and owners available to assist with transition. TXW1029

$2,108,000 gross. West Texas CPA firm. 57% attest services, 29% tax, 14% accounting. Strong cash flow to owner over 52% of gross. Steadily growing practice in community highly rated for business with large, experienced staff in place. TXW1029

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