



<RETHINK> *Financial Reporting for Government Contractors*

Our Speakers



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- Webinar recording will be available via:
 - FedPoint blog: <http://www.aronsonllc.com/blogs/fedpoint>
 - Post-webinar email
- Questions:
 - During the Webinar
 - Use the Q&A section/window
 - Afterward
 - Send questions to jmcelhaney@aronsonllc.com
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The Players



Private Company
Council (PCC)



Convergence – Revenue
Recognition



Financial Reporting
Framework

Why are we talking about this?

- Complexity of current financial reporting compliance
- Value-add for private companies
- FASB's Simplification Initiative
- Recent PCC momentum
- Issuance of GAAP alternatives
- Standards continue to change



Our Agenda

What You Will Learn

- GAAP financial reporting alternatives
- AICPA's Alternative Financial Reporting Framework
- Future GAAP projects

Potential Benefits

- Reduced burden
- Less confusion for financial statement users
- Fewer disagreements with your auditors
- Save time and money!



New Accounting Alternatives

New Accounting Alternatives

- PCC
 - **Goodwill** alternative
 - **Variable Interest Entity** alternative
 - **Hedging** alternative
- AICPA
 - **Financial Reporting Framework** for Small and Medium-Sized Entities
- FASB
 - **Revenue Recognition**

Hot Off The Press!!!

PCC Alternatives – Applicability

Private company:

“Any entity other than a public business entity, a not-for-profit entity, or an employee benefit plan...”

Public business:

An entity meeting any one of several criteria:

- Is required to, or does voluntarily, file or furnish financial statements by the SEC
- Is required by the Securities Exchange Act of 1934 to file or furnish statements with a regulatory agency (other than the SEC)
- Is required to file or furnish statements with a foreign or domestic regulatory agency in preparation for the sale or issuance of securities not subject to restrictions on transfer
- It has issued securities that are traded, listed, or quoted on an exchange or over-the-counter market.
- It has securities that are not subject to transfer and is required by law, contract or regulation to prepare GAAP financials and make them publicly available

Goodwill

Accounting Standards Update 2014-02 Intangibles – Goodwill and Other (Topic 350)

- Released January 2014
- Available for any open financial statement, accounting election
- Allows for the amortization of Goodwill on the books or due to future transactions
- Less onerous impairment analysis



Goodwill – Benefits

- More certainty in budgets and forecasts
 - Steadily decreasing carrying value of Goodwill asset
 - Amortization of Goodwill over 10 year period (maximum)
- Simplifies financial statements
- Eases impairment analysis requirements
 - Only when a “triggering event” occurs; no longer annual
 - Modified Step 2 – excess of carrying amount over fair value



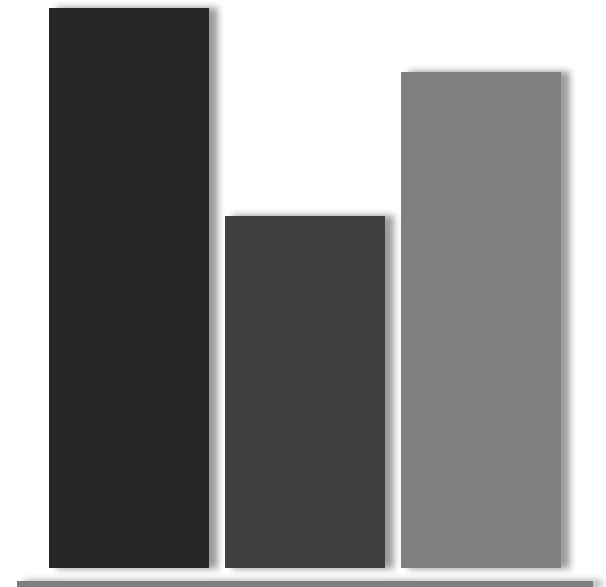
Goodwill – Considerations

- Consult with stakeholders (e.g., affects on bank covenants)
- Goodwill amortization not allowable under FAR
 - No change
- Effects on exit strategy
 - If a public buyer, alternative not available
- FASB consideration for all companies on-going

Goodwill – Audience Poll

Have you adopted this alternative?

- Yes. It's awesome!
- No, but I'd like to
- I'm not sure it's right for my company
- I have no idea



Variable Interest Entities

Accounting Standards Update 2014-07 Consolidation (Topic 810)

- Released March 2014
- Applicable to current and future arrangements
- Only applies in the case of common control leasing arrangements
- Removes the typical qualified opinion, but many disclosures are the same

VIE Criteria – Do You Meet Them?

1. Companies under common control
2. Lease arrangement exists
3. Substantially all of the activities between the companies are related to leasing activities (including supporting activities)
4. If lessee explicitly guarantees or provides collateral for any obligation of the lessor related to the asset leased, then the principal amount of the obligation or guaranteed or amount of collateral (at inception) does not exceed the value of the asset

Variable Interest Entities - Benefits

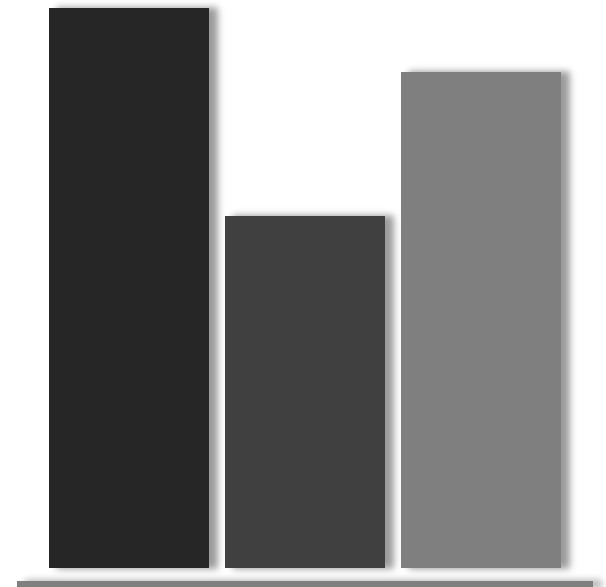
- Potential to eliminate a qualified opinion
 - Unqualified = Better
- Reduces confusion for typical financial statement users
 - Proposals (assess financial capability)
 - Banks
 - Leasing companies
 - Bonding companies
- One less thing to argue over



VIE – Audience Poll

Does VIE apply to you?

- Yes
- No
- Not Certain



Hedging

Accounting Standards Update 2014-03 Derivatives and Hedging (Topic 815)

- Released January 2014
- Applicable to current and future arrangements
- Receive-variable, pay-fixed interest rate swaps only
- Reduces complexity of classifying a swap as hedge accounting



Hedging – Benefits

- More easily ‘arrive’ at cash flow hedge accounting treatment
- Provides some relief from difficult and confusing disclosures



AICPA Financial Reporting Framework (FRF)

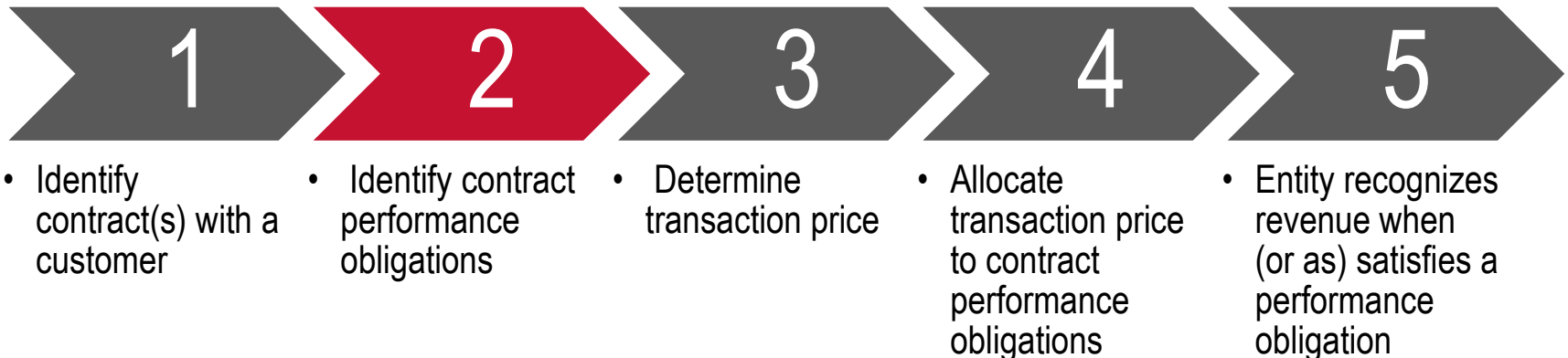
- Not authoritative guidance
- Only applicable when NON-GAAP statements are acceptable
 - Think “tax basis”, Other Comprehensive Basis of Accounting (OCBOA)
- Historical cost - No fair value
- Targeted disclosures only

Not likely for GovCons

Revenue Recognition – Hot Off the Press!

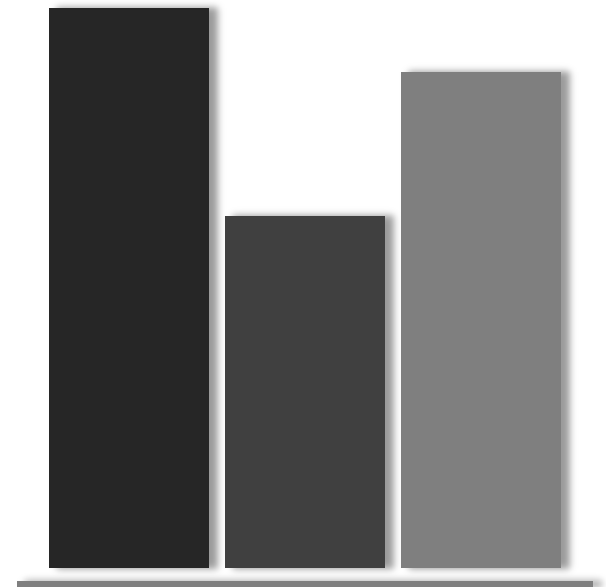
- Single standard
- Most affected industries:
 - Software
 - Telecom
 - Real estate
- Transition dates
 - Jan 1, 2017 for public
 - Jan 1, 2018 for private

Revenue Recognition – 5 Step Process



Do you believe this change will have a significant effect on your accounting operations?

- Yes
- No
- Not certain





Changes on the Horizon

On the Horizon – PCC Projects Underway

- Intangible assets (other than goodwill)
 - Discussing two alternatives
- Definition of a Public Business Entity
- Advising on current FASB projects



On the Horizon – FASB Projects

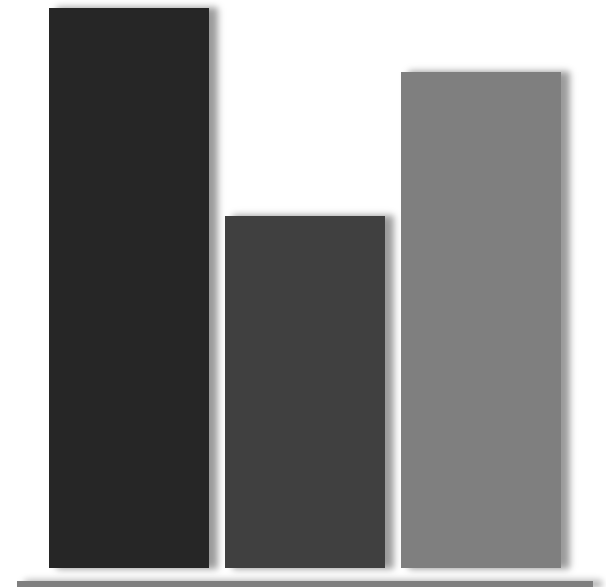
- ~~Revenue Recognition~~ **Issued May 28th**
- Financial instruments
- Leases
- Goodwill for public companies
- FASB and IASB convergence?



On the Horizon poll

Do you think the lease standard will ever be issued?

- I'm a believer, so yes
- Not in my lifetime
- Not in my kids' lifetime
- I dunno.





Wrap Up

Wrap Up: Private Company Accounting Getting Easier



Reduce Reporting Burden



Less Confusion



Fewer Disagreements



Save Time & Money

Post-Webinar Logistics

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