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CHANGES YOU MIGHT SEE IN THE CURRENT YEAR AUDIT PROCESS...

By Scott Dahlberg | HHM

Whether it is the governing bodies promulgating new standards, or changes in technology and techniques to improve audit procedures, the accounting and auditing profession is in a constant state of change. This year, you can expect to see several changes in the accounting standards, as well as in the audit procedures applied to your engagements.

There are two new accounting standards which will affect virtually all financial statements issued this year.

FASB Statement No. 165, Subsequent Events (as amended), became effective for interim or annual financial periods ending after June 15, 2009. FASB Statement No. 165 requires disclosure in the financial statements indicating the date through which management has evaluated for subsequent events that should be disclosed in the financial statements. FASB Statement No. 165 also requires disclosure of the basis for that date (i.e. whether it is the date the financial statements were issued or the date the financial statements were available to be issued). Therefore, financial statements for periods ending after June 15, 2009 will include a new disclosure to reflect this change.

FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (as amended), became effective on September 15, 2009. FASB Statement No. 168 codifies existing standards into one source of authoritative US GAAP, but does not change the substance of the accounting standards. Therefore, you should not expect to see changes in the application of accounting principles based on the codification. However, if financial statements previously made reference to an accounting standard, the reference will now reflect the new codified reference. For example FASB Statement No. 157, Fair Value Measurements, will now be known as FASB ASC 820-10.

In addition to the new accounting standards issued, you can also expect some changes in audit practices this year.

Electronic Confirmations with Financial Institutions - Several banks, including Bank of America, BB&T, First Tennessee, and US Bank, either prefer or require that confirmations be performed electronically. The service provider for the electronic confirmations is HYPERLINK "<http://www.Confirmation.com>". The fee for using this service is \$5 each for the first five confirmations, and \$0.50 each for subsequent confirmations. The electronic confirmation process should reduce the time spent by clients and auditors in preparation of confirmations.

New Dimensions in the Consideration of Fraud - Historically, auditors considered the Fraud Triangle Theory when considering the risk of fraud in financial statement audits. The fraud triangle theory includes the three components, Pressure, Opportunity, and Rationalization. However, new research has indicated that the Fraud Diamond Theory may be more appropriate. The Fraud Diamond Theory adds Capability to the three aforementioned components, as research shows a pattern of people who are capable of committing fraud. As SAS No. 99, Consideration of Fraud in a Financial Statement Audit requires auditors to consider the predictability of audit procedures, clients should be prepared for changes in the type and timing of audit procedures.

The items discussed above are just a sampling of some of the changes that you can expect to see this year. Your audit team will be in touch with you in the coming weeks to begin planning your audit and will inform you of any other changes that may affect your engagement.

ENTERPRISE RISK MANAGEMENT

Applicable to Small Companies?

By Stephanie Graham | HHM

In the last decade, organizations have been facing increased risk due to more complex business transactions along with a rapidly changing business environment. The growing consensus is that organizations must take a more comprehensive view of the risks they face. In response to this, many organizations are implementing an Enterprise Risk Management (ERM) process to evaluate risks. ERM is a top down approach where companies identify the risks across the entire organization and link the identified risks with strategic decision making. The purpose of ERM is to look at the risks associated with all of a company's assets, which not only includes financial assets but also human resources, intellectual property, facilities, suppliers, and many more. An organization should consider current risks as well as potential future threats.

In 2004, the Committee of Sponsoring Organizations (COSO) of the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) published Enterprise Risk Management - Integrated Framework. The COSO framework identifies eight interrelated components of enterprise risk management:

- Internal environment
- Objective setting
- Event identification
- Risk assessment
- Risk response
- Control activities
- Information and communication
- Monitoring

While the COSO framework is applicable to public companies, there are many benefits to an ERM approach to smaller, non-public companies. The COSO framework can be simplified and adapted for use in all sizes of organizations. There is a misperception that an ERM process must be complex to be effective and that companies must have a multitude of checklists, models, and reports. However, studies suggest that over-reliance on quantitative measures and reports may be a contributing factor to failure of the ERM process. No matter what the size of an organization, there are four key factors to implementing an effective ERM approach:

- Involvement of key management personnel, owners, and the Board of Directors (if applicable),
- Use processes and controls that are already in place, and build on those processes,
- Begin with a simple approach that creates an environment of risk awareness and identification, and
- Know that the ERM process will evolve over time as the organization becomes more comfortable with the process.

The goal of ERM is not to lower risk, but to allow organizations to more effectively weigh risks against potential rewards. Every company has a different risk tolerance, and therefore ERM should be implemented in a manner that works best for each organization.

FEDERAL DEPOSIT INSURANCE CORPORATION EXPANDED COVERAGE

Co-Tenancy Provisions

By Bobby Vercoe | HHM

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the federal government whose mission is to maintain stability and public confidence in the nation's financial system. One of the ways the FDIC achieves its mission is through insuring deposits in financial institutions which are part of the FDIC. Since its inception in 1933, the FDIC has never had an instance where an insured deposit has not been recovered by the depositor.

Coverage with the FDIC automatically begins once you open an account with a FDIC insured institution. Accounts that are covered include: checking and savings accounts, money market deposit accounts, and certificates of deposit. Accounts that are not covered include stocks, bonds, mutual fund shares, life insurance policies, annuities, or municipal securities.

In response to troubled economic times, in October 2008 the FDIC increased coverage from \$100,000 for most deposit accounts to \$250,000. This temporary increase was set to expire on December 31, 2009, but in May 2009 Congress extended coverage through December 31, 2013. The following table outlines FDIC coverage limits through December 31, 2013:

Single Accounts (owned by one person)	\$250,000 per owner
Joint Accounts (two or more persons)	\$250,000 per owner
Certain Retirement Accounts (includes IRAs)	\$250,000 per owner
Corporation, Partnership, and Unincorporated Association Accounts	\$250,000 per corporation, partnership, or unincorporated association
Revocable Trust Accounts	\$250,000 per owner per beneficiary up to 5 beneficiaries
Irrevocable Trust Accounts	\$250,000 for the non-contingent, ascertainable interest of each beneficiary
Employee Benefit Plan Accounts	\$250,000 for the non-contingent, ascertainable interest of each beneficiary
Government Accounts	\$250,000 per official custodian

Starting January 1, 2014, the FDIC insurance coverage will return back to the previous coverage of \$100,000 for all accounts other than certain retirement accounts. For those retirement accounts, including IRA accounts, the coverage has been permanently changed to \$250,000.

The FDIC website has an Electronic Deposit Insurance Estimator (EDIE) to help depositors determine FDIC coverage. For more information on this tool, go to FDIC.gov or MyFDICinsurance.gov.

FIN 48

Now effective for all entities

By Kevin Lusk | HHM

In July of 2006, the Financial Accounting Standards Board (FASB) issued an interpretation of Statement 109 - Accounting for Income Taxes. This interpretation - FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes, was initially effective for ALL entities for fiscal years beginning after December 15, 2006. However, implementation for nonpublic companies was subsequently deferred in 2007, and again in 2008. Those deferral periods are now over, so for fiscal years beginning after December 15, 2008, all entities that issue financial statements in accordance with Generally Accepted Accounting Principals (GAAP) are required to address FIN 48.

In addressing FIN 48, entities need to consider all of the factors related to material tax positions and make a determination if those positions have a “more likely than not” likelihood of being sustained by the taxing authority, assuming that the taxing authority has full knowledge of all relevant information. Therefore, companies that prepare GAAP basis financial statements will now need to assume that their tax returns will be audited when considering income taxes for financial statement purposes. If an entity has a tax return that contains a tax position that does not have greater than a 50% likelihood of being sustained under audit, the potential implications will need to be addressed and disclosed under FIN 48.

When assessing whether an entity’s tax return contains an uncertainty in a tax position, FIN 48 has indicated that consideration should be given, but is not limited to, the following:

- Decision to not file a tax return in a particular jurisdiction.
- Characterization of income.
- Decision to exclude types of income from tax returns.
- Decision to classify transactions as tax exempt.

For example, suppose a company doing business in multiple states has historically only filed a state income tax return in its home state. The company has been advised in the past that it has tax filing obligations in other states, but has taken the position that it was unlikely that the other states would find and audit the company, and therefore no tax obligation was recorded. Under FIN 48, the company is now required to assume that it will be audited by each of those states and should report its income tax exposure to

the other states in its GAAP financial statements.

As you can see, the implications of FIN 48 can be far reaching. Successful implementation of FIN 48 requires careful consideration of all significant tax positions. Since the determination of a “more likely than not” tax position is driven by facts and circumstances, it is important to document the relevant facts and conclusions related to all significant tax positions.

As with any new pronouncement, it is beneficial to talk with your auditors to develop a plan for implementation of the standard.

2010 COST-OF-LIVING ADJUSTMENTS FOR QUALIFIED RETIREMENT PLANS

The Internal Revenue Service announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for tax year 2010.

Code Section	2010	2009	2008	2007
401(a)(17)/404(l) Annual Compensation	\$245,000	\$245,000	\$230,000	\$225,000
402(g)(1) Elective Deferrals	16,500	16,500	15,500	15,500
408(k)(2)(C) SEP Minimum Compensation	550	550	500	500
408(k)(3)(C) SEP Maximum Compensation	245,000	245,000	230,000	225,000
408(p)(2)(E) SIMPLE Maximum Contributions	11,500	11,500	10,500	10,500
409(o)(1)(C) ESOP Limits	985,000 195,000	985,000 195,000	935,000 185,000	915,000 180,000
414(q)(1)(B) HCE Threshold	110,000	110,000	105,000	100,000
414(v)(2)(B)(i) Catch-up Contributions	5,500	5,500	5,000	5,000
414(v)(2)(B)(ii) Catch-up Contributions	2,500	2,500	2,500	2,500
415(b)(1)(A) DB Limits	195,000	195,000	185,000	180,000
415(c)(1)(A) DC Limits	49,000	49,000	46,000	45,000
416(i)(1)(A)(i) Key Employee	160,000	160,000	150,000	145,000
457(e)(15) Deferral Limits	16,500	16,500	15,500	15,500
1.61-21(f)(5)(i) Control Employee	95,000	95,000	90,000	90,000
1.61-21(f)(5)(iii) Control Employee	195,000	195,000	185,000	180,000
219(b)(5)(A) IRA Contribution Limit	5,000	5,000	5,000	4,000
219(b)(5)(B) IRA Catch-Up Contributions	1,000	1,000	1,000	1,000
219(b)(5)(B) IRA Catch-Up Contributions	1,000	1,000	1,000	1,000
Taxable Wage Base for Social Security	106,800	106,800	102,000	97,500

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