



Good Morning!



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Agenda

- Revenue Recognition
- Leasing Standards
- New Standards for NFPs
- Cyber Security



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Revenue Recognition

ASU 2014-09

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Presenter



CLAIRE IACOBUCCI, CPA, CGMA

Shareholder and Director of Audit Services

Claire has a wide range of experience with PE/VC, technology, manufacturing, distribution and public companies. She is well versed in the accounting complexities and reporting standards applicable to local and international companies.



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Effective Calendar YE

2018		2019	2020
SEC Filers	Revenue Recognition	Leases	
NFP & Nonpublic	NFP Reporting	Revenue Recognition	Leases

Early adoption is permitted... Revenue Recognition only as of 2017 calendar year-end.

Revenue Recognition Overview

- As issued May 2014, ASU 2014-09, *Revenue from Contracts with Customers* intended to provide industry neutral revenue recognition model
 - Eliminates 100+ existing standards
 - *16 special industry task forces now at work*
- Recognize based on consideration expected in exchange for goods or services as they are provided. More estimates/judgments required and may, in some cases, accelerate revenue recognition.

Response to faulty recognition resulting in fraud and restatements



Revenue Recognition 5 Step Process

1. Identify the contract with the customer
2. Identify the performance obligations
3. Identify the transaction price
4. Allocate transaction price to respective performance obligations
5. Recognize revenue when each of the performance obligations is satisfied.

Step 5: Performance Obligation Satisfied

- Occurs when customer receives control of good or service
- Control = customer's ability to have direct use of an asset and reap substantially all of its benefits
- Nature of performance obligation determines whether obligation is satisfied over time or at a point in time. Evaluate at contract inception
- Special considerations for bill-and-hold, consignment sales and repurchase agreements

Disclosures

1. Significant assumptions related to timing and amount of revenue
2. Level of granularity on significant customer contracts
3. Uncertainty
4. Obligations with respect to refunds, returns, defects
5. Why you are not recognizing “downside” upfront

Will be Challenging

- Identify revenue streams
- Review contracts (standard vs. each unique?)
- Need/able to modify contract terminology
- Design/update systems to track
- Industries with special challenges:
 - Technology, Software, IP, Pharma, Media, Construction
- Impacts net income, EBITDA, bonuses, covenants

Transition to the New Standard

- Full retrospective - prior periods presented would follow the new guidance.
- Cumulative effect - apply new standard only to contracts that are incomplete at date of adoption and recognize cumulative effect as an adjustment to opening retained earnings. PY is not restated. Disclose CY impact compared to PY under legacy GAAP.

Carefully consider the method of adoption selected especially for long-term contracts in process on adoption date.



Lease Accounting Update

ASU 2016-02

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Presenter



ANTHONY MANGIARELLI, CPA, MST
Shareholder, Audit Services

Anthony has a wide range of audit and consulting experience with clients in a variety of industries including manufacturing, professional services, distribution, employee benefit plans and emerging and start-up companies.



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Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020.

Identifying Leases

- A “lease” is: A contract, or part of a contract, that conveys the **right to control** the use of identified property, plant or equipment (an identified asset) **for a period of time in exchange for consideration**.
- The standard applies to leases of all assets except:
 - Leases of intangible assets, inventory, biological assets, assets under construction
 - Leases to explore for the use of minerals, oil, natural gas and similar resources

Lease Term

Defined as:

The non-cancelable period for which a lessee has the right to use an underlying asset, including:

- a. Periods covered by an option to extend the lease reasonably certain to exercise
- b. Periods covered by an option to terminate if reasonably certain not to exercise
- c. Periods to extend or terminate in which the option is controlled by the lessor

“Reasonably Certain” akin to “Reasonably Assured” (a high threshold)

Lease Payments

Initial measurement of lease payments is determined at the commencement date and includes:

1. Fixed payments, including in substance payments, less any lease incentives
2. Variable lease payments that depend on an index or rate
3. Exercise price of an option to purchase the underlying asset*
4. Payments for penalties for terminating the lease**
5. Fees paid by lessee to SPE for structuring the transaction. Such fees are not included in the fair value of the underlying asset.
6. Residual value guarantees - amounts probable of being owed (lessees only)

* Include only if reasonably certain of exercise

** Include unless reasonably certain not to be exercised

The determination of which payments to include is consistent with the lease term determination.



Classification of Leases by Lessees

At inception of lease, LESSEES classify leases as:

(1) **Finance Lease**, if the lease meets any of:

- a. Transfer of ownership of asset at end of term
- b. Option to purchase asset that is reasonably certain to be exercised
- c. Lease term is for 'major part' of economic life. Ignore this criterion if lease is entered with less than 25% life remaining. Sure sounds like the 'old' 75% test!!}
- d. PV of sum of lease payments and any residual guaranteed amount is => 'substantially all' of the FV of the asset. {Substantially all is akin to the 'old' 90% test!}
- e. Underlying asset is of specialized nature and expected to have no alternative use at end of term.

(2) **Operating Lease**, if none of the above criteria are met.

Classification is reassessed only when (a) contract is modified and (b) change in lease term or assessment of certainty of exercising option to purchase asset.

Lessee Accounting

	Financing Lease	Operating Lease
Initial recognition and measurement	Initially measure the 'right to use asset' (ROUA) and lease liability at the PV of the lease payments not yet paid, including the various components required by ASC 842-10-30-5.	
3 year lease Year 1 - \$50,000 Year 2 - \$55,000 Year 3 - \$62,500 Discount rate = ? PV = \$150,000	ROU Asset Increases = \$150,000 Lease Liability Increases = \$150,000 (Total payments = \$167,500)	ROU Asset Increases = \$150,000 Lease Liability Increases = \$150,000 (Total payments = \$167,500)
Year 1	Increase Amortization Expense = \$50,000 Decrease ROU Asset = \$50,000 Decrease Cash = \$50,000 Decrease Lease liability = \$41,735 Increase Interest Expense = \$8,265	Increase Lease Expense = \$55,835 Decrease Lease Liability = \$41,735 Decrease ROU Asset = \$47,570 Decrease Cash = \$50,000
Income statement effect	Generally front-loaded based on 'interest method'.	Straight line expense.

Lessee Accounting

	Financing Lease	Operating Lease
Year 2	Increase Amortization Expense = \$50,000 Decrease ROU Asset = \$50,000 Decrease Cash = \$55,000 Decrease Lease liability = \$49,035 Increase Interest Expense = \$5,965	Increase Lease Expense = \$55,835 Decrease Lease Liability = \$49,035 Decrease ROU Asset = \$49,870 Decrease Cash = \$55,000
Year 3	Increase Amortization Expense = \$50,000 Decrease ROU Asset = \$50,000 Decrease Cash = \$62,500 Decrease Lease liability = \$59,235 Increase Interest Expense = \$3,265	Increase Lease Expense = \$55,835 Decrease Lease Liability = \$59,235 Decrease ROU Asset = \$52,570 Decrease Cash = \$62,500
Totals	Amortization Expense = \$150,000 Interest Expense = \$17,500 Cash = \$167,500	Lease Expense = \$167,500 Cash = \$167,500

Lessee Income Statement

- Finance Lease-related interest expense and amortization presented consistently with such expenses; separate lines not required
- Operating Lease expense is included in lessee's operating expenses i.e. Leasing Expenses

Lessee Cash Flow Statement

- Finance Lease principal payments within financing activities; interest disclosed per ASC 230.
- Operating Lease payments are in net income except for costs to bring asset to location and condition for use – those are investing activities.
- BOTH types:
 - Payments for short term leases and variable payments in operating activities
 - Supplemental non-cash disclosure of new leases

Transition to the New Standard

Modified Retrospective Approach

- In the first FS applied, recognize and measure leases that exist at the beginning of the earliest period presented (using amounts calculated as of the transition date)
- Adjust equity at the beginning of the earliest period presented and other comparative amounts presented as if the provisions had always been applied

Summary

- Effectively, “all leases” will be reflected on balance sheets for lessees and lessors. There is an exception for leases with a term ≤ 12 months.
- Leases may be hiding inside other contracts for services - these will be the trickier ones. Separate accounting for lease and non-lease components.
- There are a lot of assumptions that need to be made to calculate initial values and subsequent changes: term, payments, interest rates, etc. Results in more disclosure.

Summary

- Balance sheets will be grossed up with assets and liabilities; income statements may reflect expenses differently - perhaps more interest and depreciation and less rent expense.
- Transition based on a “modified retrospective approach” which affects the earliest year presented in comparative financials.
- There are a number of business areas affected by this standard: Education, Systems, Negotiations, Lease vs. Buy.
- Understand the effects on financial presentations and ratios that affect covenants, contract terminology, etc.
- The standard is 500+ pages with all of its background material. *There is no time like the present* to determine how this will affect clients.



New Standards for NFP's

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Presenter



SANDY ROSS, CPA, CFE

Partner, Non-Profit Services Group

Sandy has a passion for helping the nonprofit community and works with clients and community organizations throughout all phases of the nonprofit life cycle from application to dissolution.



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New Standards for NFPs

1. Net Asset Classes – 3 go to 2
2. Investment Return
3. Classification of Expenses
4. Statement of Cash Flows
5. Liquidity Disclosures

Net Asset Classes

Current Guidance

Unrestricted

- Available for current operations
- Board Designated Net Assets
- Invested in Property and Equipment

Temporarily Restricted

- With donor restrictions that expire once a purpose is accomplished or with the passage of time

Permanently Restricted

- Donor restrictions that do not expire
- Funds to be held in perpetuity
- Endowment Funds

Net Asset Classes

New Guidance

- Unrestricted

**Without Donor
Imposed
Restrictions**

- Temporarily Restricted
- Permanently Restricted

**With Donor
Imposed
Restrictions**

Net Asset Classes After December 15, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,084	\$ -	\$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759
Accumulated investment gains	-	35,201	35,201
Term endowment	-	4,388	4,388
Total funds	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

Investment Return

Current Guidance:

- Investment income and investment expenses separately
- Investment income net of expenses (note disclosure required)

New Guidance:

- Investment income net of expenses

Classification of Expenses

New Guidance

	Program Activities				Supporting Activities			Total Expenses
	A	B	C	Programs Subtotal	Management and General	Fund-Raising	Supporting Subtotal	
Salaries and benefits	\$ 7,400	\$3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	750	1,925	4,750				4,750
Supplies and travel	890	1,013	499	2,402	213	540	753	3,155
Services and professional fees	160	1,490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	171	96	68	335	27	20	47	382
Total expenses	<u>\$13,296</u>	<u>\$8,649</u>	<u>\$ 5,837</u>	<u>\$ 27,782</u>	<u>\$ 2,038</u>	<u>\$2,150</u>	<u>\$ 4,188</u>	<u>\$ 31,970</u>

Classification of Expenses

Footnote example:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Statement of Cash Flows

- Current Guidance:
 - Direct Method with indirect reconciliation of operating activities
 - Indirect Method
- New Guidance:
 - Direct Method
 - Indirect Method

Liquidity Disclosure Sample

The following reflects Not-for-Profit Entity A's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

Liquidity Disclosure Sample, Continued

Financial assets, at year-end	\$ 234,410
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(11,940)
Subject to appropriation and satisfaction of donor restrictions	(174,700)
Investments held in annuity trust	(4,500)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(36,600)
Amounts set aside for liquidity reserve	(1,300)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,370</u></u>

Liquidity Disclosure Sample, Continued

Not-for-Profit Entity A is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Not-for-Profit Entity A must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Not-for-Profit Entity A's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Liquidity Disclosure Sample, Continued

In addition, Not-for-Profit Entity A invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, Not-for-Profit Entity A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.



Information Security and Fraud

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Presenter



Daniel Andrea, CPA, CITP, CISA

Partner, Information Security Services Group

Dan has over 30 years of experience in public accounting and specializes in the performance of forensic accounting and litigation support procedures, SOC examinations, internal accounting controls assessments and information technology consulting services.



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Agenda

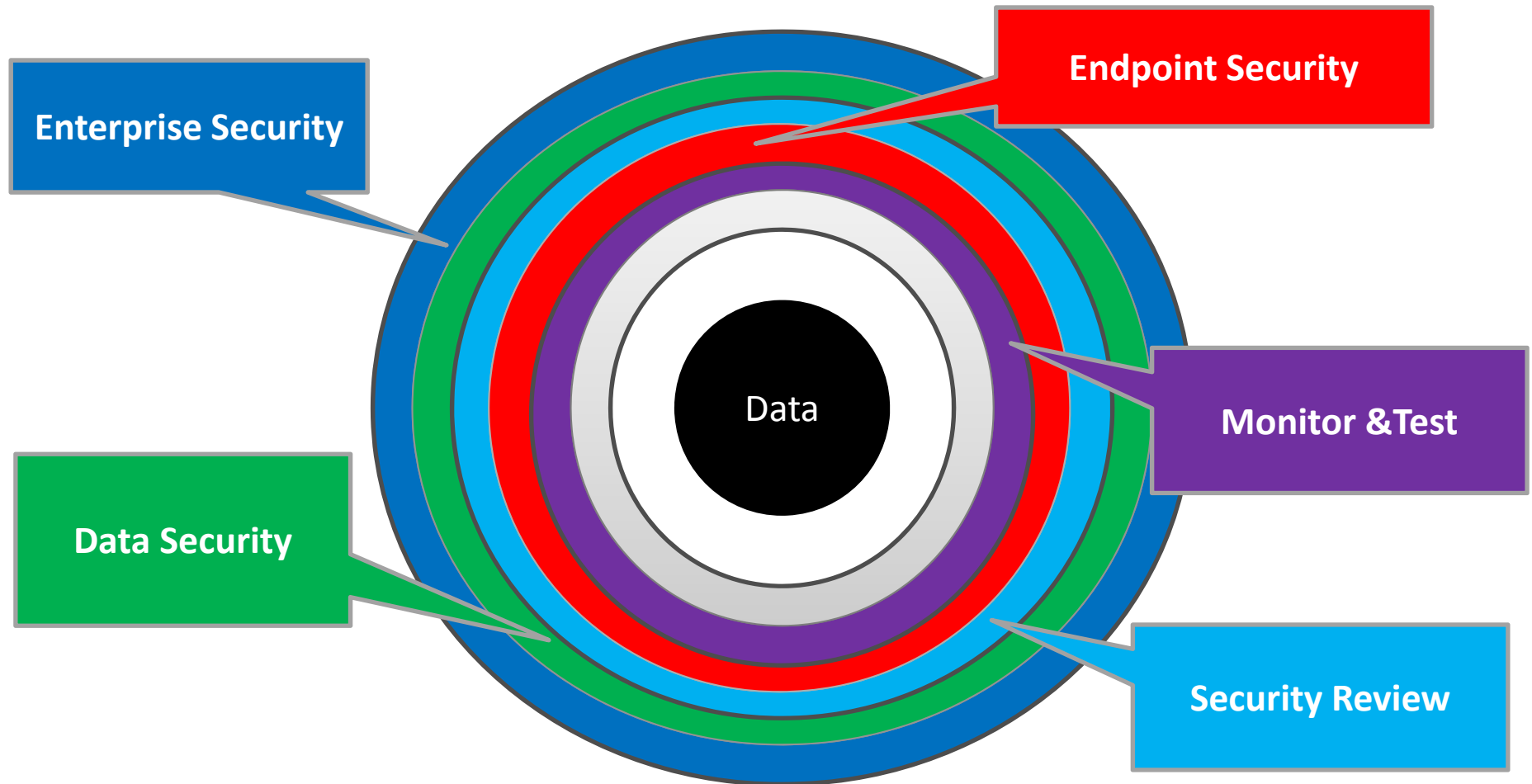
- Infosec and Fraud
- Cyber Security
- How we can help

Infosec and Fraud

Pricing on the *Dark Web*.....

Item	Price
Company A/C (at UPS, Fedex)	\$8
Credit Card (CC#, expiration date, CVV)	\$8 (USA) \$18 (Euro, Asia)
Bank Accounts (>\$70K)	\$300
Targeted DoS	\$400 - \$600
Social Security Card	\$250
Fake non- US Passport	\$500

Infosec and Fraud – *Security Framework*



Infosec and Fraud – *Some Essential Controls*

- Data Classification
- Data Mining
- Patch Management
- Administrative Privilege Control
- Intrusion Protection and Intrusion Detection Systems (IPS/IDS)
- Segmenting the network
- Encryption
- Multifactor Authentication
- Data Loss Prevention (“DLP”) software
- Restricted Internet Access from all endpoints
- Passphrase vs. password policies
- Limit Removable Media
- Wireless Network Management
- Social Engineering
- **User Education**



Infosec and Fraud – *Email Spoofing*

From: Christopher D. Mordas
To: **IT Department**
Cc: Daniel M. Andrea
Subject: FW: My last email?

Is this a bogus e-mail? Dan if it isn't my apologies...

From: Daniel Andrea [<mailto:dandrea@kahnlitwin.com>]

Sent: Monday, July 25, 2016 2:08 PM

To: Christopher D. Mordas

Subject: My last email?

Christopher,

did you receive my last email with an attached instruction for General Trading Inc.?



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Some Fraud War Stories

- Wire Transfer Fraud
- Fictitious Vendors
- Check Forgery
- Payroll transaction file manipulation

A dark blue background with a grid of white padlocks of varying sizes. Some padlocks are open, while others are closed. White lines and binary code (0s and 1s) are scattered across the background. The words 'PROTECTION', 'INFORMATION', 'DATA', 'SECURITY', 'PRIVACY', 'SAFETY', 'SECRET', 'CODE', and 'PASSWORD' are written in white, stylized fonts, some following the lines of the grid. The text 'Cyber Security' is written in a large, white, sans-serif font in the center.

Cyber Security

Cyber Defense – 5 Themes



1. Awareness
2. Governance
3. Systems
4. Process
5. Strategy

How to Prepare for a Cyber Attack

- Risk Assessment
- Incident Response Team
- Share Information with others
- Test the Response Plan
- Fulfill Legal Obligations



Services We Provide

- Information Technology Risk Assessments and Audits
- Cyber Security Audits
- Data Privacy Audits
- Social Engineering Audits
- Service Organization Control (“SOC”) Examinations



Let's Connect

Questions?

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