



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

**Inspection of
Goldman Kurland and Mohidin, LLP
(Headquartered in Encino, California)**

**Issued by the
Public Company Accounting Oversight Board**

August 9, 2011

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2011-224



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



INSPECTION OF GOLDMAN KURLAND AND MOHIDIN, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Goldman Kurland and Mohidin, LLP^{1/} ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Firm has issued audit reports under the names of Goldman Parks Kurland Mohidin and Goldman Parks Kurland Mohidin LLP.

^{2/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

^{3/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from November 9, 2009 to November 23, 2009. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Encino, California)
Ownership structure	Limited liability partnership
Number of partners	4
Number of professional staff ^{4/}	10
Number of issuer audit clients ^{5/}	24

^{4/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{5/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{7/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of four issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in two of the audits reviewed included deficiencies of such

^{6/} This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

^{7/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{8/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration*

significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{9/} Those deficiencies were –

- (1) the failure to perform audit procedures to test the fair value of certain assets acquired;
- (2) the failure to perform audit procedures to evaluate the accounting for convertible note transactions;
- (3) the failure to perform sufficient audit procedures to evaluate a sales-type lease transaction; and
- (4) the failure to perform sufficient audit procedures to test the valuation of stock options and to evaluate the modification of stock options.

of Omitted Procedures After the Report Date, and AU 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

^{9/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



PCAOB Release No. 104-2011-224
Inspection of Goldman Kurland and
Mohidin, LLP
August 9, 2011
Page 6

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.^{10/}

^{10/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.



June 27, 2011

Helen A. Munter
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Goldman Kurland and Mohidin, LLP's (GKM) response to the PCAOB's Inspection Report

The following response to the PCAOB's Report of Inspection may be publicly available with the issuance of the final report if the PCAOB's comments are going to be publicly available. However, if the PCAOB's comments are nonpublic, then GKM's response should be nonpublic as well.

A. Insufficiently Supported Audit Opinions

1. Issuer A

Fair value of assets acquired

The inspection team included breeder hogs (sows and boars) in Issuer A's \$16.1 million of property and equipment. In addition, construction in progress of \$1.4 million consisted of preparatory growing breeder hogs. GKM's working papers presented to the inspection team contained tests of fair values of the breeder hogs. We used market prices from relevant websites and subsequent sale prices to substantiate fair values for reasonableness. As most of the assets were animals purchased for inventory or breeding (fixed assets), each animal is different; therefore, a range of prices was documented in the working papers to assess reasonableness of the fair values assigned.

Your report indicates GKM did not test the fair values of any asset acquired. This is incorrect. We are not sure why the inspection team made this comment. In response to the comment by the inspection team, we stated US auditing standards do not require an auditor to test the values of 100% of the assets acquired. The issuer acquired about 28 hog farms in 2008.

Property and Equipment consisting of buildings and machinery totaling \$2.4 million of \$67.6 million of total purchase price. Buildings include pig and breeding houses. Equipment included ultrasound machines and cooling fans. We tested approximately 30% or \$20 million of the \$67.6 million of cost of total assets acquired.

In addition, after the audit, as stated in our response to the PCAOB, we requested Issuer A obtain an independent valuation of certain buildings and machinery acquired as part of the hog farms acquisitions. We reviewed the valuation reports for reasonableness of assumptions used and sources of data obtained by the appraiser. In addition, we ascertained the appraiser's qualification and experience.

We believe we audited a sufficient part of the total acquisition cost. However, \$2.4 million of PP&E is material to Issuer A. Issuer A valued these assets by hiring a third party valuation firm. We tested the valuation of buildings and machinery for reasonableness of cost per square meter taking in to consideration the type of construction. Our primary interest was to test for understatement of PP&E, as goodwill is not amortized but tested for impairment. Therefore, we believe Issuer A's inclination was to understate PP&E to reduce depreciation charges to the income statement.

2. Issuer B

(a) Convertible Note

Conversion expense was not recorded for the equity forward as the **Beneficial Conversion Factor (BCF) exceeded the face amount** of the note; therefore, there was nothing which could be allocated to the equity forward or any other financial instrument. This was also true for the second convertible note. Accordingly, no value was assigned to the option to purchase additional shares.

At the time of issuance of this note, Issuer B's stock price was \$2.60 and the note's conversion price was \$1.23. Hence, the BCF was \$1.37 per share, \$2.60 - \$1.23. As this exceeded \$1.23, there was nothing that could be allocated to the equity forward.

The issuance of shares and the conversion was initially recorded as such because the Company contended the payment was made for the shares showing us agreements for cross receipts. About a year later, we concluded the Company made an error in recording the rescission transaction as an issuance of stock for cash and a payment of the convertible note. In substance, the Company converted the note for common stock. Accordingly, the unamortized BCF at the date of the rescission was charged to the income statement in accordance with ASC 715-30-35-73 (EITF 00-27).

(b) Sales Type Lease

- **Adequacy of gross margin rate**

As indicated by Issuer B in its 10-K and 10-K/A, the Company does not have any competitor. There is no other company doing quite the same as Issuer B. Issuer B has never sold any equipment for cash. As indicated above, management considers a 30% margin on cost in its bidding process. GKM compared the gross profit margin of three other companies in the energy saving business and noted that their gross profit margins ranged from 25%-35%. Issuer B's consultants used a 13% incremental borrowing rate to ascertain the reasonableness of the interest rate implicit in the lease. We believe this was like comparing apples to oranges. The interest rate implicit in a lease has nothing to do with a Company's cost of capital or its incremental borrowing rate. The consultants did not understand Issuer B was the lessor, not lessee.

When the financial statements were being restated, Issuer B wanted to use the 13% incremental borrowing rate computed by its consultants. Using a borrowing rate of 13%, the S lease would have a margin of 85% on cost. As a result of which, Issuer B would have recorded an additional RMB 23.5 million as gross profit in 2008. This would increase net income by RMB 23.5 million (\$ 3.5 million). We believe the 13% rate was arbitrarily computed and irrelevant per FASB 13 paragraph 5(k).

Accordingly, GKM believes the 30% margin is reasonable and in line with management's expectation as well as our knowledge of the range of gross profit margins in the equipment manufacturing industry. Besides, the 30% rate was consistently applied for all years presented.

- **Test whether the lease transfers ownership of the property to the lessee by the end of the lease term**

ASC 840-10-2-1 does not state that the transfer of ownership should take place **at the end** of the lease term. Rather it states that the ownership should be transferred **by the end** of the lease term.

Regardless of the date of transfer of ownership, the Company and the lessor amended the contract on November 7, 2008 to transfer the ownership at the end of the 5 year operating period. We have a copy of the change in transfer term, which was shown to the inspection team. Again, we agree with the inspection team that this document was not part of the Engagement Manager file given to the inspection team. Nevertheless, the document exists.

We note that SFAS 13 paragraph 7 states, "If at its inception (as defined in paragraph 5(b)) a lease meets one or more of the following four criteria, the lease shall be classified as a capital lease." Paragraph 8 extends this four criteria test to lessors.

A lease can be a capital lease even if it does not transfer ownership at the end of, or during the lease if it meets one of the other three tests. It was clear that under any reasonable interest rate assumption, the lease in question failed the "90% test" in SFAS 13 paragraph 7(d), so we feel this issue is moot.

- **Test whether the collectability of the minimum lease payments is reasonably predictable; and**

We agree with the inspection team that the procedure was not properly documented in our audit file. The S group of which the lessor, T is a subsidiary, is one of the largest producers of cement in China's Shanxi province. The group has assets in excess of \$200 million and is profitable. In addition, the project itself is collateralized by the lessees' obligation under the lease. Therefore, we concluded that collectability of the minimum lease payment was not an issue.

- **Test whether there is no important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.**

We read the contract and based on discussions with Issuer B's management, concluded that Issuer B did not provide an unconditional guarantee of performance beyond the standard warranty. Issuer B had to estimate the executory costs, which included maintenance and running of the equipment. Although we agree with the inspection team that there was some ambiguity in the contract and the English translation thereof, Issuer B was not subject to significant uncertainties regarding unreimbursable costs. In 2009, Issuer B subcontracted the maintenance work to a third party for approximately the same amount as the estimated executory costs.

(c) Stock Option Transactions

Volatility is an accounting estimate. The auditors' responsibility is to ensure that the accounting estimate used by the client is reasonable. A volatility factor based on historical volatility of 200% or 300% would

result in the call option value equal to about 98-99% of the stock price. We believe no one would pay an amount close to the actual price of the stock for an option to buy that stock at a price greater than the stock price itself. Therefore, GKM accepted Issuer B's volatility estimate of 100%. In addition, Issuer B has followed this practice consistently. Further, Issuer B's consultant, MMK computed a volatility estimate of 60-88%. However, MMK did not include one of the companies which had a historical volatility of over 200% stating this Company was an outlier and had abnormal high volatility as its reason for not including this Company's data. We concluded MMK arbitrarily excluded this "outlier" making MMK's 60-88% volatility estimate arbitrary.

GKM believes that Issuer B properly accounted for the cancellation as a modification and followed the spirit of ASC 718-10-10-1(FAS 123R, Paragraph 9 of FAS 123R), stated as follows:

"The objective of accounting for transactions under share-based payment arrangements with employees is to recognize in the financial statements the employee services received in exchange for equity instruments issued or liabilities incurred and the related cost to the entity as those services are consumed."

We believe ASC 718-20-35-9 (FAS 123R paragraph 57) contradicts ASC 718-10-10-1 as compensation cost should not be recorded for share based awards that do not vest and for which the employee has not rendered any service.

If Issuer B had strictly followed ASC 718-20-35-9, it would record option expense for the earlier options as well as for the new options for the same employees covering the same time period.

Unvested options for employees who were not awarded options on August 4, 2008 were expensed in accordance with ASC 718- as these were still employed by the Company.

Redacted - Comments on Non-public Aspects of Report