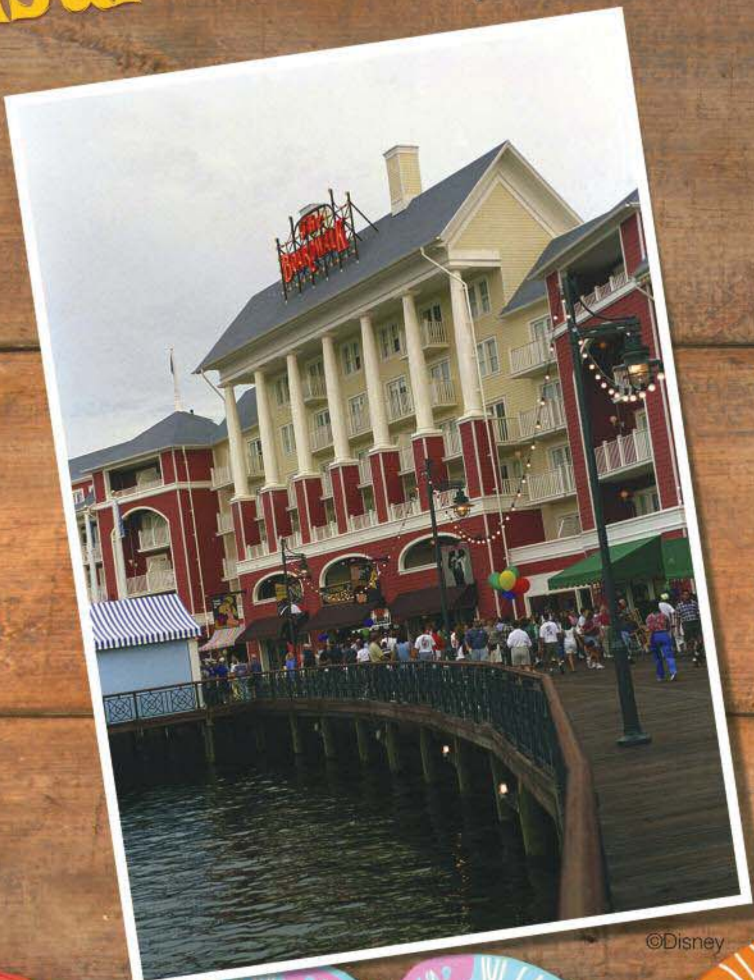
Leisure and Learning

The Perfect Pair



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Summer Vacation Cluster

FICPA

July 28-30, 2011
Disney's BoardWalk Inn • Lake Buena Vista, FL

NEW LOCATION!

Summer Vacation Cluster

July 28 - 30, 2011

Orlando

Thursday, July 28, 2011

8:15–8:45 a.m. **Session I Registration**

8:45 a.m. - 12:15 p.m.

Lynn H. Clements, DBA, CPA, CMA, CFM, CFE, Cr.FA
Professor of Accounting / Florida Southern College
Lakeland

1:00–1:30 p.m. **Session III & IV Registration**

1:30-5:00 p.m.

Cecil Patterson, Jr., CPA, MBA
Patterson CPA Group, Inc.
Ponte Vedra Beach

1:30-5:00 p.m.

Gerald L. Hemness, Esq.
Attorney / Emma Hemness, PA
Brandon

Friday, July 29, 2011

8:15–8:45 a.m. **Session V & VI Registration**

8:45 a.m. - 12:15 p.m.

Cecil Patterson, Jr., CPA, MBA
Patterson CPA Group, Inc.
Ponte Vedra Beach

8:45 a.m. - 12:15 p.m.

Russell F. Dunn
Tenured Professor / Broward College
President & Sole Shareholder / Dunn & Co. CPAs, P.A.
Hollywood
and
Lois Dunn
§ 263ª Technical Advisor / Internal Revenue Service
Plantation

Saturday, July 30, 2011

What's Up With Fraud?

Lynn H. Clements, DBA, CPA, CMA, CFM, CFE, Cr.FA

Lynn H. Clements,
DBA, CPA, CMA, CFM, CFE, Cr.FA
Professor
Florida Southern College

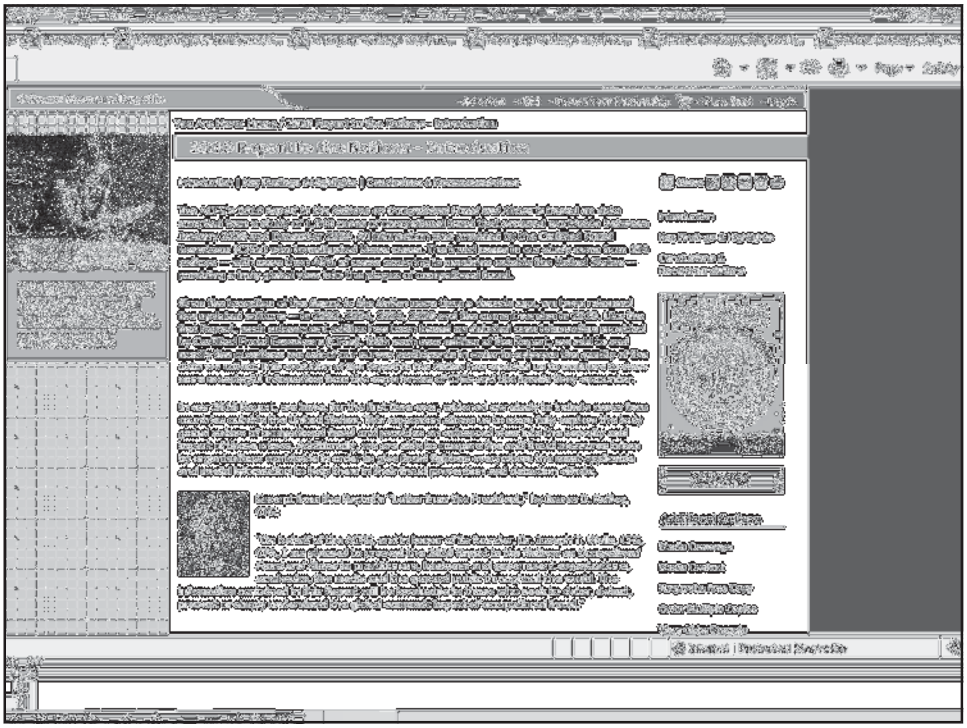
Dr. Lynn H. Clements, Professor of Accounting at Florida Southern College, began as an adjunct instructor in 1984, and as a full-time instructor in 1990. After earning her Bachelor of Science degree at Florida Southern College, she practiced public accounting for 6 years, and then earned the Master of Business Administration degree at FSC. She has been certified as a Florida CPA since 1980, as a CMA (Certified Management Accountant) since 1992, as a CFM (Certified in Financial Management) since 1997, as a Cr.FA (Certified Forensic Accountant) since 2002, and as a CFE (Certified Fraud Examiner) since 2004. She is a member of the Florida Institute of Certified Public Accountants, American Institute of Certified Public Accountants, the Institute of Management Accountants (IMA), the American Accounting Association, and the Association of Certified Fraud Examiners. Lynn earned her Doctor of Business Administration degree from Nova Southeastern University in March 2002. Her interests include family activities, reading, travel, and music.

What's Up With Fraud?
July 28, 2011

Dr. Lynn H. Clements
CPA CMA CFM Cr.FA CFE

Objectives

- Current events:
  - RTTN
  - Madoff update
  - Frauds during economic downturn
- Case Study: Cariboo
- CFE or CFF?
- Discussion questions



2010 Report to the Nations: Findings

- The typical organization loses 5% of its annual revenue to fraud
- Median loss = $160,000
- Nearly 25% of frauds are in excess of $1 million
- Before detection, frauds lasted a median of 18 months
- Most common fraud: asset appropriations (but they are the least costly)

http://www.acfe.com/rttn/2010-rttn.asp

2010 Report to the Nations: Findings (continued)

- Financial statement frauds are the most expensive
- Occupations frauds are most often detected by tips
- Smaller organizations are most vulnerable
- Industries:
  - Banking/financial services
  - Manufacturing
  - Government/public administration

http://www.acfe.com/rttn/2010-rttn.asp

2010 Report to the Nations: Findings (continued)

- High-level perpetrators caused the greatest damage
- Six departments (80%):
  - Accounitng
  - Operations
  - Sales
  - Executives/upper management
  - Customer service
  - Purchasing

http://www.acfe.com/rttn/2010-rttn.asp

2010 Report to the Nations: Findings (continued)

- 85% of the fraud perpetrators had no previous charges/convictions
- Behavioral red flags:
  - Living beyond their means
  - Financial difficulties

http://www.acfe.com/rttn/2010-rttn.asp

2010 Report to the Nations: Conclusions

- Global
- Hotlines
  - Anonymity
  - Confidentiality
  - Eliminate fear of reprisal
- Overreliance on audits
- Employee education is the key to prevention AND detection

http://www.acfe.com/rttn/2010-rttn.asp

2010 Report to the Nations: Conclusions (continued)

- **Surprise audits**
  - Effective
  - Underused
- **Internal controls are insufficient to prevent fraud**
- **Behavioral warning signs are not identified by traditional controls**
- **Page 80: Fraud prevention checklist**

http://www.acfe.com/rttn/2010-rttn.asp

Bernie Madoff Update

- “Why the SEC Missed Madoff”
- “Madoff’s Ghost Still Haunts SEC”
- “Madoff ‘Winners’ Beware: Irv Picard Hasn’t Gone Away”
- “House Votes to Repeal Exemption on SEC Secrecy”
- “Back in Court: Whether Madoff’s Kids Should Have to Pony Up”

Frauds Specific to the Economic Downturn

Case Study

Cariboo Industrial Ltd.

CFE or CFF?

CFE

- CPA is probably qualified (points)
- Exam (4 parts)
- Preparation for exam
- Fee
- CPE

CFF

- CPA working in forensic/fraud is probably qualified (points)
- EXAM
- Fee depends on AICPA/FVS status
- CPE

CFE Exam

Four sections of 125 questions each:

- Financial transactions
- Legal elements of fraud
- Fraud investigation
- Criminology and ethics

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

CFE Exam: Financial Transactions

"This section tests your knowledge of the types of fraudulent financial transactions incurred in accounting records. To pass this section, you will be required to demonstrate knowledge of these concepts: basic accounting and auditing theory, fraud schemes, internal controls to deter fraud and other auditing and accounting matters."

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

CFE Exam: Legal Elements of Fraud

"This section ensures that you are familiar with the many legal ramifications of conducting fraud examinations, including criminal and civil law, rules of evidence, rights of the accused and accuser and expert witness matters."

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

CFE Exam: Fraud Investigation

"This section includes questions in the following areas: interviewing, taking statements, obtaining information from public records, tracing illicit transactions, evaluating deception and report writing ."

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

CFE Exam: Criminology and Ethics

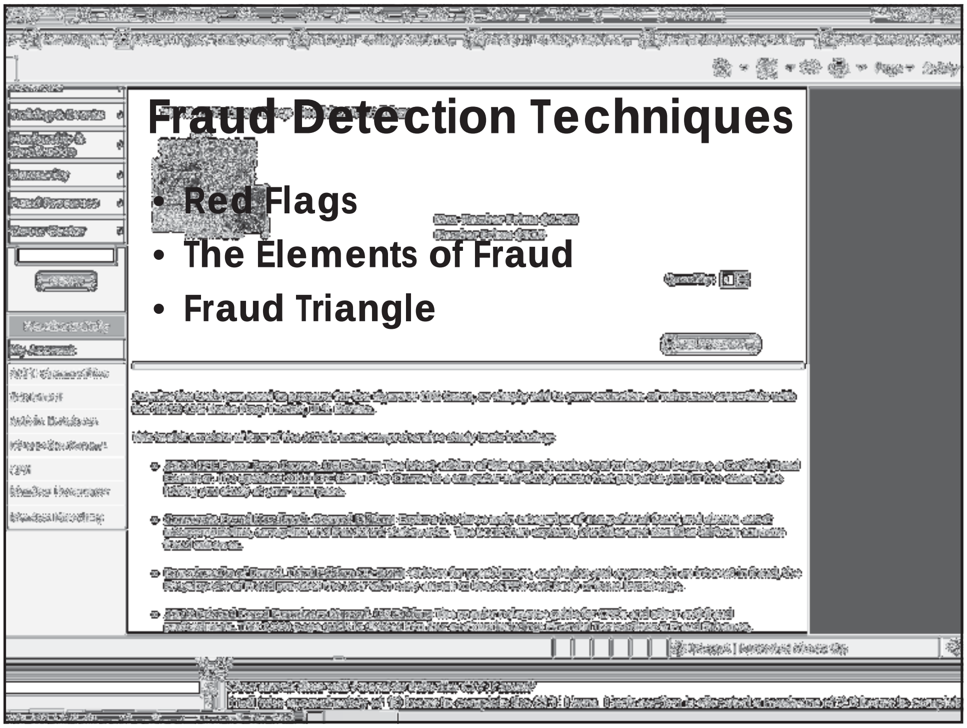
"The purpose of this section is to test your knowledge of criminological concepts and to evaluate your understanding of the underlying ethics of the fraud examination profession. This part includes administration of criminal justice, theories of crime causation, theories of fraud prevention, crime information sources, and ethical situations."

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

CFE Exam

- Preparing for the exam
  - On your own using the *Fraud Examiners Manual*
  - CFE Exam Prep Course Computer requirements
- Timing of the exam
- Grading of the exam
- Pass guarantee
- Exam fees

Source: http://marketplace.cfenet.com/cfe/CertByExam.asp

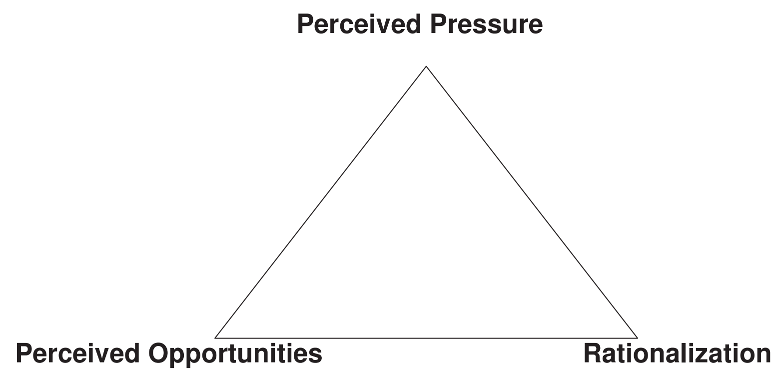


The Elements of Fraud (Albrecht)

- *A representation*
- *About a material point*
- *Which is false,*
- *And intentionally or recklessly so,*
- *Which is believed*
- *And acted upon by the victim*
- *To the victim's damage*

Source: Conducting Internal Investigations, Association of Certified Fraud Examiners, 2003

Fraud Triangle



Source: Fraud Examination 2ed, Albrecht etal

The following slides are short questions for discussion and are not in the handout

References for more information

- Report to the Nations on Occupational Fraud and Abuse, 2010 Global Fraud Study, Association of Certified Fraud Examiners, http://www.acfe.com/rttn/2010-rttn.asp
- Albrecht, Albrecht, & Albrecht (2005). *Fraud Examination 2e*. Southwestern.
- Crumbley, Heitger, & Smith (2005). *Forensic and Investigative Accounting 2e*. CCH.
- Hopwood, Leiner, & Young (2008). *Forensic Accounting*. McGrawHill.

Source: Crumbley, Heitger, & Smith (2005). *Forensic and Investigative Accounting 2e*. CCH

Questions?

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Accounting & Auditing Update for Professionals 2011

Cecil Patterson, Jr., CPA, MBA

Cecil “Pat” Patterson, Jr., CPA, MBA

President

Patterson CPA Group, Inc.

Cecil "Pat" Patterson, Jr., CPA is a recognized author, speaker, and discussion leader for continuing education courses and state societies. Mr. Patterson is the President of Patterson & Associates, P. A. His degrees include a Bachelor of Science in Accounting (Honors) and a Master of Business Administration. Mr. Patterson has experience at the national CPA firm level, at the corporate level as a chief financial officer, and as an adjunct professor at the university level.

His firm is involved in the full spectrum of CPA activities including auditing, accounting services, federal and state corporate and individual income tax preparation, and consulting services to clients, businesses, and other professionals.

Memberships include:

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Florida Institute of Certified Public Accountants (FICPA)
- Member, FICPA Board of Governors
- Member, FICPA Common Interest Realty Associations Section
- Member, FICPA Accounting & Auditing Section
- Member, FICPA Accounting Shows Committee

Honors and Awards include:

- Outstanding Discussion Leader, FICPA
- Outstanding Author, FICPA
- Distinguished Discussion Leader, New York Society of CPAs

Accounting and Auditing: Update For Professionals

2011

Presented by

FICPA

Florida Institute of Certified Public Accountants

Discussion Leader

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NOTICE TO READERS

- These course materials were prepared by the author solely for continuing education purposes and are designed to be used only in that context. The course materials have not been considered or acted on by the American Institute of Certified Public Accountants (AICPA) or any other organization. These materials do not represent an authoritative or official position of any organization.
- Additionally, the professional standards, pronouncements, procedures, and statutes may change from time to time. It is considered the participant's responsibility to stay current and updated on these issues.
- Some reproduction of the standards may not be complete. See the actual for completeness.

The beginning is the most important part of the work.

Plato

Objectives

- Overview of professional standards.
- Update on selected accounting standards.
- Update on selected auditing standards.
- Update on compilation and review standards
- Update on related issues.
- Other issues as requested.

Professional Standards Overview

A & A Standards

- Code of Professional Conduct - (Ethics) (ET)
- Accounting Standards (US GAAP or ASC)
- Auditing - United States (AU)
- Accounting and Review Services - SSARS (AR)
- Attestation Engagements (AT)
- Quality Control (QC)
- Peer Review (PR)
- International Standards (IFRS)

Other Professional Standards

- Ethics (as applies) (ET)
- Tax Services (TS)
- Personal Financial Planning (PFP)
- Valuation Services (VS)
- Consulting Services (CS)
- Bylaws (BL)
- Continuing Professional Education (CPE)
- International (as applies)

Ethics

These standards differentiate
the CPA profession from
many other professions.

Ethics

- The Code of Professional Conduct has two sections:
  - Principles
  - Rules
- The rules find their framework in the principles.
- The bodies or groups who set the technical standards are authorized by the Council of the AICPA.
- The bylaws of the AICPA require compliance to rules and standards.
- Ethical standards may also come from other agencies.

AICPA's Code of Professional Conduct

- ***"The code of professional conduct was adopted by the membership to provide guidance and rules to all members – those in public practice, in industry, in government, and in education – in the performance of their professional responsibilities."***
  - Intro to the Code

Generally Accepted Accounting Principles

GAAP is the largest body of standards that the CPA profession is required to adhere to.

Accounting Standards

- Referred to as Generally Accepted Accounting Principles (GAAP).
- Rule 203 of AICPA Code of Professional Conduct.
- See "News Release"
- Obviously, accounting standards (GAAP) apply to Compilation and Review Engagements.

GAAP is referred to in Ethics

ET Section 203 Accounting Principles

- **.01 Rule 203—Accounting principles**
- A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole.

ET Section 203 Accounting Principles (cont)

- If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.
- [As adopted January 12, 1988.]

203-2—Status of FASB, GASB and FASAB interpretations

- **.03** Council is authorized under rule 203 [ET section 203.01] to designate bodies to establish accounting principles.
- Council has designated the Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB Accounting Standards Codification™ (ASC) constitutes accounting principles as contemplated in rule 203 [ET section 203.01].
- Council has also designated the Governmental Accounting Standards Board (GASB), with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities pursuant to rule 203 [ET section 203.01].

203-2—Status of FASB, GASB and FASAB interpretations (cont)

- Council has also designated the Federal Accounting Standards Advisory Board (FASAB), with respect to Statements of Federal Accounting Standards adopted and issued in March 1993 and subsequently, as the body to establish accounting principles for federal government entities pursuant to rule 203 [ET section 203.01].
- In determining the existence of a departure from an accounting principle as established in FASB ASC and encompassed by rule 203 [ET section 203.01], or the existence of a departure from an accounting principle established by a Statement of Governmental Accounting Standards or a Statement of Federal Accounting Standards encompassed by rule 203 [ET section 203.01], the division of professional ethics will construe such codification or statements, in the light of any interpretations thereof issued by FASB, GASB, or FASAB.
- [As amended April 30, 2000. Revised June 2009.]

News Release for GAAP

- **On July 1, 2009, the *FASB Accounting Standards Codification* ™ became the *single* official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, AICPA, EITF, and related literature.**
- After that date, ***only one level of authoritative GAAP will exist***, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature will be nonauthoritative.

News… (cont)

- The Codification does not change GAAP; instead, it introduces a new structure—one that is organized into an easily accessible, user-friendly online research system.
- The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics, and displays all Topics using a consistent structure.
- Also included is relevant SEC guidance that follows the same topical structure used in the Codification.

News… (cont)

- To prepare constituents for the change, the FASB offers a free online Codification tutorial at http://asc.fasb.org.
- In addition, there is a recorded webcast at www.fasb.org.
- For more information, log on to www.fasb.org.

Auditing Standards

Auditing Standards

- Issued by the AICPA's Auditing Standards Board
- Referred to as Statements on Auditing Standards (SASs)
- For non issuing (privately held) entities.
- PCAOB issues auditing standards for issuing entities (public companies)

Auditing Standards (cont)

- This presentation will focus on the auditing standards for non issuing or privately held entities.

AU Section 110

- **Responsibilities and Functions of the Independent Auditor**
- **Source: SAS No. 1, section 110; SAS No. 78; SAS No. 82.**
- **Issue date, unless otherwise indicated: November, 1972.**
- **.01**
- The objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles.

AU Section 110 (cont)

- The auditor's report is the medium through which he expresses his opinion or, if circumstances require, disclaims an opinion. In either case, he states whether his audit has been made in accordance with generally accepted auditing standards.
- These standards require him to state whether, in his opinion, the financial statements are presented in conformity with generally accepted accounting principles and to identify those circumstances in which such principles have not been consistently observed in the preparation of the financial statements of the current period in relation to those of the preceding period.

AU Section 110 (cont)

- **Responsibility to the Profession**
- **.10**
- The independent auditor also has a responsibility to his profession, the responsibility to comply with the standards accepted by his fellow practitioners.
- In recognition of the importance of such compliance, the American Institute of Certified Public Accountants has adopted, as part of its Code of Professional Conduct, rules which support the standards and provide a basis for their enforcement.

AU Section 110 (cont)

- fn 3
- **The responsibilities and functions of the independent auditor are also applicable to financial statements presented in conformity with a comprehensive basis of accounting other than generally accepted accounting principles**; references in this section to financial statements presented in conformity with generally accepted accounting principles also include those presentations.

SSARS Standards

Statement on Standards for Accounting and Review Services are often called compilation and review standards.

Compilation and Review Standards

- Issued by the AICPA's Accounting and Review Services Committee (ARSC)
- Referred to as **Statements on Standards for Accounting and Review Services** (SSARSs)

AR Section 20

- **Defining Professional Requirements in Statements on Standards for Accounting and Review Services**
- **Issue date, unless otherwise indicated: December, 2007**
- **Source: SSARS No. 16**
- **Note:** SSARS No. 19, issued in December 2009, supersedes this section effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010. SSARS No. 19 has been integrated within section 60, Framework for Performing and Reporting on Compilation and Review Engagements; section 80, Compilation of Financial Statements; and section 90, Review of Financial Statements. This section has been retained until SSARS No. 19 becomes fully effective.

AR Section 50

- **Standards for Accounting and Review Services**
- **Issue date, unless otherwise indicated: May, 2004**
- **Source: SSARS No. 11**
- **Note:** SSARS No. 19, issued in December 2009, supersedes this section effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010. SSARS No. 19 has been integrated within section 60, Framework for Performing and Reporting on Compilation and Review Engagements; section 80, Compilation of Financial Statements; and section 90, Review of Financial Statements. This section has been retained until SSARS No. 19 becomes fully effective.

AR Section 50 (cont)

- **.01**
- An accountant must perform a compilation or review of a nonissuer in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the American Institute of Certified Public Accountants. SSARS provide a measure of quality and the objectives to be achieved in both a compilation and review. [Paragraph amended by the issuance of SSARS No. 17, December 2008.]
- **.02**
- The SSARS are issued by the AICPA Accounting and Review Services Committee (ARSC) and provide performance and reporting standards for compilations and reviews.

AR Section 50 (cont)

- **.03**
- Rule 202, *Compliance With Standards*, of the AICPA Code of Professional Conduct [ET section 202.01], requires an AICPA member who performs compilations or reviews to comply with standards promulgated by the ARSC. The ARSC develops and issues standards in the form of Statements on Standards for Accounting and Review Services through a due process that includes deliberations in meetings open to the public, public exposure of proposed SSARS, and a formal vote. The SSARS are codified.

Attestation Standards

Issued jointly by several committees of the AICPA.

Attestation Standards

- Issued by the AICPA's Auditing Standards Board, Accounting and Review Services Committee, and the Management Consulting Services Executive Committee
- Referred to as Statements on Standards for Attestation Engagements (SSAEs)

Quality Control Standards

Quality control is covered by the Statements on Quality Control Standards (SQCS).

Quality Control

- **Statements on Quality Control Standards** (SQCS) are issued by the Auditing Standards Board of the AICPA.
- Firms that are in the approved practice-monitoring programs of the AICPA, Peer Review or Center for Public Company Audit Firms (CPCAF), are required to follow the AICPA’s quality control standards.

QC Section 10

- **A Firm’s System of Quality Control**
- **Supersedes SQCSs Nos. 2–6. SQCS No. 1 was previously superseded by SQCS No. 2.**
- **Source: SQCS No. 7.**
- **Effective date: Applicable to a CPA firm's system of quality control for its accounting and auditing practice as of January 1, 2009.**
- Statements on Quality Control Standards (SQCS) are issued by the Auditing Standards Board. Firms that are enrolled in an Institute-approved practice-monitoring program are obligated to adhere to quality control standards established by the Institute.

QC Section 10 (cont)

- On July 30, 2002, President Bush signed the Sarbanes-Oxley Act of 2002 (Act) which created a five-member Public Company Accounting Oversight Board (PCAOB) and charged it with overseeing audits of issuers, as defined by the Act, or other entities subject to SEC regulation (issuers). Under the Act, the PCAOB's duties include, among other things, establishing auditing, quality control, ethics, independence, and other Standards relating to audits of issuers.

  The AICPA's Quality Control Standards do not address the quality-control ramifications of the Act nor do they address the quality control ramifications of PCAOB Standards that must be followed by auditors of issuers. The AICPA's Quality Control Standards do not purport to include any modifications that may be necessary for a firm's system of quality control to conform to PCAOB Standards. Additional information about the PCAOB and the Act can be obtained at the PCAOB web site, www.pcaobus.org, and the AICPA web site, http://www.aicpa.org/INTERESTAREAS/CENTERFORAUDITQUALITY/RESOURCES/PCAOB/Pages/PCAOB.aspx.

Peer Review Standards

Peer Review

- AICPA members who practice public accounting in the United States or its territories must be enrolled in an approved practice monitoring program of the AICPA in order to maintain their membership in the AICPA.
- The AICPA has two such approved programs:
  - AICPA Peer Review Program
  - The Center for Public Company Audit Firms.

Peer Review (cont)

- Primarily covers AICPA members in public practice.
- May indirectly effect non public practice members as well.

International Standards

This area is mainly for international accounting and auditing standards.

International Standards

- On May 18, 2008, at Amelia Island, Florida, the AICPA Council approved International Financial Reporting Standards (IFRS) as GAAP.
- IFRSs are issued under the auspices of the International Accounting Standards Board.
- More information follows.

International (cont)

- The **International Accounting Standards Board** (IASB) is an independent, privately-funded accounting standard-setter based in London, England.
- The IASB was founded on April 1, 2001 as the successor to the International Accounting Standards Committee (IASC). It is responsible for developing International Financial Reporting Standards (the new name for International Accounting Standards issued after 2001), and promoting the use and application of these standards.

Internet Tools

- Internet sites are as follows for assistance:
  - www.aicpa.org
  - www.fasb.org
  - www.ficpa.org
  - www.ifrs.org

Accounting Standards Update

Financial Accounting Standards Board
(FASB) Update - GAAP

FASB Concepts

The more things change, the more they remain the same.
(Jean Baptiste Alphonse Karr - 1855 book
"plus ça change, plus c'est la même chose")

FYI - New FASB Chair

- Leslie F. Seidman was named Chairman of the Financial Accounting Standards Board (FASB) by the Financial Accounting Foundation, effective December 23, 2010. She was originally appointed to the FASB in July 2003 and reappointed to a second term in July 2006.
- The current 5 member board will also expand to 7 members in 2011.
- Facilitates international convergence.

FYI - New FASB Chair

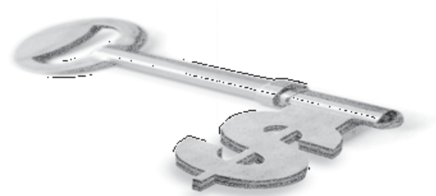
- As Chairman of the FASB, Ms. Seidman is responsible for managing the organization's day-to-day activities and leading the Board's efforts to develop high-quality financial reporting standards that result in decision-useful information for investors and other users of financial statements.

  From 1994–1999, Ms. Seidman was a member of the FASB staff. She initially joined the organization as an Industry Fellow, after which she served as a Project Manager and as the Assistant Director of Research and Technical Activities. As Assistant Director, she supervised staff members dealing with implementation and practice issues, including the FASB's Emerging Issues Task Force, and had liaison responsibilities for the Securities and Exchange Commission and the regulators of financial institutions.

FASB Concepts

- Materiality
- Misstatement
- Measurement
- Disclosure
- Form and content
- Basis of Accounting
- Applies to all financial statements

Materiality – A Key Concept



What is it?

Definition of Materiality

"Magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would change or be influenced."

Defined by FASB Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information*

Materiality

In terms of Audit Standards

(the Audit Standards and the FASB Standards are connected)

Materiality

- Materiality has been defined in FASB, AICPA Audit Standards, AICPA Compilation and Review Standards, SEC Documents, and PCAOB Documents.

- **So what's the problem?**

Materiality (cont)

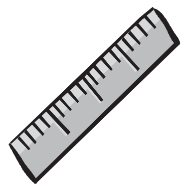
- *There is no authoritative formulation of materiality in the law or accounting literature!*
- May be quite small numerically
- Must be considered quantitatively and qualitatively

Misstatements

Misstatement

- Simply put –
  - What is GAAP vs. what is in or on the financials and notes.
  - If there is a difference then there is a misstatement.
  - At this point, materiality comes back into play.

Measurement



What measurement?

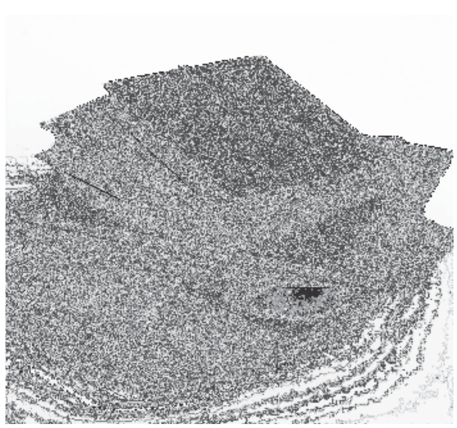
- Historical Cost?
- Fair value?
- Other?

FV in ASC Master Glossary

- **Fair Value**
- The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Codification of GAAP

- What is it?



Q & A on Codification

(Codification applies to Compilation and Review also)

What is the Codification?

- The source of authoritative US GAAP recognized by FASB to be applied by all nongovernmental entities
- An effort to reduce the complexity of accounting standards and to facilitate international convergence.
  - The effort resulted in a major restructuring of accounting and reporting standards.
- Level A–D U.S. GAAP (previously issued by a standard setter) was codified into a topically organized format (approximately 90 topics).

What is the Codification? (cont.)

- It is NOT intended to change U.S. GAAP.
- It supersedes existing sources of U.S. GAAP, and any prior sources of U.S. GAAP not included in the Codification or grandfathered are not authoritative.
- It is the authoritative source for U.S. GAAP in addition to guidance issued by the SEC.
- It eliminates the four prior levels of the U.S. GAAP hierarchy (for nongovernmental entities) and instead integrates U.S. GAAP in which all guidance carries an equal level of authority.

Why Codify U.S. GAAP?

- Constituent concern was that U.S. GAAP was overly confusing and difficult to research.
- Multiple types of standards, multiple standard setters, multiple indexing schemes, and different levels of authority made it difficult to ensure completeness of all relevant guidance and accuracy of its application to an accounting issue.

Goals of the Codification

- Simplify user access to all authoritative U.S. GAAP
- Reduce the amount of time and effort required to solve an accounting research issue
- Mitigate the risk of noncompliance with standards through improved usability of the literature
- Provide accurate information with real-time updates as new standards are released

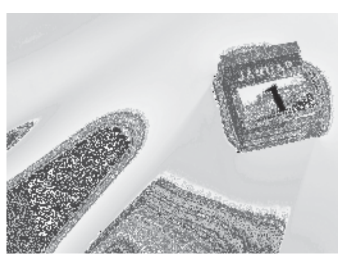
Goals of the Codification (cont.)

- Assist FASB with the research and international convergence efforts required during the standard-setting process
- Become the authoritative source of literature for the completed eXtensible business reporting language (XBRL) taxonomy
- Clarify that guidance not contained in the Codification is not authoritative

How to Access the Codification

- It is available online, after a quick registration, at http://asc.fasb.org and as a link from fasb.org.
- There is
  - free access to a *basic view* of the Codification.
  - fee based subscription to the *professional view* which has enhanced functionality (search and retrieval functions, printer-friendly with sources utility, cross reference features, personal annotations, and dynamic linking capabilities).

The Codification Timeline and What it Means for You



Release of the Codification as Authoritative

- June 3, 2009, FASB voted to approve the Codification as the source of authoritative U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC.
- June 30, 2009, FASB issued FASB Statement No. 168 which flattens the GAAP hierarchy into the two new levels of: authoritative (in the Codification) and nonauthoritative (not in the Codification)
- Financial statement preparers, auditors, and academics alike **must** use the Codification.

Referencing the Codification in Financial Statements

- An entity should reflect the Codification in its financial statements issued **for interim and annual periods ending after September 15, 2009.**
- Prior to the issuance of the Codification it was not unusual for footnotes to refer to specific standard numbers (for example, "as required by FASB Statement No. 133). These references are no longer the authoritative source of GAAP, and such references will change.
- FASB encourages the use of plain English to describe references in the future (for example, "as required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification.")

Referencing the Codification in Financial Statements

- What this means for non public entities:
  - For non public entities without interim filings, preparers choosing to reference specific accounting guidance in financial statements would make those references to the Codification for the first annual period ending after September 15, 2009.
    - **For example, a non public entity with a 7/31/09 year end <u>would not</u> reference the Codification in its financial statements.**
    - **A non public entity with a 12/31/09 year end <u>would</u> reference the Codification in its financial statements.**

Referencing the Codification in Financial Statements

- What this means for public entities:
  - For public entities, preparers choosing to reference specific accounting guidance in financial statements would make those references to the Codification for the first financial statements issued for interim or annual periods ending after September 15, 2009.
    - For example, a public entity filing financial statements for the quarter ended 6/30/09 would <u>not</u> reference the Codification in its financial statements.
    - A public entity filing financial statements for the quarter ended 9/30/09 <u>would</u> reference the Codification in its financial statements.

Referencing the Codification in Financial Statements

- While an entities' financial statements may not include Codification references until after September 15, 2009, begin using the Codification now.
- Also, since the Codification is not intended to change GAAP, the consistent use of references only to the Codification for all periods presented (including periods before the authoritative release of the Codification) would be reasonable.

Referencing the Codification in Financial Statements

- It is prudent to expect that audit, attest, or compilation and review work papers associated with financial statements for a period ending after September 15, 2009 would also reflect the Codification since the underlying financial statements, the subjects of those engagements, reference the Codification.
- If an entity continues to follow grandfathered guidance not included in the Codification, you would still reference those standards (and not FASB ASC). An explanation and a partial listing of grandfathered guidance is included in FASB Statement No. 168.

Accounting Standards Updates for 2009

- No. 2009-01 Topic 105— Generally Accepted Accounting Principles
- No. 2009-02 Omnibus Update - Amendments to Various Topics for Technical Corrections
- No. 2009-03 SEC Update - Amendments to Various Topics Containing SEC Staff Accounting Bulletins
- No. 2009-04 Accounting for Redeemable Equity Instruments - Amendment to Section 480-10-S99
- No. 2009-05 Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value

ASUs 2009

- No. 2009-06 Income Taxes (Topic 740) - Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities
- No. 2009-07 Accounting for Various Topics - Technical Corrections to SEC Paragraphs
- No. 2009-08 Earnings Per Share - Amendments to Section 260-10-S99
- No. 2009-09 Accounting for Investments□ Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees - Amendments to Sections 323-10-S99 and 505-50-S99
- No. 2009-10 Financial Services□ Broker and Dealers: Investments □Other - Amendment to Subtopic 940-325

ASUs 2009

- No. 2009-11 Extractive Activities--Oil and Gas - Amendment to Section 932-10-S99
- No. 2009-12 Fair Value Measurements and Disclosures (Topic 820) - Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)
- No. 2009-13 Revenue Recognition (Topic 605) - Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force
- No. 2009-14 Software (Topic 985) - Certain Revenue Arrangements That Include Software Elements - a consensus of the FASB Emerging Issues Task Force

ASUs 2009

- No. 2009-15 Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing
- No. 2009-16 Accounting for Transfers of Financial Assets
- No. 2009-17 Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

Accounting Standards Updates for 2010

- No. 2010-01 Equity (Topic 505) - Accounting for Distributions to Shareholders with Components of Stock and Cash a consensus of the FASB Emerging Issues Task Force
- No. 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary--a Scope Clarification
- No. 2010-03 Oil and Gas Reserve Estimation and Disclosures
- No. 2010-04 Accounting for Various Topics---Technical Corrections to SEC Paragraphs
- No. 2010-05 Compensation--Stock Compensation (Topic 718)

ASU 2010

- No. 2010-06 Fair Value Measurements and Disclosures (Topic 820)□Improving Disclosures about Fair Value Measurements
- No. 2010-07 Not-for-Profit Entities (Topic 958)--Not-for-Profit Entities: Mergers and Acquisitions
- No. 2010-08 Technical Correction to Various Topics
- No. 2010-09 Subsequent Events (Topic 855)
- No. 2010-10 Consolidation (Topic 810)

ASU 2010

- No. 2010-11 Derivatives and Hedging (Topic 815)
- No. 2010-12 Income Taxes (Topic 740)
- No. 2010-13 Compensation--Stock Compensation (Topic 718)
- No. 2010-14 Accounting for Extractive Activities--Oil & Gas
- No. 2010-15 Financial Services--Insurance (Topic 944)

ASU 2010

- No. 2010-16—Entertainment—Casinos (Topic 924): Accruals for Casino Jackpot Liabilities—a consensus of the FASB Emerging Issues Task Force
- No. 2010-17—Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task Force
- No. 2010-18—Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task Force

ASU 2010

- **No. 2010-19—Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (SEC Update)**
- **No. 2010-20—Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses**
- **No. 2010-21—Accounting for Technical Amendments to Various SEC Rules and Schedules Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies (SEC Update)**

  No. 2010-22—Accounting for Various Topics—Technical Corrections to SEC Paragraphs (SEC Update)

ASU 2010

- **Update No. 2010-23**—Health Care Entities (Topic 954): Measuring Charity Care for Disclosure—a consensus of the FASB Emerging Issues Task Force
- **Update No. 2010-24**—Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries (a consensus of the FASB Emerging Issues Task Force)
- **Update No. 2010-25**—Plan Accounting—Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans (a consensus of the FASB Emerging Issues Task Force)

ASU 2010

- **Update No. 2010-26**—Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force)

  Update No. 2010-27—Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers (a consensus of the FASB Emerging Issues Task Force)

- **Update No. 2010-28**—Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)

- U**pdate No. 2010-29**—Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)

ASU 2011

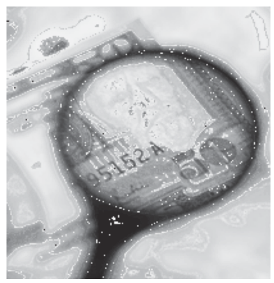
- **Update No. 2011-04**—Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

- **Update No. 2011-03**—Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements

- **Update No. 2011-02**—Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

- **Update No. 2011-01**—Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20

Auditing Standards Update (SASs)



SAS 112

- ***"Communicating Internal Control Related Matters Identified in an Audit" (updated by SAS 115)***
- Supersedes SAS 60, ***"Communication of Internal Control Related Matters Noted in an Audit"***
- Requires auditors to communicate control deficiencies that are *significant deficiencies* or *material weaknesses* in internal control

SAS 113

- ***"Omnibus 2006"***
- Amendment to SAS 95
- Amendment to SAS 99
- Remove references to completion of fieldwork
- Amendment to SAS 85, Management Representations

SAS 114

- Supersedes SAS 61, Communications with Audit Committees
- Guidance on communications

SAS 115

- "Communicating Internal Control Related Matters Identified in an Audit"
- Supersedes SAS 112
- Effective for periods ending on or after December 15, 2009.
- Provides guidance on the communication.

SAS 116

- ***"Interim Financial Information"***
- Effective for interim periods within fiscal years beginning after December 15, 2009.
- The purpose of this section is to establish standards and provide guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of *interim financial information* (as that term is defined in paragraph .02 of this section) when the conditions in paragraph .05 are met.

SAS 117

- ***"Compliance Audits"***
- This SAS is effective for compliance audits for fiscal periods ending on or after June 15, 2010. Early application is permitted.
- SAS No. 117 establishes standards and provides guidance on performing and reporting (in accordance with GAAS, *Government Auditing Standards*, and a governmental audit requirement that requires an auditor to express an opinion on compliance) on an audit of an entity's compliance with applicable compliance requirements of a governmental audit requirement.
- Examples of such engagements include single audits and audits performed under the U.S. Department of Housing and Urban Development (HUD) *Consolidated Audit Guide for Audits of HUD Programs.*

SAS 118

- ***"Other Information in Documents Containing Audited Financial Statements"***
- This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.
- This Standard supersedes the requirements and guidance in AU section 550. Along with SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole.*
- This SAS also supersedes the requirements and guidance in AU section 551.

SAS 119

"Supplementary Information in Relation to the Financial Statements as a Whole"

- This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

SAS 119 (cont)

- This Standard establishes a presumptively mandatory requirement that in order to opine on whether supplementary information is fairly stated in relation to the financial statements as a whole that the auditor determine that all of the following conditions are met:

SAS 119 (cont)

- the supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
- the supplementary information relates to the same period as the financial statements.
- the financial statements were audited, and the auditor served as the principal auditor in that engagement.
- neither an adverse opinion nor a disclaimer of opinion was issued on the financial statements.
- the supplementary information will accompany the entity's audited financial statements, or such audited financial statements will be made readily available by the entity.

SAS 120

- ***"Required Supplementary Information"***
- This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.
- This Standard supersedes the requirements and guidance in AU section 558.

SAS 120 (cont)

- This Standard defines *required supplementary information* as information that a designated accounting standard setter requires to accompany an entity's basic financial statements.

SAS 120 (cont)

- Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.
- In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

SAS 120 (cont)

- Defines *designated accounting standard setter* as a body designated by the AICPA council to establish GAAP pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional* Standards, vol. 2, ET sec. 202, par. .01) and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, vol. 2, ET sec. 203, par. .01).

SAS 120 (cont)

- The bodies designated by the council to establish professional standards with respect to financial accounting and reporting principles pursuant to Rules 202 and 203 are the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, and the International Accounting Standards Board.

SAS 120 (cont)

- Establishes the auditor's objectives when a designated accounting standard setter requires information to accompany an entity's basic financial statements are to perform procedures in order to
- describe, in the auditor's report, whether required supplementary information is presented and
- communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated accounting standard setter.

SAS 121

- ***Revised Applicability of Statement on Auditing Standards No. 100, Interim Financial Information*** (issued Feb 2011)
- Effective date for interim reviews for interim financial information for periods beginning after December 15, 2011.

ASB Projects

ASB Projects

- Rewriting existing standards for:
  - Clarity
  - Convergence
- **“Big Bang”** date
  - Expected no earlier than periods beginning after December 15, 2011.
  - Redrafted clarity standards are to be in convergence with international standards.

Compilation and Review

SSARS Standards Update

SSARS 15

- ***"Elimination of Certain References to Statements on Auditing Standards and Incorporation of Appropriate Guidance Into Statements on Standards for Accounting and Review Services"***
- This standard issues the performance and communication requirements for compilations and reviews for nonpublic entities. It represents a major departure from the SASs for guidance in compilation and review engagements.

SSARS 16

- ***"Defining Professional Requirements in Statements on Standards for Accounting and Review Services"***
- This standard uses two categories of professional requirement identified by specific terms describing the degree of responsibility the accountant has.

SSARS 16 (cont)

- **Unconditional requirements** – Required when the terms **"must"** or **"is required"** is used.
- **Presumptively mandatory requirements** – Required, but the accountant may depart in rare circumstances if the departure justification is documented and alternatives are shown as sufficient. The word **"should"** is used to indicate presumptively mandatory

SSARS 17 – *Omnibus Statement – 2008*

- The effective date is for periods ending on or after December 15, 2008, with early application permitted.
- There are some major changes in the statement:

SSARS 17 (cont.)

- The term *nonpublic entity* is replaced by *nonissuer*.
- The definitions of compilation and/or review of financial statements are modified.
- A discussion of the objectives and limitations of a compilation engagement is added.
- An illustrative engagement letter for compilations and reviews is placed in the appendices.
- The definition of *third parties* is revised.

SSARS 17 (cont.)

- The definition of *those charged with governance* and *management* has been added.
- Indicates that in a review engagement, management's representations should be made as of the date of the review report.
- The new SSARS also gives guidance on considering an entity's ability to continue as a part of the compilation and review engagements.
- Guidance on subsequent events consideration is provided.

SSARS 18

- ***"Applicability of Statements on Standards for Accounting and Review Services"***
- SSARS No. 18 is effective for periods beginning after December 15, 2009. Early application is permitted.

SSARS 18 (cont)

- **SSARS** are not applicable to reviews of interim financial information when all of the following conditions are met:
  - a. The entity's latest annual financial statements have been audited.
  - b. The accountant has been engaged to audit the entity's current year financial statements, or they audited the prior year financial statements and expect to be engaged to audit the current year financial statements.
  - c. The client prepares its interim statements using the same financial reporting framework as that used to prepare its year-end statements.
- In these instances, the accountant should perform the interim reviews in accordance with SAS No. 116 (AU 722), ***Interim Financial Information***.

SSARS 19

Most changes since 1978

SSARS 19

- SSARS 19, ***Compilation and Review Engagements*** was issued on December 30, 2009.
- It is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010.
- **Only the new compilation report option of paragraph 2.21 may be implemented immediately.**

Actual Paragraph

- Paragraph 2.21 of SSARS 19, ***Compilation and Review Engagements***
  - ***2.21 When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which an accountant is not independent, the accountant's report should be modified. The accountant should indicate his or her lack of independence in a final paragraph of the accountant's compilation report. An example of such a disclosure would be:***

Actual Paragraph (cont)

- 2.21 (cont)
  - ***I am (We are) not independent with respect to XYZ Company***
- ***The accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired. The following are examples of descriptions the accountant may use:***

Actual Paragraph (cont)

- 2.21 (cont)
- ***a. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.***

Actual Paragraph (cont)

- 2.21 (cont)
- ***b. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company; or***

Actual Paragraph (cont)

- 2.21
- ***c. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.***

Actual Paragraph (cont)

- 2.21 (cont)
- ***If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.***

SSARS 19 (cont)

- Pre SSARS 19, there was a prohibition for disclosing reason for not being independent in compilations.
- SSARS 19 eliminates the prohibition.
- <u>**Review engagements may not be performed when not independent.**</u>

SSARS 19 (cont)

- Disclosure of the reason for independence impairment is optional for compilations issued after December 30, 2009.
- The CPA may still report that they are not independent without a reason as always.

SSARS 19 (cont)

- Professional judgment is needed for the option of paragraph 2.21.
- The CPA should know the users of the compiled financials like:
  - Is the impairment understood?
  - Is the information useful?

SSARS 19 (cont)

- If a reason for impairment is disclosed, the CPA should disclose all of the reasons.
- The reason(s) may be in one paragraph.
- The disclosures are not limited.
  - Should not be misleading.
  - Detail should be appropriate and may be as much as CPA wants to provide.

SSARS 19 (cont)

- Disclosure of reasons for independence impairment may be made in one period and not in another for same client.
- Disclosure of reasons for independence impairment is not required for all compilations of all clients if one client is disclosed.

SSARS 19 (cont)

- Other issues in SSARS 19 (which are not effective until after December 15, 2010 include:
  - Guidance for Review Engagements is separated from Compilations.
  - New Compilation and Review Reports.
  - Obtaining limited assurance in reviews.
  - ***Review Evidence*** is included now.

SSARS 19 (cont)

- Other issues continued:
  - Tailoring review procedures.
  - Materiality discussions in reviews.
  - An engagement letter would be required in all compilation and review engagements.
  - Documentation requirements.

Exposure Draft

- SSARS 19 as issued differs from the Exposure Draft issued April 28, 2009.
  - Retains Limited Assurance rather than switch to Moderate Assurance
  - Matches some of the concepts in International Standards.
  - No reviews with an independence impairment.

Framework for Performing and Reporting on Compilation and Review Engagements

Framework

- This presentation will closely follow the framework of ***SSARS 19, Compilation and Review Engagements*** and include:
  - Relevant Definitions
  - Objectives and Limitations of Compilation and Review Engagements
  - Professional Requirements
  - Hierarchy of Compilation and Review Standards and Guidance
  - Elements of a Compilation or Review Engagement
  - Materiality

Relevant Definitions

Definitions

- **Applicable financial reporting framework.** The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Definitions (cont)

- **Assurance engagement.** An engagement in which an accountant issues a report designed to enhance the degree of confidence of third parties and management about the outcome of an evaluation or measurement of financial statements (subject matter) against an applicable financial reporting framework (criteria).

Definitions (cont)

- **Attest engagement.** An engagement that requires independence, as defined in AICPA Professional Standards.
- **Financial reporting framework.** A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

Definitions (cont)

- **Financial statements.** A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term financial statements ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement or financial statements without notes.

Definitions (cont)

- **Management.** The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager).

Definitions (cont)

- **Nonissuer.** All entities except for those defined in Section 3 of the Securities Exchange Act of 1934 [15 U.S.C. 78c], the securities of which are registered under Section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under Section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn..

Definitions (cont)

- **Other comprehensive basis of accounting (OCBOA).** A definite set of criteria, other than accounting principles generally accepted in the United States of America or International Financial Reporting Standards (IFRSs), having substantial support underlying the preparation of financial statements prepared pursuant to that basis.

  Examples of an OCBOA are as follows:

Definitions (cont)

- a. A basis of accounting that the reporting entity uses to comply with the requirements or financial reporting provisions of a governmental regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the rules of a state insurance commission).
- b. A basis of accounting that the reporting entity uses or expects to use to file its income tax return for the period covered by the financial statements.
- c. The cash basis of accounting and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets). Ordinarily, a modification would have substantial support if the method is equivalent to the accrual basis of accounting for that item and if the method is not illogical.

Definitions (cont)

- **Review evidence.** Information used by the accountant to provide a reasonable basis for the obtaining of limited assurance.
- **Submission of financial statements.** Presenting to management financial statements that an accountant has prepared.

Definitions (cont)

- **Third party.** All persons, including those charged with governance, except for members of management.
- **Those charged with governance.** The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance are specifically excluded from management, unless they perform management functions.

Objectives and Limitations of Compilation and Review Engagements

Objectives and Limitations (AR Section 60)

- .05
- A compilation is a service, the objective of which is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. **Although a compilation is not an assurance engagement, it is an attest engagement. (emphasis mine)**

Objectives and Limitations (cont)

- Paragraph 06. and 08. are new paragraphs which have been inserted into suggested new engagement letters.
- Engagement letters are now required for compilation and review engagements by SSARS 19.

Objectives and Limitations (cont)

- **.06**
- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Therefore, a compilation does not provide a basis for obtaining or providing any assurance regarding the financial statements.

Objectives and Limitations (cont)

- **.07**
- A review is a service, the objective of which is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. In a review engagement, the accountant should accumulate review evidence to obtain a limited level of assurance. A review engagement is an assurance engagement as well as an attest engagement.

Objectives and Limitations (cont)

- **.08**
- A review differs significantly from an audit of financial statements in which the auditor obtains a high level of assurance (expressed in the auditor's report as obtaining reasonable assurance) that the financial statements are free of material misstatement. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, in a review, the accountant does not obtain assurance that he or she will become aware of all significant matters that would be disclosed in an audit. Therefore, a review is designed to obtain only limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.

Professional Requirements

Professional Requirements

- .09
- SSARSs contain professional requirements, together with related guidance, in the form of explanatory material. Accountants performing a compilation or review have a responsibility to consider the entire text of a SSARS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SSARSs.

Professional Requirements (cont)

- **.10**
- Not every paragraph of a SSARS carries a professional requirement that the accountant is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in SSARSs.

Professional Requirements (cont)

- **.11**
- SSARSs use two categories of professional requirements identified by specific terms to describe the degree of responsibility they impose on accountants. They are as follows:

Professional Requirements (cont)

- **Unconditional requirements.** The accountant is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. SSARSs use the words must or is required to indicate an unconditional requirement.
- **Presumptively mandatory requirements**. The accountant also is required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, the accountant may depart from a presumptively mandatory requirement provided that the accountant documents his or her justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. SSARSs use the word should to indicate a presumptively mandatory requirement.

Professional Requirements (cont)

- If a SSARS provides that a procedure or action is one that the accountant "should consider," the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of a SSARS are to be understood and applied in the context of the explanatory material that provides guidance for their application. The specific terms used to define professional requirements are not intended to apply to interpretative publications issued under the authority of the ARSC because interpretative publications are not SSARSs.

Professional Requirements (cont)

- **.12**
- Explanatory material is defined as the text within a SSARS (excluding any related appendixes or interpretations) that may do the following:
  - Provide further explanation and guidance on the professional requirements
  - Identify and describe other procedures or actions relating to the activities of the accountant

Professional Requirements (cont)

- **.13**
- Explanatory material that provides further explanation and guidance on the professional requirements is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (when not otherwise self-evident); it explains why the accountant might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the accountant to consider in exercising professional judgment in performing the engagement.

Professional Requirements (cont)

- **.14**
- Explanatory material that identifies and describes other procedures or actions relating to the activities of the accountant is not intended to impose a professional requirement for the accountant to perform the suggested procedures or actions. Rather, these procedures or actions require the accountant's attention and understanding; how and whether the accountant carries out such procedures or actions in the engagement depends on the exercise of professional judgment in the circumstances consistent with the objective of the standard. The words may, might, and could are used to describe these actions and procedures.

Hierarchy of Compilation and Review Standards and Guidance

Hierarchy (Old SSARS 11)

1. **Compilation and Review Standards**
2. **Interpretative Publications**
3. **Other Compilation and Review Publications**

Hierarchy (cont)

- **Compilation and Review Standards**
- **.15**
- An accountant must perform a compilation or review engagement of a nonissuer in accordance with SSARSs, except for certain reviews of interim financial information as discussed in paragraph .01 of section 90. SSARSs provide a measure of quality and the objectives to be achieved in both a compilation and review engagement.

Hierarchy (cont)

Compilation and Review Standards (cont)
.16

- Rule 202, Compliance With Standards (ET sec. 202 par. .01), requires an AICPA member who performs compilations or reviews to comply with standards promulgated by the ARSC. The ARSC develops and issues standards in the form of SSARSs through a due process that includes deliberations in meetings open to the public, public exposure of proposed SSARSs, and a formal vote. Finalized SSARSs are codified.
- **.17**
- The nature of SSARSs requires an accountant to exercise professional judgment in applying them.

Hierarchy (cont)

- **Interpretative Publications**
- **.18**
- Interpretative publications consist of compilation and review interpretations of SSARSs; appendixes to SSARSs; compilation and review guidance included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to compilation and review engagements. Interpretative publications are not standards for accounting and review services. Interpretative publications are recommendations on the application of SSARSs in specific circumstances, including engagements for entities in specialized industries. An interpretative publication is issued under the authority of the ARSC after all ARSC members have been provided an opportunity to consider and comment on whether the proposed interpretative publication is consistent with SSARSs.

Hierarchy (cont)

- **Interpretative Publications (cont)**
- **.19**
- The accountant should be aware of and consider interpretative publications applicable to his or her compilation or review. If the accountant does not apply the guidance included in an applicable interpretative publication, the accountant should be prepared to explain how he or she complied with the provisions of SSARSs addressed by such guidance.

Hierarchy (cont)

- **Other Compilation and Review Publications**
- **.20**
- **Other compilation and review publications include AICPA accounting and review publications not referred to previously; the AICPA's annual Compilation and Review Alert; compilation and review articles in the Journal of Accountancy and other professional journals; compilation and review articles in the AICPA's The CPA Letter; continuing professional education programs and other instructional materials, textbooks, guide books, compilation and review programs, and checklists; and other compilation and review publications from state CPA societies, other organizations, and individuals. Other compilation and review publications have no authoritative status; however, they may help the accountant understand and apply SSARSs. An accountant is not expected to be aware of the full body of other compilation and review publications.**

Hierarchy (cont)

- **.21**
- If an accountant applies the guidance included in an other compilation and review publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the engagement and appropriate. In determining whether an other compilation and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARSs and the degree to which the issuer or author is recognized as an authority in compilation and review matters. Other compilation and review publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are presumed to be appropriate.

Hierarchy (cont)

- **Ethical Principles and Quality Control Standards**
- **.22**
- **In addition to SSARSs, AICPA members who perform compilation and review engagements are governed by**

Hierarchy (cont)

- a. the AICPA's Code of Professional Conduct (code), which expresses the profession's recognition of its responsibilities to the public, to clients, and to colleagues. The principles of the code guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.
- b. Statements on Quality Control Standards (SQCSs), which establish standards and provide guidance on a firm's system of quality control.

Hierarchy (cont)

- **.23**
- The code sets out the fundamental ethical principles that all AICPA members are required to observe. When performing a compilation or review engagement, the code requires an accountant to maintain objectivity and integrity and comply with all other applicable provisions.

Hierarchy (cont)

- **.24**
- An accountant has the responsibility to adopt a system of quality control in conducting an accounting practice. Thus, a firm should establish quality control policies and procedures to provide reasonable assurance that personnel comply with SSARSs in compilation and review engagements. The nature and extent of a firm's quality control policies and procedures depend on factors such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations.

Hierarchy (cont)

- **.25**
- SSARSs relate to the conduct of individual compilation and review engagements; SQCSs relate to the conduct of a firm's accounting practice. Thus, SSARSs and SQCSs are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of an individual engagement and the firm's accounting practice as a whole. However, deficiencies in, or instances of noncompliance with, a firm's quality control policies and procedures do not, in and of themselves, indicate that a particular review or compilation engagement was not performed in accordance with SSARSs.

Elements of a Compilation or Review Engagement

Elements of a Compilation or Review Engagement

- **.26**
- The following elements of a compilation and review engagement are discussed in this section:

Elements … (cont)

- a. A three party relationship involving management, an accountant, and intended users
- b. An applicable financial reporting framework
- c. Financial statements or financial information
- d. In a review, sufficient appropriate review evidence
- e. A written communication or report

Elements … (cont)

- **Three Party Relationship**
- .27
- A compilation or review engagement involves three parties: management (or the responsible party); an accountant in the practice of public accounting, as defined by the AICPA code; and intended users of the financial statements or financial information

Elements … (cont)

- **.28**
- In some cases, management and the intended users may be the same. Intended users may be from different entities (for example, a banker or potential investor) or the same entity.
- **.29**
- If an accountant is not in the practice of public accounting, the issuance of a written communication or report under SSARSs would be inappropriate.

Elements … (cont)

- ***Management (Responsible Party)***
- .30
- Management responsibilities include taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and taking responsibility for designing, implementing, and maintaining internal control.

Elements … (cont)

- .31
- A basic premise underlying the performance of a compilation or review engagement is that the accountant is performing an attest service on subject matter that is the responsibility of the client's management.

Elements … (cont)

- .31 (cont)
- **Therefore, an accountant is precluded from issuing an unmodified compilation report or a review report on financial statements when management is unwilling to accept responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework or to take responsibility for the design, implementation, and maintenance of internal control. (Emphasis mine)**

Elements … (cont)

- .32
- As part of their responsibility for the preparation and presentation of the financial statements, management and, when appropriate, those charged with governance, are responsible for the identification of the applicable financial reporting framework and the preparation and presentation of the financial statements in accordance with that framework.
- .33
- During the performance of a compilation or review engagement, the accountant may make suggestions about the form or content of the financial statements or prepare them, in whole or in part, based on information that is the representation of management.

Elements … (cont)

- ***Accountant in the Practice of Public Accounting***
- .34
- The accountant should possess a level of knowledge of the accounting principles and practices of the industry in which the entity operates that will enable him or her to compile or review financial statements that are appropriate in form for an entity operating in that industry.

Elements … (cont)

- As addressed in the firm's quality control system, an accountant should not accept an engagement if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding professional competence will not be satisfied. In some cases, this requirement can be satisfied by the accountant using the work of persons from other professional disciplines, referred to as experts. In such cases, the accountant should be satisfied that those persons carrying out aspects of the engagement possess the requisite skills and knowledge and that the accountant has an adequate level of involvement in the engagement and understanding of the work for which any expert is used.

Elements … (cont)

- ***Intended Users of the Financial Statements or Financial Information***
- .35
- The intended users are the person(s) or class of persons who understand the limitations of the compilation or review engagement and financial statements. ***The accountant has no responsibility to identify the intended users. (emphasis mine)***

Elements … (cont)

- .36
- In some cases, intended users (for example, bankers and regulators) may impose a requirement on or request the client to arrange for additional procedures to be performed for a specific purpose. For example, a banker may request that certain agreed-upon procedures be performed with respect to the entity's accounts receivable in addition to the financial statements being compiled. An accountant may perform additional services in conjunction with the compilation or review, as long as he or she adheres to professional standards with respect to those additional services.

Elements … (cont)

- **An Applicable Financial Reporting Framework**
- **.37**
- Management and, when applicable, those charged with governance are responsible for the selection of the entity's applicable financial reporting framework, as well as individual accounting policies when the financial reporting framework contains acceptable alternatives. The financial reporting framework encompasses financial accounting standards established by an authorized or recognized standards setting organization.

Elements … (cont)

- **.38**
- The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficiently broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.
- **.39**
- Examples of financial reporting frameworks include accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or the Federal Accounting Standards Advisory Board; IFRSs issued by the International Accounting Standards Board; and OCBOA.

Elements … (cont)

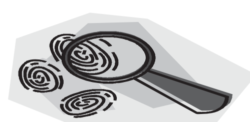
- **Financial Statement or Financial Information**
- .40
- An accountant may be engaged to compile or review a complete set of financial statements or an individual financial statement (for example, balance sheet only). The financial statements may be for an annual period or for a shorter or longer period, depending on management's needs.

Elements … (cont)

- **.41**
- The requirements of the applicable financial reporting framework determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance, and cash flows of an entity. For example, a complete set of financial statements might include a balance sheet, an income statement, a statement of retained earnings, a cash flow statement, and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.
- **.42**
- The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

Elements … (cont)

- **Evidence**



- **.43**
- When performing a compilation engagement, the accountant has no responsibility to obtain any evidence about the accuracy or completeness of the financial statements. As a result, a compilation does not provide a basis for obtaining any level of assurance on the financial statements being compiled.

Elements … (cont)

- **.44**
- When performing a review engagement, the accountant should perform procedures designed to accumulate review evidence that will provide a reasonable basis for obtaining limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. The accountant should apply professional judgment in determining the specific nature, timing, and extent of review procedures. Such procedures should be tailored based on the accountant's understanding of the industry in which the client operates and the accountant's knowledge of the entity. The nature, timing, and extent of procedures for gathering review evidence are deliberately limited relative to an audit.

Elements … (cont)

- **.45**
- Review evidence obtained through the performance of analytical procedures and inquiries ordinarily will provide the accountant with a reasonable basis for obtaining limited assurance.

Elements … (cont)

- Compilation and Review Reports
- **.46**
- If the accountant performs a compilation, a report or written communication is required unless the accountant withdraws from the engagement. If the accountant is not independent, he or she may issue a compilation report, provided that the accountant complies with the compilation standards. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct.

Elements … (cont)

- **47**
- If the accountant performs a review, a written review report is required unless the accountant withdraws from the engagement.

Materiality

(In compilation and review)

Materiality

- **.48**
- Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

Materiality (cont)

- misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement or a combination of both; and
- **judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.** (emphasis mine)

Materiality (cont)

- **.49**
- Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the accountant in determining whether there are any material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph .48 provide the accountant with such a frame of reference.

Materiality (cont)

- **.50**
- The accountant's determination of materiality is a matter of professional judgment and is affected by the accountant's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the accountant to assume that users:

Materiality (cont)

- a. have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
- b. understand that financial statements are prepared, presented, and reviewed to levels of materiality;
- c. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
- d. make reasonable economic decisions on the basis of the information in the financial statements.

Comparison of Old to New Compilation Reporting Requirements

(***Not applicable until periods ending after December 15, 2010***)

205

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)

ITEM	OLD	NEW
Title	Not required	Accountant's Compilation Report
Addressee	Not required	(Appropriate Salutation)
Introductory Paragraph	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United State of America.

206

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)
(cont)

ITEM	OLD	NEW
Paragraph outlining management's responsibilities		Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United State of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.
Paragraph outlining the accountant's responsibilities	None	My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

207

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)
(cont)

ITEM	OLD	NEW
Conclusion paragraph	A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or any other form of assurance on them.	The communication is moved to the introductory paragraph.
Paragraph disclosing independence impairment	I am (we are) not independent with respect to ABC Company. (The accountant is precluded from disclosing the reasons for the independence impairment.)	I am (we are) not independent with respect to ABC Company. (The accountant is not precluded from disclosing the reasons for the independence impairment.)

208

Comparison of Old to New Review Reporting

209

Comparison of Old Review Reporting Requirements and New Requirements

(Not effective until periods ending after December 15, 2010)

ITEM	OLD	NEW
Title	Not required	Independents Accountant's Review Report
Addressee	Not required	(Appropriate Salutation)
Introductory paragraph In the new report, the scope of the engagement is described (it was included in the second paragraph previously), Management's responsibilities are moved to a separate paragraph.	I (we) have reviewed the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management (owners) of ABC Company.	I (we) have reviewed the accompanying balance sheer of ABC Company as of December 31, xxxx, and the related statements of income retained earnings, and cash flow for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

210

Comparison of Old Review Reporting Requirements and New Requirements

(Not effective until periods ending after December 15, 2010)

(CONT)

ITEM	OLD	NEW
Second paragraph The new report describes management's responsibilities. The scope of the engagement in included in the introductory paragraph.	A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.	Management (owners) is (are) responsible for the preparation and fain presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

211

Comparison of Old Review Reporting Requirements and New Requirements

(Not effective until periods ending after December 15, 2010)

(CONT)

ITEM	OLD	NEW
Paragraph describing the accountant's responsibilities		My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made t5o the financial statements. I (we) believe that the results of my (our) procedures provide a reasonable basis for out report.

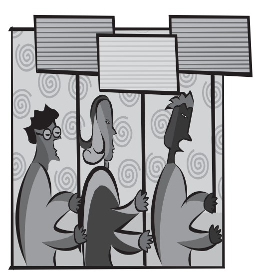
212

Comparison of Old Review Reporting Requirements and New Requirements
(Not effective until periods ending after December 15, 2010)
(CONT)

ITEM	OLD	NEW
Paragraph describing the results of the engagement	Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.	Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for the them to be in conformity with accounting principles generally accepted in the United States of America.

213

Other Issues



Revisions to Ethics Interpretation 101-3

- Since October 2004, the Ethics Interpretation 101-3 has been revised four times.

Revisions Caused By AICPA Independence Change

- AICPA Professional Ethics Committee has issued a White Paper summarizing new rules (www.aicpa.org)
- Changes concept of independence from **"firm wide"** approach
- New concept is **"engagement"** approach

Revisions Caused New Interpretations of Independence

- Revision to Ethics Interpretation 101-3, ***Performance of Nonattest Services***
- In effect now
- **Independence is impaired if you or your firm perform management functions or make management decisions for an attest client.**

Ethics and Independence

- Independence is an ethical consideration of the AICPA
- AICPA's Professional Ethics Section 101 – Independence
- ***"A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council".***

Covered Member?

- Individual on attest engagement team
- Individual in position to influence
- Partner or Manager providing nonattest services if…
- Partner in office of engagement partner
- The firm
- Other entities controlled

Attest Engagement?

- Defined by the Professional Ethics Executive Committee
- Found in ET Section 92, Definitions
- ***ET 92.01 Attest engagement. An attest engagement is an engagement that requires independence as defined in AICPA Professional Standards.***

Attest Engagement Team ?

- **ET 92.02 Attest engagement team.** ***The attest engagement team consists of individuals participating in the attest engagement, including those who perform concurring and second partner reviews.***
- Also includes all employees and contractors retained by the firm who participate in the attest engagement.

Client ?

- **ET 92.03 Client.** ***A client is any person or entity, other than the member's employer, that engages a member or a member's firm to perform professional services or a person or entity with respect to which professional services are performed.***

Basic Engagements

Five basic engagements need independence:

1. Audit
2. Review
3. Compilation
4. Attestation
5. Prospective Financial Statements

Shift in Emphasis

- Independence has always been associated with an attest engagement.
- With changes in the professional environment, maintaining independence is now closely associated with ***performing nonattest functions for attest clients.***

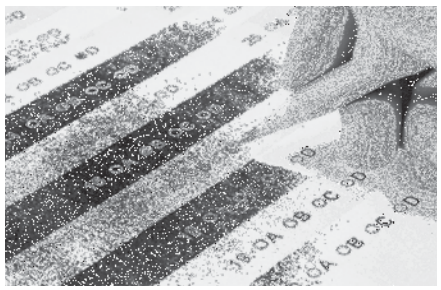
Nonattest Services?

- **A nonattest service is any of the following actions:**
  - **Tax return**
  - **Preparing journal entries**
  - **Bookkeeping**
  - **Preparing financial statements**
  - **Payroll services**
  - **Most functions other than attest**

The Particulars of 101-3

- When nonattest services are performed for clients for which attest services are performed it is needed:
  - To conform to general requirements 101-3 which involves several distinct actions.
  - To document an understanding with client.
  - Requirements of 101-3 are still being revised.

Professional Ethics Quiz



Ethics Quiz (cont)

- 1. A member records journal entries while performing monthly bookkeeping services without obtaining client approval. *Would independence be impaired?*
- Yes. In order for the member to maintain his or her independence, the client must review and approve the journal entries and the member should be satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.

- 2. During the course of providing monthly bookkeeping services, the member receives invoices from the client, indicating approval for payment and identifying the appropriate general ledger accounts to record the transaction. The member prepares the client's checks for payment of those invoices, records the transactions in the client's general ledger system and returns the checks to the client for approval and signature. The member does not have signature authority over the client's checking account. *Would independence be impaired?*
- No, because management determined and approved the appropriate account classifications approved the invoices for payment and reviewed and signed the prepared checks.

- 3. During the course of providing monthly bookkeeping services, the member discusses with client management the need to record recurring journal entries (for example, depreciation expense) each month in the general ledger. The client approves the recurring journal entries and makes any necessary decisions (for example, useful lives of the assets). The member then records these entries in the client's general ledger each month. *Would independence be impaired?*
- No, because the client understands the general nature of the journal entries and the impact they have on its financial statements.

- 4. A client records all disbursements in its checkbook and identifies the type of expense (for example, telephone, rent) on the checkbook stubs. During the course of providing monthly bookkeeping services, the member assigns the general ledger account number based on the type of expense indicated by the client and records these payments in the client's accounting system. *Would independence be impaired?*
- No, because the member would not be considered coding transactions.

- 5. A member is engaged to perform an audit, review or compilation of a client's financial statements. During the course of the audit, review or compilation the member proposes audit adjustments to the financial statements. Examples of these entries include the current tax accrual and deferred tax assets or liabilities and the amount of depreciation and amortization necessary for the current year. The client reviews these entries and understands the impact on its financial statements and records the adjustments identified by the member. *Would the proposal of such entries constitute a nonattest bookkeeping service subject to Interpretation 101-3?*
- No, proposing entries as a result of the member's audit, review or compilation services is a normal part of those engagements and would not constitute performing a nonattest bookkeeping service subject to Interpretation 101-3.

- 6. A member is engaged to perform an audit for a client who records all transactions on a cash basis in its general ledger. During the audit process, the member identifies all appropriate journal entries required to convert the client's general ledger to an accrual basis and prepares the financial statements, including footnotes, on the accrual basis in order to conform with generally accepted accounting principles. The client reviews the entries and financial statements, including all footnote disclosures, and understands the impact these entries have on the financial statements. As part of the management representation letter, the client acknowledges responsibility for the financial statements and footnotes. *Would these services be considered nonattest bookkeeping services subject to Interpretation 101-3?*

- No. Providing these services as part of the member's audit of the client's financial statements would not be considered bookkeeping services subject to the requirements of Interpretation 101-3. In addition, a member should use judgment as to what would be considered part of the normal audit process and what would be a separate nonattest service. A client's books and records have to be substantially complete and current in order to conduct an audit of those books and records. The client's books and records would include all subsidiary ledgers or information required by the auditor (such as accounts receivable or payable) for the necessary conversion. If a member performs a service to bring those books and records current or complete (such as compiling the subsidiary information), the service should be considered outside the scope of the normal audit process and therefore, a nonattest service subject to Interpretation 101-3. However, Interpretation 101-3 would be applicable where the member was engaged to perform a stand alone engagement to perform bookkeeping services for the client. An example would be where a member is engaged to perform monthly bookkeeping services, including the preparation of monthly compiled financial statements.

- 7. The member performs year end tax planning and prepares the tax returns for an attest client. *Would these services be considered nonattest services and therefore subject to the requirements of Interpretation 101-3?*
- Yes, tax services are considered nonattest services and are therefore subject to the general requirements of Interpretation 101-3, including the member's understanding with the client with respect to the tax services must be documented in writing.

- 8. The member prepares a bank reconciliation of a client's bank account in connection with monthly bookkeeping services. The client reviews and approves the bank reconciliation. *Would independence be impaired?*
- No, because the client reviews and approves the bank reconciliation and understands the services performed sufficiently to oversee them.

- 9. General Requirement No. 3 of Interpretation 101-3 requires that the member should establish and document in writing his or her understanding with the client regarding the a) objectives of the engagement; b) services to be performed; c) client's acceptance of its responsibilities; d) member's responsibilities; and e) any limitations of the engagement. *Would a member be in compliance with this requirement if such was documented in; an engagement letter; the audit planning memo or in a memo of understanding maintained in the member's billing files?*

- Yes, however since the general requirements of Interpretation 101-3 only require a member to document his or her understanding with the client and does not indicate any specific method of documentation the methods indicated are not all inclusive and other methods may be appropriate as well.

- 10. A member provides only nonattest services to a client for the year ending December 31, 2004. In 2005, the member is asked to perform an audit of the client's year-end 2004 financial statements. *Would the member be in violation of General Requirement No. 3 under Interpretation 101-3 because the firm did not comply with the documentation requirement with respect to the nonattest services performed in 2004?*

- No. The documentation requirement does not apply to nonattest services performed prior to the client becoming an attest client. However, upon the acceptance of an attest engagement, the member should prepare written documentation demonstrating his or her compliance with the other general requirements of Interpretation 101-3 during the period covered by the financial statements, including the requirement to establish an understanding with the client.

- 11. A member performing bookkeeping services records adjusting and reclassification journal entries and compiles preliminary financial statements. The member delivers the financial statements and compilation report to the client and provides the client copies of the general ledger, journals and journal entries, which contain a description of the nature of each entry. The member asks the client to review the journal entries and then asks whether the client has any questions about any of the entries. *Would the requirements of Interpretation 101-3 be met?*
- Yes. Provided the member is satisfied that client understands the nature and impact of the journal entries, the requirements of Interpretation 101-3 would be met.

- 12. *Must the member review the proposed journal entries with the client and explain their impact on the financial statements with the client in person or can this review take place by phone, fax, mail or email?*
- The review process can take place in person, by phone, fax, mail, email or a combination thereof. Regardless of the method used, the member must be satisfied that the client understands the nature and impact of the journal entries.

- 13. *Must the member document the client's review of the journal entries?*
- Interpretation 101-3 does not require that the member document the client's review of the journal entries. However, the member may wish to document the name of the client representative who reviewed the journal entries and the date of his or her review to provide evidence that such review took place.

- 14. Interpretation 101-3 requires that the client designate an individual who possesses suitable skill, knowledge and/or experience, preferably within senior management, to oversee the nonattest services. *Which individual(s) at the client can serve in this capacity (e.g., the owner(s), controller, bookkeeper)?*

- The individual(s) designated by the client will likely depend on the nature of the client's organization and the nature of the nonattest engagement. In an owner-managed business, it will often be the owner, but depending on the nature of the nonattest services and the skill, knowledge and/or experience of other employees or individuals, it could also be the controller or bookkeeper. In larger organizations or for more complex services, the client is more likely to designate a senior officer to oversee the services. The employee or individual responsible for overseeing the nonattest services needs to understand the services sufficiently to oversee them, but does not need to possess the technical qualifications to perform or re-perform the services.

- 15. My client has difficulty understanding deferred tax assets and deferred tax liabilities. *What must a client know about these concepts in order to be considered to possess the skill, knowledge, and/or experience necessary to fulfill the requirement(s) under Interpretation 101-3?*
- The intent of Interpretation 101-3 is not for the client to possess a level of technical expertise commensurate with that of the member. In the case of deferred taxes, the client should understand the basis for the deferred tax assets or liabilities and the impact of the deferred taxes on the financial statements.

- 16. *Is a member permitted to assist the client in understanding the nature of adjusting entries and their impact on the financial statements?*
- Yes. If a client needs assistance in understanding the nature of the entries and their impact on the financial statements, the member may explain the accounting principles giving rise to the adjustments, as well as the impact of the adjustments on the financial statements.

- 17. A member's clients consist of very small businesses with informal control environments and an insufficient number of employees to achieve a proper segregation of duties. *How can such clients establish and maintain internal controls as required under Interpretation 101-3?*

- The requirement for the client to establish and maintain internal controls, including monitoring ongoing activities, precludes the member from performing internal control activities, including monitoring activities. Accordingly, a member cannot authorize, execute or consummate transactions, maintain custody of the client's assets, supervise client employees or make management decisions. Regardless of its size, the client must establish and maintain internal control related to the member's services. These controls are often supervisory controls, for example, if the member prepares the client's bank reconciliation, the client should review and approve the reconciliation.

- 18. A member's firm does not require its clients to sign engagement letters for tax return preparation services. *How does the documentation requirement under Interpretation 101-3 apply with respect to these clients?*

- Tax services are nonattest services subject to the requirements of Interpretation 101-3. Therefore, the documentation requirement applies where the member provides tax services to a client for which the member also provides attest services. However, the method of documentation is left to the member's discretion and, provided it contains all of the required elements, it could be documented in a tax organizer or disclosure statement provided to the client, in a memo in the tax or attest service working papers, or through other means.

Quality Control Standards

Statement on Quality Control Standards No. 7, A Firm's System of Quality Control (SQCS)

- Issued in October, 2007.
- The effective date is January 1, 2009.
- All earlier issued SQCSs are superseded.
- The design of a system of quality control and policies is to achieve the objectives of the systems and procedures necessary to implement and monitor compliance.

QC Section 10

- **System of Quality Control**
- **.03**
- The firm must establish a system of quality control designed to provide the firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the firm or engagement partners issue reports that are appropriate in the circumstances. A system of quality control consists of policies designed to achieve these objectives and the procedures necessary to implement and monitor compliance with those policies.

QC Section 10 (cont)

- **.04**
- The nature of the policies and procedures developed by individual firms to comply with this section will depend on various factors such as the size and operating characteristics of the firm.
- The system of quality control should be designed to provide the firm with reasonable assurance that the segments of the firm's engagements performed by its foreign member firms or offices or by its domestic or foreign affiliates, if any, are performed in accordance with professional standards in the United States when such standards are applicable.

QC Section 10 (cont)

- The system will depend on several factors:
  - Firm’s size.
  - Number of offices.
  - Degree of authority allowed.
  - Knowledge and experience of firm personnel.
  - Nature and complexity of firm’s practice.

QC Section 10 (cont)

- **Documentation and Communication of Quality Control Policies and Procedures**
- **.12**
- The firm should document its quality control policies and procedures. The size, structure, and nature of the practice of the firm are important considerations in determining the extent of the documentation of established quality control policies and procedures. For example, documentation of established quality control policies and procedures would generally be expected to be more extensive in a large firm than in a small firm and in a multioffice firm than in a single-office firm.

QC Section 10 (cont)

- **.13**
- The firm should communicate its quality control policies and procedures to its personnel. Although communication is enhanced if it is in writing, the communication of quality control policies and procedures is not required to be in writing. Effective communication of the firm's quality control policies and procedures:
  - Describes the quality control policies and procedures and the objectives they are designed to achieve;
  - Includes the message that each individual has a personal responsibility for quality and is expected to be familiar with and to comply with these policies and procedures; and
  - Stresses the importance of obtaining feedback on its system of quality control from its personnel and encourages its personnel to communicate their views or concerns on quality control matters.

QC Section 10 (cont)

- **Elements of a System of Quality Control**
- **.14**
- The firm's system of quality control should include policies and procedures addressing each of the following elements:

QC Section 10 (cont)

- a. Leadership responsibilities for quality within the firm (the "tone at the top")
- b. Relevant ethical requirements (new)
- c. Acceptance and continuance of client relationships and specific engagements
- d. Human resources
- e. Engagement performance
- f. Monitoring

QC Section 10 (cont)

- **.24**
- At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from **all firm personnel** required to be independent by the requirements set forth in Rule 101 and its related interpretations and rulings of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. Written confirmation may be in paper or electronic form.
- **.25**
- The purpose of obtaining confirmation and taking appropriate action on information indicating noncompliance is to demonstrate the importance that the firm attaches to independence and keep the issue current for and visible to its personnel.

PR Section 100

- ***Standards for Performing and Reporting on Peer Reviews***
- [Originally issued March 2008; revised December 2008; revised December 2009.]

PR Section 100 (cont)

- **NOTICE TO READERS** In order to be admitted to or retain their membership in the AICPA, members of the AICPA who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program or, if practicing in firms not eligible to enroll, are themselves enrolled in such a program if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring standards and the firm or individual issues reports purporting to be in accordance with AICPA professional standards. Firms have peer reviews because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms.

PR Section 100 (cont)

- In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require its licensees to undergo peer review, which they may also call compliance assurance, to practice in their state.
- Other regulators require peer review in order to perform engagements and to issue reports under their standards.A firm (or individual) enrolled in the AICPA Peer Review Program is deemed to be enrolled in an approved practice-monitoring program.
- See BL sections 230, 2.3 Requirements for Retention of Membership, 220, 2.2 Requirements for Admission to Membership, and 760, 7.6 Publication of Disciplinary Action; AICPA Code of Professional Conduct Rule 505, Form of Organization and Name (ET sec. 505); and the implementing council resolutions under those sections.

PR Section 100 (cont)

- These standards are applicable to firms (and individuals) enrolled in the program and to individuals and firms who perform and report on such peer reviews, to entities approved to administer the peer reviews, and to associations of CPA firms authorized by the AICPA Peer Review Board to assist its members in forming review teams. These standards are not intended for peer reviews of organizations that are not public accounting firms.
- Users of these standards should be knowledgeable about the standards and their interpretations and effective dates, as well as guidance issued by the board that might affect the application of these standards. Those subject to the standards should be prepared to justify departures from these standards, and it is expected that departures will be rare.
- These standards are effective for peer reviews commencing on or after January 1, 2009. Early implementation of these standards is not permitted.

Issues for the Future

To prophesy is extremely difficult – especially with regard to the future.

Chinese Proverb

New Issues or Questions for the Future

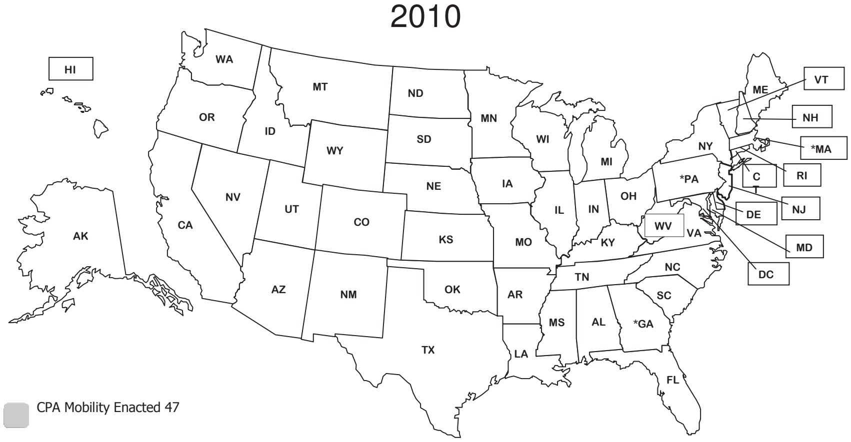
- Mobility
- Documentation – SSARS 19
- International GAAP Conversion
- International Audit Conversion
- What about SSARS?
- International Ethics Conversion?
- What is SME?
- Form and Content of Financials
- Who's in charge?

Mobility

- Substantial Equivalency – 3 Issues
  - Education
  - Experience
  - Enforcement

CPA Mobility Legislation

2010



CPA Mobility Enacted 47

* CPA Mobility Enacted Only for Other Mobility States – GA, PA, MA

Awaiting Governor Signature - 1

In Process

CPA Mobility Legislation Pending - 2

Documentation with SSARS 19

For periods ending after
December 15, 2010

Documentation - Compilation

- **Issue date, unless otherwise indicated: December 2009**
- **Source: SSARS No. 19**
- Documentation outside of SSARS 19 should include:
  - Quality Control System
  - Nonattest services (101-3)

Documentation – Compilation (cont)

- **.14**
- The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed. Documentation provides the principal support for the representation in the accountant's compilation report that the accountant performed the compilation in accordance with SSARSs.
- The accountant is not precluded from supporting the compilation report by other means in addition to the compilation documentation. Such other means might include written documentation contained in other engagement files or quality control files (for example, consultation files) and, in limited situations, oral explanations.

Documentation – Compilation (cont)

- **.15**
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:

Documentation – Compilation (cont)

- a. The engagement letter documenting the understanding with the client
- b. Any findings or issues that, in the accountant's judgment, are significant (for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved)
- c. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention

Documentation…(cont)

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:

Documentation…(cont)

- Quality Control Policies and Procedures
- Independence Representations for employees
- Documentation as part of Independence Interpretation 101-3 for non attest services
- Documentation as needed for peer review

Documentation - Review

- **Issue date, unless otherwise indicated: December 2009**
- **Source: SSARS No. 19**
- Documentation outside of SSARS 19 should include:
  - Quality Control System
  - Nonattest services (101-3)

Documentation – Review (cont)

- **.25**
- The accountant should prepare documentation in connection with each review engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of review procedures performed); the review evidence obtained and its source; and the conclusions reached. Documentation does the following:

Documentation – Review (cont)

- a. Provides the principal support for the representation in the accountant's review report that the accountant performed the review in accordance with SSARSs
- b. Provides the principal support for the conclusion that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework

Documentation – Review (cont)

- **.26**
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:
- The engagement letter documenting the understanding with the client.
- The analytical procedures performed, including the following:

Documentation – Review (cont)

- The expectations, when the expectations are not otherwise readily determinable from the documentation of the work performed, and the factors considered in the development of the expectations
- Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts
- Management's responses to the accountant's inquiries regarding fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

Documentation – Review (cont)

- Any additional review procedures performed in response to significant unexpected differences arising from analytical procedures and the results of such additional procedures.
- The significant matters covered in the accountant's inquiry procedures and the responses thereto. The accountant may document the matters covered by the accountant's inquiry procedures and the responses thereto through a memorandum, checklist, or other means.
- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached).

Documentation – Review (cont)

- Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- The representation letter.

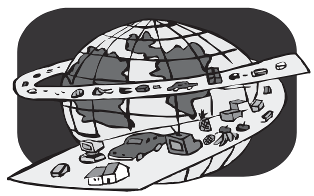
Documentation – Review (cont)

- The accountant is not precluded from supporting the review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement files (for example, compilation or nonattest services) or quality control files (for example, consultation files) and, in limited situations, oral explanations. Oral explanations on their own do not represent sufficient support for the work the accountant performed or conclusions the accountant reached but may be used by the accountant to clarify or explain information contained in the documentation.

Documentation Review (cont)

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:
  - Quality Control Policies and Procedures
  - Independence Representations for employees
  - Documentation as part of Independence Interpretation 101-3 for non attest services
  - Documentation for peer review

International



International Convergence

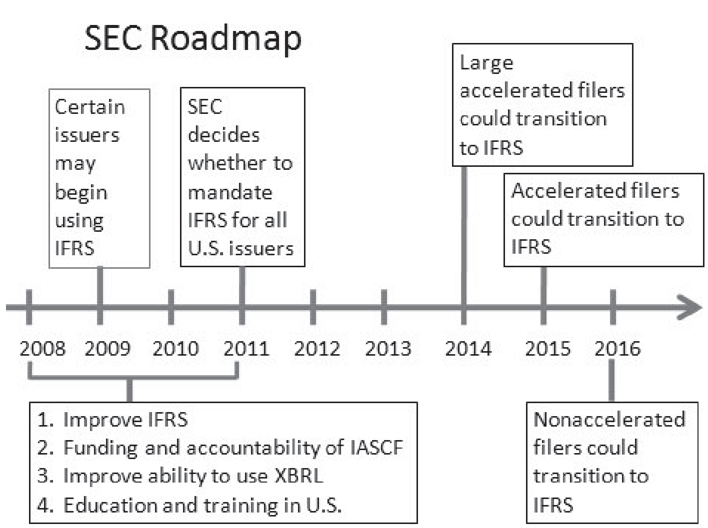
On May 18, 2008, the AICPA Council approved International Financial Reporting Standards as GAAP.

Roadmap

- **The following SEC Roadmap should not be interpreted as a roadmap for non issuers as well.**
- The convergence for non issuers will be determined by the FASB, the AICPA, and possible others.

7-7b

SEC Roadmap



Q & A for International

- **If the United States mandates IFRS for publicly traded companies, will private companies and not-for-profit organizations be required to adopt IFRS?**

- **The simple answer is no.** All the discussion thus far about the possibility of the Securities and Exchange Commission designating a future date for voluntary, or even mandatory, adoption of IFRS has been for U.S. public companies only.

Q & A for International (cont)

- That said, many privately held companies adopted provisions of the Sarbanes-Oxley Act, such as the formation of independent audit committees. Many might take similar action regarding IFRS, even if they are not mandated to do so.

- On December 17, 2009, the AICPA, the Financial Accounting Foundation (FAF) and the National Association of State Boards of Accountancy (NASBA) announced the establishment of a blue-ribbon panel to address how U.S. accounting standards can best meet the needs of users of private company financial statements. The panel will provide recommendations on the future of standard setting for private companies, including whether separate, standalone accounting standards for private companies are needed. A report is expected in the early part of 2011.

Q & A for International (cont)

- **What actions are being taken that could allow private companies to follow IFRS?**
- The AICPA's governing Council in May 2008 approved amending Rules 202 and 203 of the Code of Professional Conduct to recognize the IASB as an international accounting standard setter. That removed a potential barrier and gives U.S. private companies and not-for-profit organizations the choice whether to follow IFRS.

Q & A for International (cont)

- **18. What might make some private companies in the United States adopt IFRS?**
- The eventual adoption of IFRS by small businesses and not-for-profit organizations is likely to be market driven. The IASB has developed a version of IFRS for small and medium-size entities that would minimize complexity and reduce the cost of financial statement preparation, yet allow users of those entities' financial statements to assess financial position, cash flows, and performance. **IFRS for Small and Medium Entities (SME) was released on July 9, 2009. You can view questions and answers developed by the AICPA regarding IFRS for SMEs here.**

Q & A for International (cont)

- **Will IFRS be incorporated into the Uniform CPA Exam?**

- Yes. The AICPA Board of Examiners in May 2009 announced that exam content updates have been developed and, for the first time, IFRS will be eligible for testing on the Uniform CPA Exam starting in 2011.

International Compilation and Review Standards

- The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has issued International Standard on Related Services (ISRS) 4410, ***Engagements to Compile Financial Statements***, and International Standard on Review Engagements (ISRE) 2400, ***Engagements to Review Financial Statements.***

International Compilation and Review Standards (cont)

- The purpose of the ISRS and ISRE is to:
  - **Establish international standards and provide guidance on the accountant's professional responsibilities when engaged to compile or review financial statements.**
  - **Provide guidance on the form and content of the report the accountant issues for that compilation or review.**

International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 can be found in IFAC's ***Handbook of International Auditing, Assurance, and Ethics Pronouncements***.
- The reference is available at www.ifac.org

International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 do not override SSARS.
- Interpretation No. 30 (AR 9100.130.135), Considerations Related to Financial Statements Prepared in Accordance with International Standards, however, allows an accountant who performs a compilation or review of historical financial statements of a U. S. Entity to follow the compilation and review standards of another set of compilation and review standards in addition to the required AR 100 Standards.

International Ethics

- On April 19, 1917, the AICPA's predecessor organization, the American Institute of Accountants, adopted eight rules of conduct that fit on one sheet of paper.
- Over time, the rules evolved and in 1973, they were codified into the current *Code of Professional Conduct* (AICPA Code).
- Almost 100 years – and many sheets of paper – later, the AICPA Code and related guidance is ripe for reorganization.

International Ethics (cont)

- Like the much larger initiative to create the *FASB Accounting Standards Codification TM* from the accounting literature, the AICPA's ethics literature needs to undergo a transformation.
- Existing in multiple locations, similar subject matters are sometimes disjointed, making it difficult for members to know for certain whether they have considered all the relevant matters.
- As a result, in 2009 the AICPA launched the Codification Project to reformat and enhance its ethics literature. As part of this effort, the AICPA will continue to converge the Code with international standards where appropriate.

International Ethics (cont)

- Starting in 2001, the AICPA Professional Ethics Executive Committee (PEEC) sought to align or "converge" the AICPA Code with the *Code of Ethics for Professional Accountants*, which is issued by the International Ethics Standards Board for Accountants (IESBA).
- As a member body of the International Federation of Accountants (IFAC), the AICPA agrees to have ethics standards that are at least as stringent as the IESBA ethics standards. The PEEC will continue to consider convergence issues as part of the Codification effort.

International Ethics (cont)

- Some confusion exists around the meaning of “convergence” – and rightly so as the term is subject to some interpretation.
- In this context, “convergence” means the PEEC may propose changes to AICPA guidance that is less strict than guidance in the IESBA Code or does not exist in the current Code.

International Ethics (cont)

- Of course, any proposed changes to the AICPA Code resulting from convergence efforts will follow full due process as set out in the AICPA Bylaws; this includes exposure of the proposed standard to the membership and consideration of all comments at PEEC meetings, which are open to the public.
- Convergence does ***not*** mean that the PEEC will adopt lower standards when international standards are less strict. Rather, the PEEC will maintain the high ethical standards of the current AICPA Code.

International Ethics (cont)

The Codification Project, which has and will continue to be discussed in all public meetings of the PEEC, is scheduled to take approximately 3 - 5 years to complete. The planning phase of the project is expected to end by fall of 2010.

Who's in charge?

- Maybe the better question is, "Who **will** be in charge?"
- On international conversion, what will happen to the FASB?
- If auditing standards go international, what will become of the ASB of the AICPA and the PCAOB?

Even if you are on the right track, you'll get run over if you just sit there.

Will Rogers

Thank you for your attention…

Detecting Exploitation, Common Misunderstandings of Fiduciary Duties and Remedies for Breach

Gerald L. Hemness, Esq.

Gerald L. Hemness, Jr., Esq.

Attorney
Emma Hemness, P.A.

Gerald L. Hemness, Jr., Esq. earned his B.A. in Communications from the University of Kentucky in 1990. He earned his J.D. cum laude from Stetson University College of Law in 1995.

Gerald has a background in law enforcement both before he received his law degree, serving as a Deputy Sheriff in Ohio, and after, spending six years as an Assistant State Attorney for the 13th Circuit / Hillsborough County State Attorney's Office. He currently practices with his wife, Emma, at the Law Office of Emma Hemness, PA located in Brandon, Florida where he focuses on probate, guardianship and exploitation litigation.

Gerald is a member of the National Academy of Elder Law Attorneys, as well as, the Academy of Florida Elder Law Attorneys and is an active participant in the guardianship community, serving on both the local and state Board of Directors of the Florida State Guardianship Association and founding "The Center for Guardian Advocacy", a non-profit providing income sensitive guardian advocacy for those with developmental disabilities.

Gerald regularly lectures on Exploitation and Guardianship in various settings, including CLE for members of The Florida Bar and Attorney General CE for Law Enforcement, and has authored articles on the subject for The Elder Law Advocate, published by the Elder Law Section of the Florida Bar.

Elder Law Issues

Detecting Exploitation,
Common Misunderstandings
of Fiduciary Duties
and
Remedies for Breach

1:30pm - 5:00pm

Elder Law Issues

General Concepts and Definitions
1:30 to 2:15
Detecting Exploitation
2:15 to 3:00
Misunderstandings of Fiduciary Duties
3:15 to 4:00
Remedies for Breach
4:00 to 5:00

Elder Law Issues

General Concepts and Definitions

Detecting Exploitation

Common Misunderstandings of Fiduciary Duties

Remedies for Breach

General Concepts and Definitions

- Exploitation
- Vulnerable Adult
  - Disabled Adult
  - Elderly Person
- Guardian and Incapacitated Person
- Abuse

“Exploitation"

- **415.102(8) Definitions**
- (a)“Exploitation” means a person who:
  - 1.Stands in a position of trust and confidence with a vulnerable adult and knowingly, by deception or intimidation, obtains or uses, or endeavors to obtain or use, a vulnerable adult’s funds, assets, or property with the intent to temporarily or permanently deprive a vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult; or
  - 2.Knows or should know that the vulnerable adult lacks the capacity to consent, and obtains or uses, or endeavors to obtain or use, the vulnerable adult’s funds, assets, or property with the intent to temporarily or permanently deprive the vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult.
- (b)“Exploitation” may include, but is not limited to:
  - 1.Breaches of fiduciary relationships, such as the misuse of a power of attorney or the abuse of guardianship duties, resulting in the unauthorized appropriation, sale, or transfer of property;
  - 2.Unauthorized taking of personal assets;
  - 3.Misappropriation, misuse, or transfer of moneys belonging to a vulnerable adult from a personal or joint account; or
  - 4.Intentional or negligent failure to effectively use a vulnerable adult’s income and assets for the necessities required for that person’s support and maintenance.

“Exploitation"

- **Concept**
- …means a person who:
  - 1.Stands in a position of trust and confidence with a vulnerable adult and knowingly, by deception or intimidation, obtains or uses, or endeavors to obtain or use, a vulnerable adult’s funds, assets, or property with the intent to temporarily or permanently deprive a vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult; or
  - 2.Knows or should know that the vulnerable adult lacks the capacity to consent, and obtains or uses, or endeavors to obtain or use, the vulnerable adult’s funds, assets, or property with the intent to temporarily or permanently deprive the vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult.

“Exploitation"

- **Concept**
- …may include, but is not limited to:
  - 1.Breaches of fiduciary relationships, such as the misuse of a power of attorney or the abuse of guardianship duties, resulting in the unauthorized appropriation, sale, or transfer of property;
  - 2.Unauthorized taking of personal assets;
  - 3.Misappropriation, misuse, or transfer of moneys belonging to a vulnerable adult from a personal or joint account; or
  - 4.Intentional or negligent failure to effectively use a vulnerable adult’s income and assets for the necessities required for that person’s support and maintenance.

"Vulnerable adult"

- **415.102(26) Definitions**
- a person 18 years of age or older whose ability to perform the normal activities of daily living or to provide for his or her own care or protection is impaired due to a mental, emotional, long-term physical, or developmental disability or dysfunction, or brain damage, or the infirmities of aging.

"Vulnerable adult"

- **Concept**
- **a person** 18 years of age or older **whose ability to perform the normal activities of daily living** or to provide for his or her own care or protection **is impaired due to** a mental, emotional, long-term physical, or developmental **disability or** dysfunction, or brain damage, or the infirmities of **aging**.

"Disabled adult"

- **825.101(4) Definitions**
- a person 18 years of age or older who suffers from a condition of physical or mental incapacitation due to a developmental disability, organic brain damage, or mental illness, or who has one or more physical or mental limitations that restrict the person's ability to perform the normal activities of daily living.

"Disabled adult"

- **Concept**
- **a person** 18 years of age or older who suffers from a condition of physical or mental incapacitation due to a developmental disability, organic brain damage, or mental illness, or **who has** one or more physical or mental **limitations that restrict the person's ability to perform the normal activities of daily living**.

"Elderly person"

- **825.101(5) Definitions**
- a person 60 years of age or older who is suffering from the infirmities of aging as manifested by advanced age or organic brain damage, or other physical, mental, or emotional dysfunction, to the extent that the ability of the person to provide adequately for the person's own care or protection is impaired.

"Elderly person"

- **Concept**
- **a person** 60 years of age or older who is **suffering from the infirmities of aging** as manifested by advanced age or organic brain damage, or other physical, mental, or emotional dysfunction, **to the extent that the ability of the person to provide adequately for the person's own care or protection is impaired**.

"Guardian" and "Incapacitated Person"

- **744.102 Definitions**
- (9) "Guardian" means a person who has been appointed by the court to act on behalf of a ward's person or property or both
- (12) "Incapacitated person" means a person who has been judicially determined to lack the capacity to manage at least some of the property or to meet at least some of the essential health and safety requirements of the person.

“Abuse"

- **415.201 Definition**
- (1)“Abuse” means any willful act or threatened act by a relative, caregiver, or household member which causes or is likely to cause significant impairment to a vulnerable adult’s physical, mental, or emotional health. Abuse includes acts and omissions

“Abuse"

- **Concept**
- any threatened act likely to cause significant impairment to physical, mental, or emotional health. Abuse includes acts and omissions…
- **415.1034 *Mandatory* reporting,** must have the attention of APS, DCF, LEO, SAO…

  Mandatory means you have to… questions?

Where did the people with disabilities go?

Though everything discussed this afternoon is equally applicable to persons with a disability, *in my experience* elderly persons have a greater frequency of offense and provide better clarity of example.

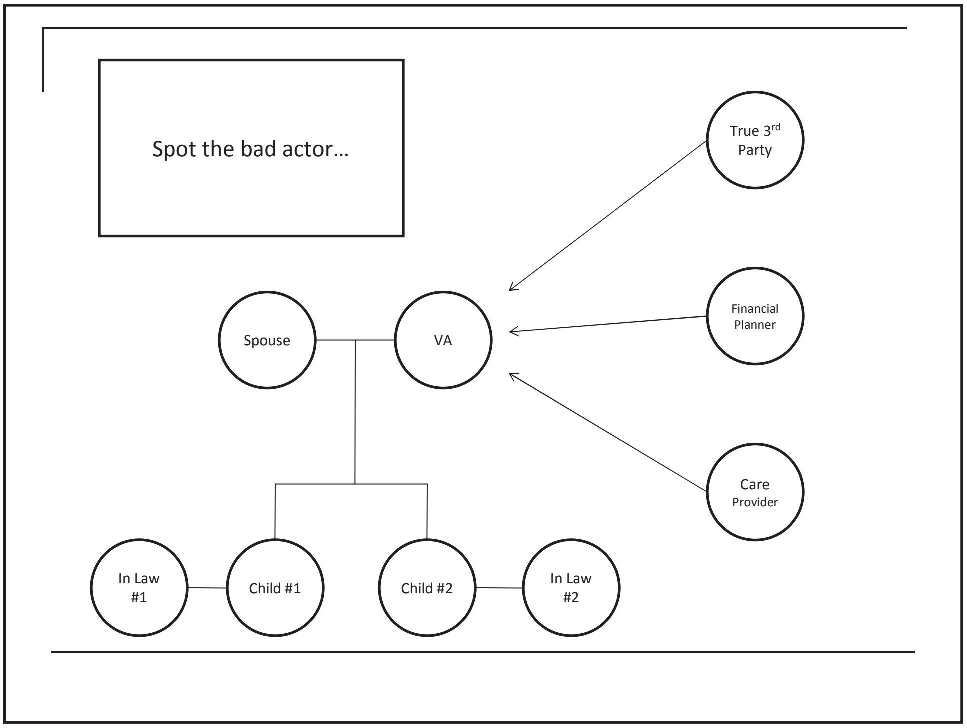
Elder Law Issues

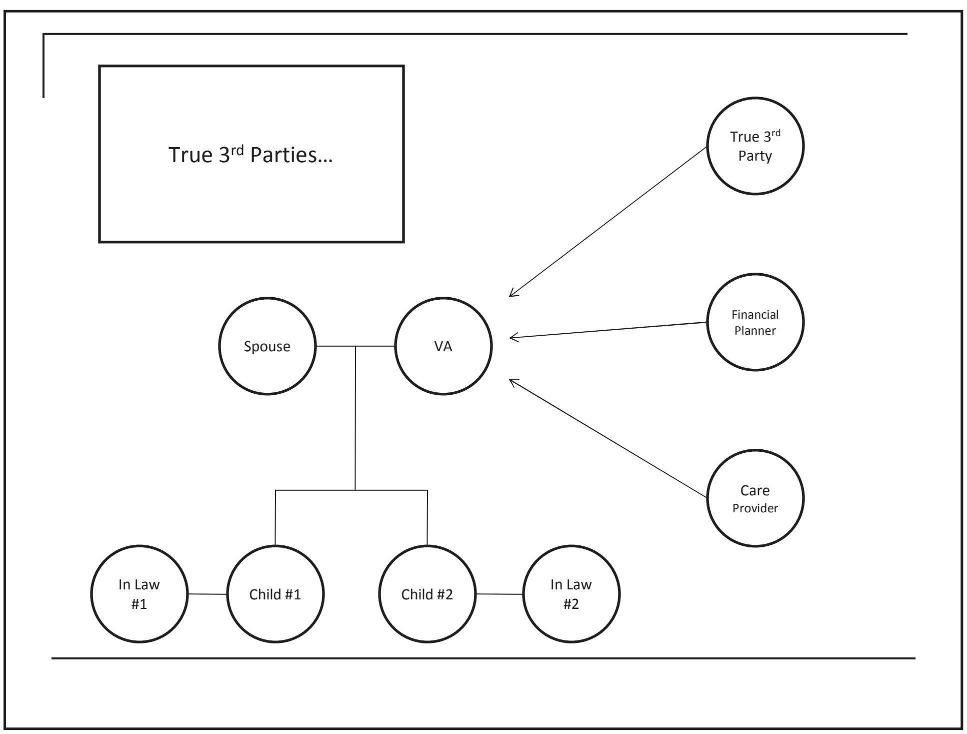
General Concepts and Definitions

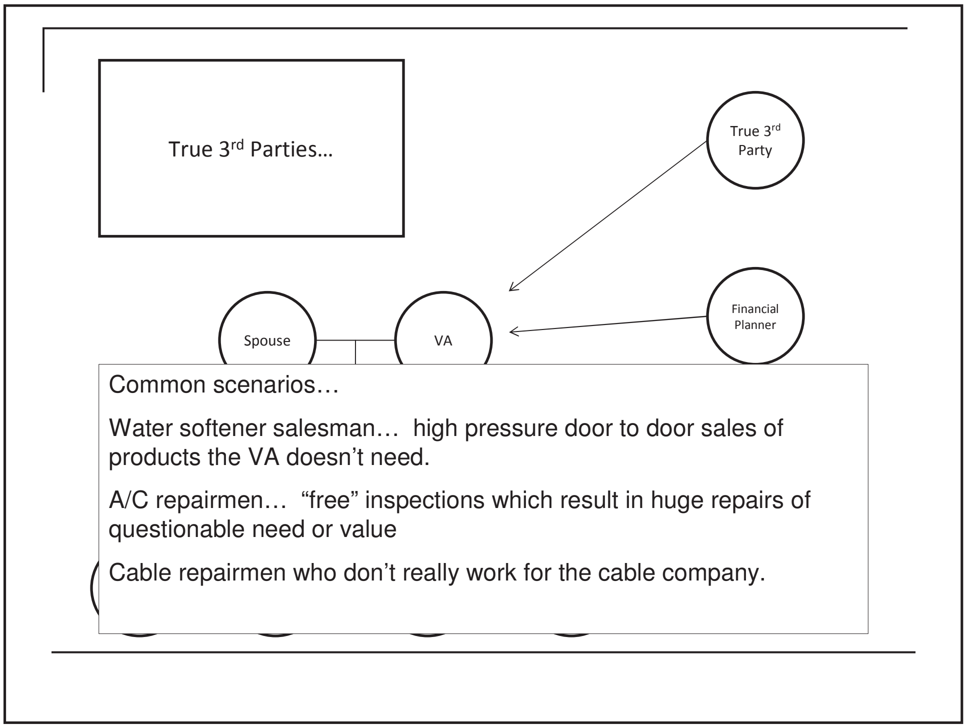
Detecting Exploitation

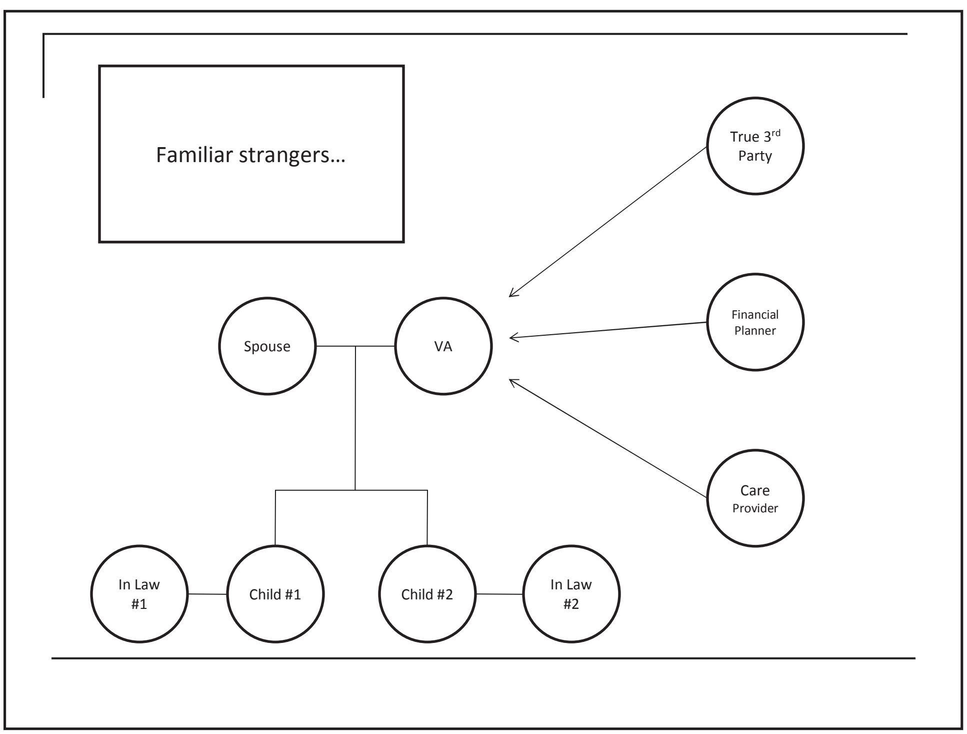
Common Misunderstandings of Fiduciary Duties

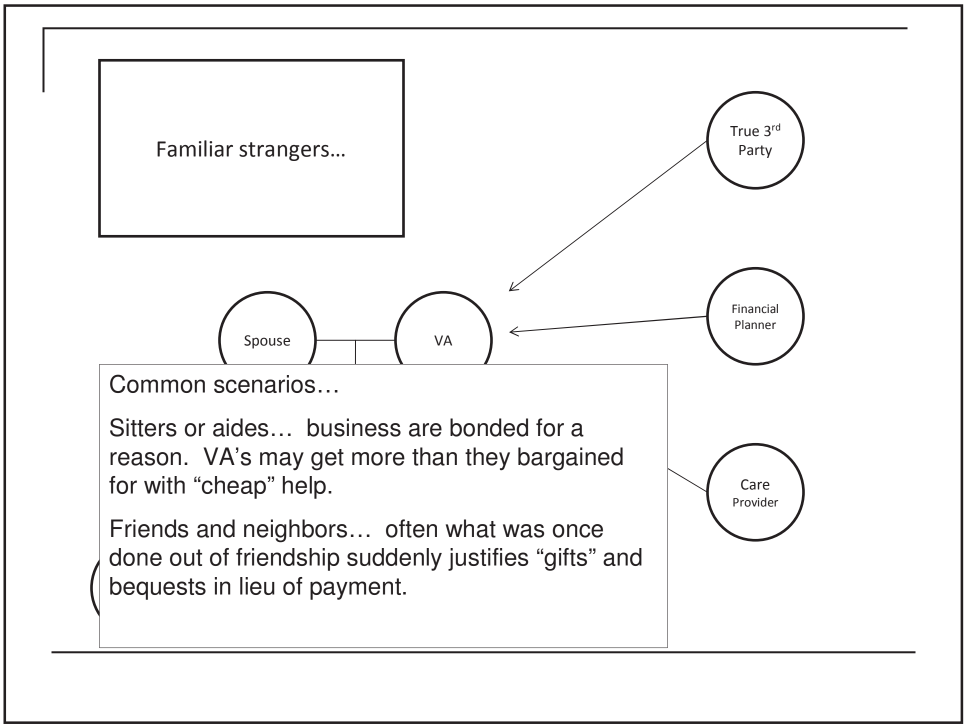
Remedies for Breach


Spot the bad actor…
True 3rd Party
Financial Planner
Care Provider
Spouse
VA
In Law #1
Child #1
Child #2
In Law #2


True 3rd Parties…
True 3rd Party
Financial Planner
Care Provider
Spouse
VA
In Law #1
Child #1
Child #2
In Law #2


True 3rd Parties…
True 3rd Party
Financial Planner
Spouse
VA
Common scenarios…
Water softener salesman… high pressure door to door sales of products the VA doesn't need.
A/C repairmen… "free" inspections which result in huge repairs of questionable need or value
Cable repairmen who don't really work for the cable company.

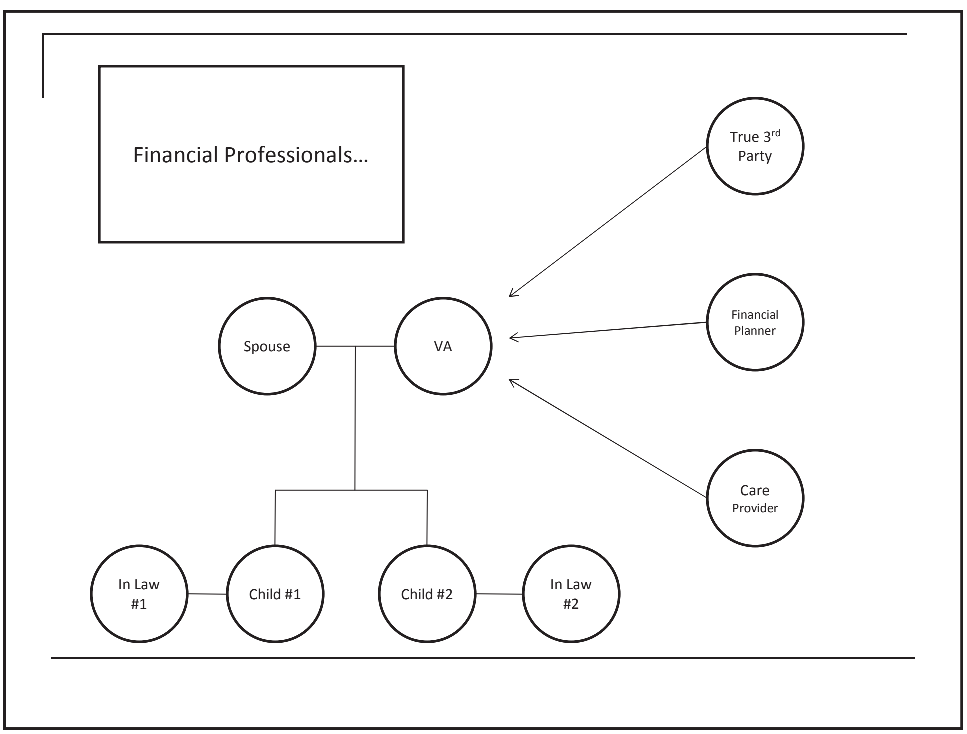

Familiar strangers…
True 3rd Party
Financial Planner
Care Provider
Spouse
VA
In Law #1
Child #1
Child #2
In Law #2

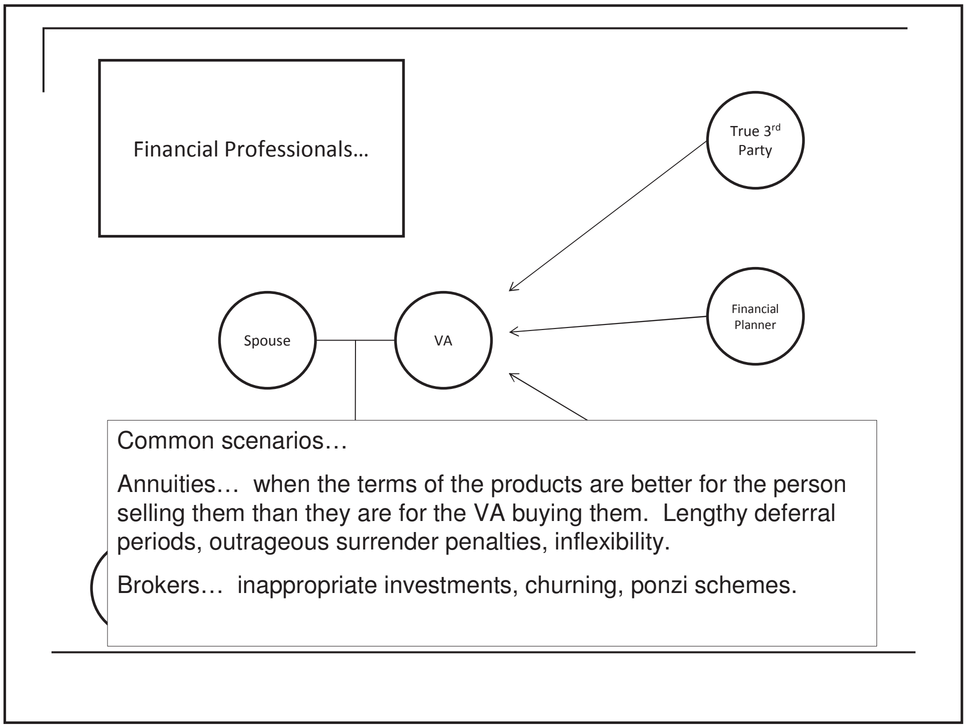


Common scenarios…

Sitters or aides… business are bonded for a reason. VA's may get more than they bargained for with "cheap" help.

Friends and neighbors… often what was once done out of friendship suddenly justifies "gifts" and bequests in lieu of payment.

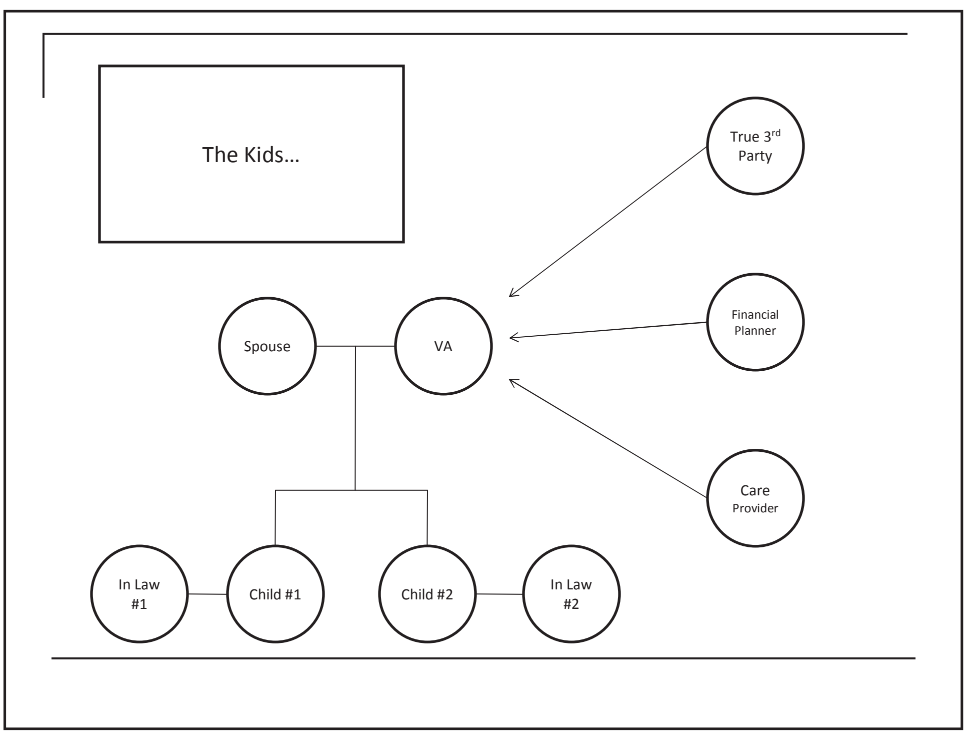




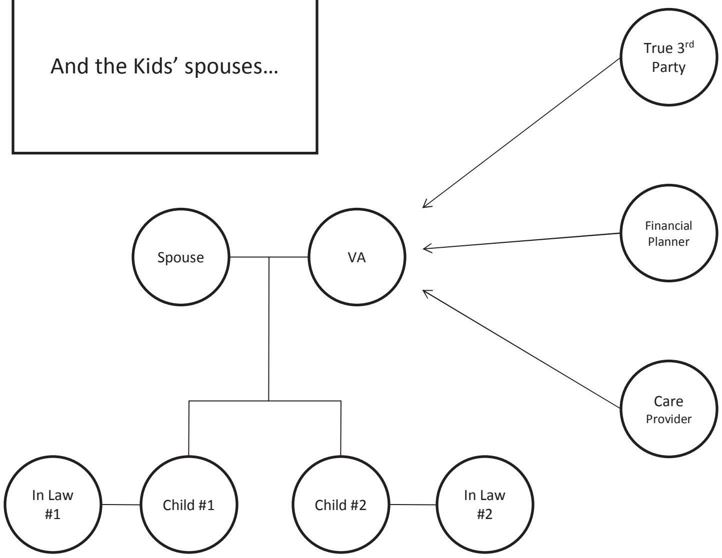
Common scenarios…

Annuities… when the terms of the products are better for the person selling them than they are for the VA buying them. Lengthy deferral periods, outrageous surrender penalties, inflexibility.

Brokers… inappropriate investments, churning, ponzi schemes.



And the Kids' spouses…



The Kids (+) …

Common scenarios…

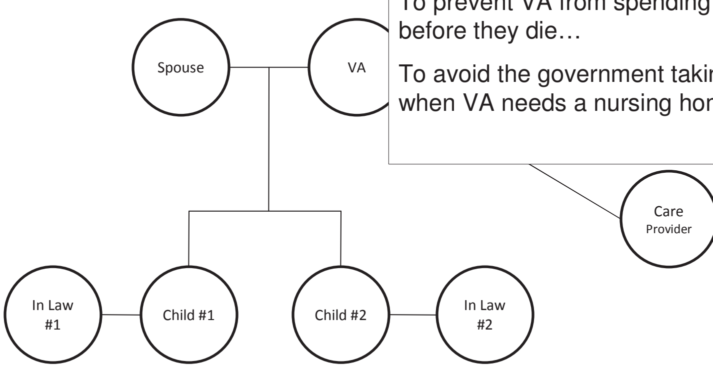
To cure personal hardship…

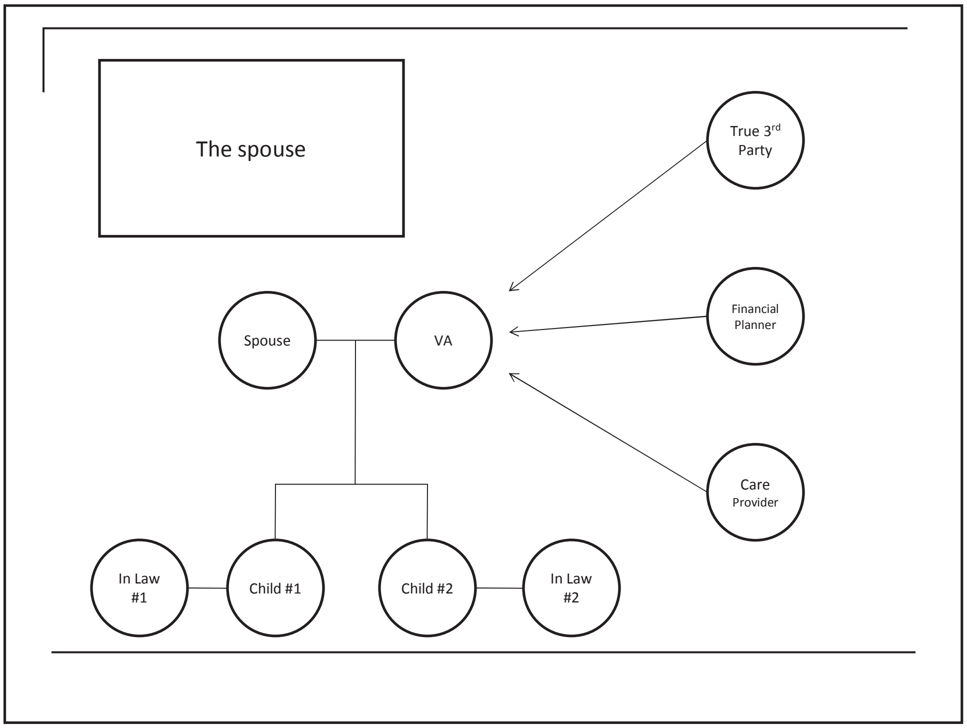
To defeat the estate plan...

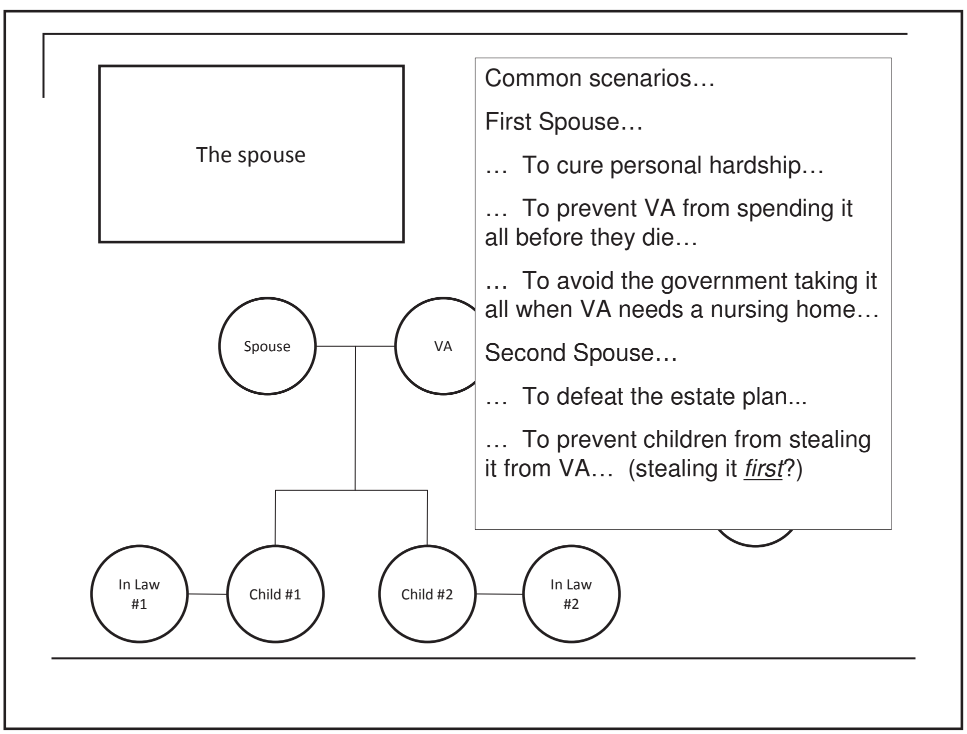
To prevent sibling from stealing it from VA… (stealing it *first*?)

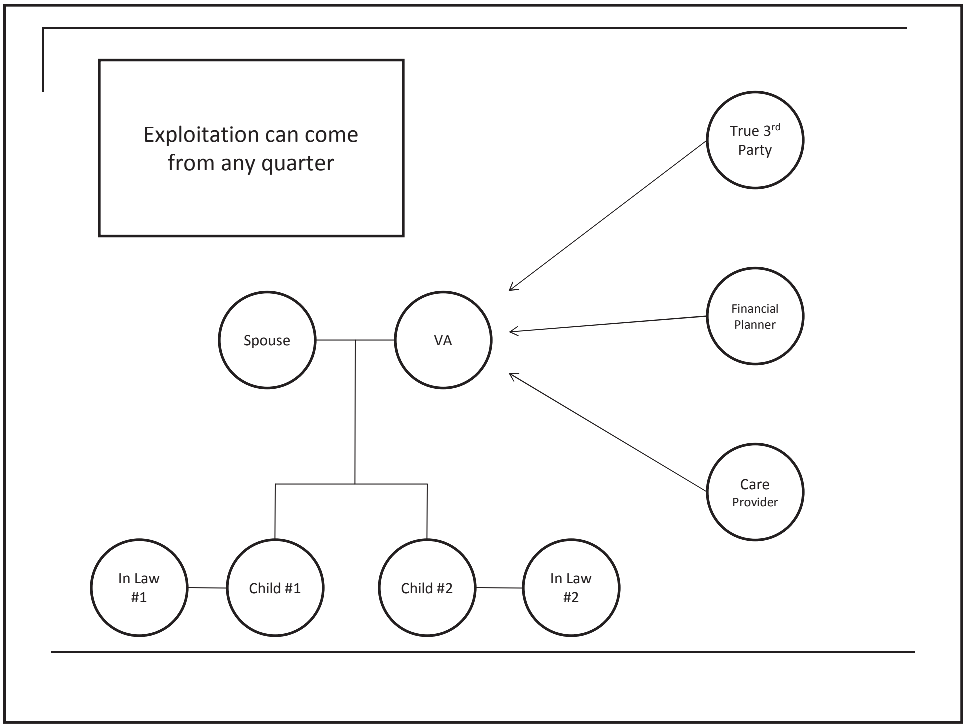
To prevent VA from spending it all before they die…

To avoid the government taking it all when VA needs a nursing home…




The spouse
True 3rd Party
Financial Planner
Spouse
VA
Care Provider
In Law #1
Child #1
Child #2
In Law #2


The spouse
Spouse
VA
Common scenarios…
First Spouse…
… To cure personal hardship…
… To prevent VA from spending it all before they die…
… To avoid the government taking it all when VA needs a nursing home…
Second Spouse…
… To defeat the estate plan...
… To prevent children from stealing it from VA… (stealing it *first*?)
In Law #1
Child #1
Child #2
In Law #2



Elder Law Issues

General Concepts and Definitions

Detecting Exploitation

Misunderstandings of Fiduciary Duties

Remedies for Breach

Misunderstandings of Fiduciary Duties

- Power of Attorneys & Attorneys-In-Fact
  THE BULK OF THIS SECTION
- Guardians
  - Person
- Property
- Trustees
  - Co-Trustees
  - Successors
- Personal Representatives

Misunderstandings of Fiduciary Duties

Power of Attorney

- **Power of Attorney**… a written authorization to represent or act on another's behalf in private affairs, business, or some other legal matter. The person authorizing the other to act is called the principal.

- **Attorney-in-fact**… the one authorized to act, the agent.

Power of Attorney

- Duties an agent owes the principal:
  - to only act within their authority
    - Specified by principal, or
    - Established by principal's prior activities
  - to act with care and due diligence
  - to avoid conflicts of interest with the interests of the principal
  - to stop acting upon the death of the principal

Power of Attorney

We consider these issues "basic knowledge", but what about the agent holding the POA?

Power of Attorney

We consider these issues "basic knowledge".

The fact is most lawyers spend all their time with the principal and never once meet with designated agents to explain their responsibilities or answer their questions.

Power of Attorney

We consider these issues "basic knowledge".

And what if someone rewrote the entire Power of Attorney statute?

Power of Attorney

We consider these issues "basic knowledge".

Rewrite the entire Power of Attorney statute?

Coming October 1, 2011
to a theatre near you…

The Uniform Power of Attorney Act

(aka Senate Bill 670 passed May 4, 2011)

Can they even be attorney in fact?

- **709.2105**
  - Over 18
  - If a financial institution must have trust powers AND place of business in Florida AND is authorized to conduct trust business in Florida

- Must be signed by two witnesses and notarized.

Important definitions re POA

- “Durable”: Not terminated by the principal’s incapacity…
  - Be careful…! Power of Attorney is *suspended* by the mere filing of a Petition to Determine Capacity… (which should be called a Petition to Determine Incapacity, since nobody files them unless they think the principal is incapacitated).

Important definitions re POA

- "Knowledge" includes:
  - Actual knowledge of a fact
  - Receipt of notice of a fact, or
  - Having reason to know of a fact from all other facts and circumstances known at the time.
- An organization has knowledge of a fact from the time information was received by an employee *having responsibility to act* on matters involving the power of attorney… note for later.

Validity of Power of Attorney

- Must conform to terms of 709.2106 if signed on or after October 1, 2011
- If signed before, then valid if executed in the formality required in the state where created
- Photocopies and electronic copies will now have the same effect as an original…
  - Will title companies now accept photocopies?
  - And when recording deeds in public records?

Legal opinions required…

- Third party (a bank, for example) may request a legal opinion from the agent as to the validity and execution of the Power of Attorney at principal's expense.
  - If no legal opinion is provided after a proper request then the third party may not be held liable for refusing to accept POA
      - Lawyer relief act 001…

No more springers…

- Springing Powers of Attorney will no longer be permitted after October 1, 2011
  - Existing "Springers" will be grandfathered, but subject to specific criteria for activation by treating physician
      - Lawyer relief act 002…

Multiple agents…

- May have 2 or more agents
  - If more than one, both are presumed to have the right of independent action
  - Principal may require joint action, but must specify Successor agents now provided for
- Successors
  - Cannot act until predecessor agent's authority is terminated

Termination

- Death of principal
- Principal or agent becomes incapacitated
- Agent resigns or removed by court
- If spouse is agent, filing of dissolution or annulment of marriage or legal separation
- Filing of Petition to Determine Capacity suspends, but does not revoke (yet)

Resignation

- Agent resigns by:
  - Following procedure outlined in POA; or
  - By giving notice to:
    - Principal;
    - Guardian (if incapacitated and one is appointed);
    - Co-agent, if any
    - Next successor agent, if any

Revocation

- If by newer POA, must specifically express revocation of prior(s); notice is optional
- Unless express revocation in new POA, old versions are NOT revoked.

Liability

- If actual "knowledge" of breach or imminent breach by another agent, including a predecessor agent …..
  - Must take reasonable steps to safeguard principal's best interests
  - Notice must be given to principal if good faith belief principal is not incapacitated

Later… Organizational Liability

- An organization has knowledge from when notice is received by employee responsible to act on matters involving the POA…

OR

- From **when the organization would have had notice if the organization had exercised reasonable diligence.**
  - Organizations must have a routine procedure for advising who the "right" employee is…
  - Practice Tip: Establish a routine and designate employee.

Failure of Agent to Act

- Liable to principal for foreseeable damages
- Successors… review of predecessor agent's actions required only if actual knowledge
  - If actual knowledge, successor agent must take action against predecessor:
    - Institute proceeding against predecessor
    - Insititute proceeding against predecessor's estate
- When does liability begin?
  - No official acceptance is required
  - To avoid liability before assumption of duties, a formal Acceptance is advisable

Payments to agents

- Only "qualified agents" may be compensated
  - Spouse
  - Heir by intestate statute
  - Financial institution w/trust powers
  - Attorneys & CPAs (licensed in FL only)
  - Natural person AND resident of state AND has NEVER acted for more than 3 at the same time
- Note: No bookkeepers, GCMs or Pro guardians and no out of state professionals, friends or banking institutions… in such cases Voluntary Guardianship may be required now

Duties (redux) 1 of 3

- As fiduciary:
  - Within scope granted
  - Not contrary to principal's reasonable expectations actually known by agent
  - In good faith
  - Not contrary to principal's best interest
  - Must attempt to preserve estate plan, to the extent known, IF consistent with principal's best interest
  - NO liability to beneficiary for failure to preserve if acting in good faith

Principal's "best interests"

- Value & nature of principal's property
  - Not liable, however, for decline if there's no breach of duty
- Principal's foreseeable obligations and need for maintenance
- Minimization of taxes (all of them)
- Eligibility for benefits, program or assistance under statute;
- History of making gifts

Duties (redux) 2 of 3

- Act loyally for the sole benefit of principal
- Act so as not to create a conflict of interest
- Remain impartial
- Act with care, competence & diligence ordinarily exercised by other agents ("reasonable agent" rule)
  - Special skills must be exercised
- MUST cooperate with health care decision makers

Duties (redux) 3 of 3

- MUST keep all receipts of transactions
- MUST maintain inventory of safe deposit box
- NOT required to disclose without court order … unless
  - Asked by principal, guardian, another fiduciary, government agency, PR (upon death) or "successor in interest of the principal's estate" New avenue to pursue for contested cases
  - Must comply within 60 days or add'l 60 days if written request and compliance occurs

Exoneration

- Can state Agent will not be liable if acting in good faith and within authority EXCEPT:
  - No one relieved for dishonest breach of duty
  - Improper motive
  - Reckless indifference to purposes to document or best interest of principal
  - Was inserted due to abuse of confidential or fiduciary relationship with principal

New roles for the Court

- Court may:
  - Construe or enforce
  - Review agent’s conduct
  - Terminate agent’s authority
  - Remove an agent
- Attorneys fees and costs are specifically provided for under this section if petition filed

New roles for the Court

- Who may petition for relief?
  - The principal or agent or nominated successor agent
  - Guardian, conservator, trustee, other fiduciary of principal's estate
  - Health care decision-maker if health is affected
  - "Any other interested person" interested in welfare of principal
  - Governmental agency
  - A person asked to honor POA (bank, nursing home, etc.)

Extent of Liability

- Liability to principal or principal's successors in interest for the following amounts:
  - Restore value of principal's property had violation not occurred, AND
  - Reimburse principal or principal's successors in interest for attorney's fees and costs paid from principal's funds on the agent's behalf in defense of agent's actions.
  - Agent must make the principal whole

Acceptance by third party

- Third person who in good faith accepts a power of attorney that appears to be executed in the manner required by law at the time of its execution may rely upon the power of attorney and the actions of the agent which are reasonably within the scope of the agent's authority and may enforce any obligation created as if:
  - The power of attorney were genuine, valid and still in effect;
  - The agent's authority were genuine, valid and still in effect; and
  - The authority of the officer executing for or on behalf of the financial institution that has trust powers and acting as agent is genuine, valid and still in effect.

Acceptance not in good faith

- Acceptance (and subsequent reliance) is not in good faith if:
  - Third person had notice that POA is void, invalid, or terminated; or
  - Purported agent's authority is void, invalid or terminated.

Requirements by third persons

- Affidavit by agent
  - Where is principal domiciled
  - Principal is not deceased
  - No revocation or partial or complete termination by adjudication of incapacity or occurrence of event referenced in POA (eg limited powers of attorney usually define an activity or time period)
  - No suspension due to initiation of proceedings to determine incapacity or appoint guardian for principal
- Affidavit by financial institution acting as agent
- Affidavit by successor agent
  - State the reasons why the predecessor agent(s), if any, are unavailable at the time the authority is exercised (See affidavit … "is otherwise unable to act …")
- Sample Affidavit is provided in statute

Paid for by…

- Translations and opinions demanded by third persons must be paid for by the principal unless the third person makes the request after the allotted time for acceptance or rejection of the POA. Then that third person must pay.

Authorities…

- Authority must be specifically granted in the POA
- General provisions, such as, "do all acts that the principal can do", is not sufficient
- Health care decisions, if specifically granted in POA
- Covers property owned at time when executed and later acquires, no matter where property is located, or where POA is executed
- An agent may NOT:
  - Perform duties under a contract that requires the exercise of personal services of the principal;
  - Make any affidavit as to the personal knowledge of the principal;
  - Vote in any public election on behalf of the principal;
  - Execute or revoke any will or codicil for the principal;
  - Exercise powers and authority granted to the principal as Trustee or as court-appointed fiduciary.

Initials required…

Effective October 1, 2011 must be initialed next to each specific authority as follows:

- Create an inter vivos trust
  - With respect to principal's trust:
    - Amend, Modify, Revoke or Terminate ONLY if trust specifically states agent can do thisCreate or change rights of survivorship
- Create or change beneficiary designation
- Waive principal's right to be a beneficiary of joint/survivor annuity, including survivor benefit of retirement plan
- Disclaim property and powers of appointment

Limitation of powers…

- Unless otherwise provided, an agent who is not an ancestor, spouse, or descendant of the principal may not exercise authority to create in the agent, or to whom agent owes a legal obligation of support, an interest in the principal's property, whether by gift, right of survivorship, beneficiary designation, disclaimer, or otherwise
- Gifts are limited, unless otherwise provided in POA, as follows:
  - Outright or for the benefit of person
  - Cannot exceed annual dollar limits per donee
  - With spouse's consent, then twice the annual dollar limits

Power of Attorney

We consider these issues "basic knowledge"…

Really? Basic knowledge?

And what about the agent holding the POA?

Guardians

- A person who has been appointed by the court to act on behalf of a ward's person or property, or both.
  - Good news… must have a Registered Agent
  - Better news… must have an attorney!
- If you suspect a Guardian doesn't understand their duties to the Ward or is acting against the Ward's interests bring your concerns to their attorney immediately

Trustees

- Trustee's duties, though similar to an agent's under a POA, include many distinct details.
- Chapter 736 covers those issues, but can't be addressed in any depth during our time.
- I will entertain questions about Trusts and breach by a Trustee at the session's end.

Misunderstandings of Fiduciary Duties

Personal Representatives

- The fiduciary appointed by the court to administer an estate, also called administrator or executor.
  - Good news… just like a Guardian these folks must have a Registered Agent and an attorney!
- If you suspect a Personal Representative doesn't understand their duties to the Estate or is acting against the Estate's interests bring your concerns to their attorney immediately

Elder Law Issues

General Concepts and Definitions

Detecting Exploitation

Misunderstandings of Fiduciary Duties

Remedies for Breach

Remedies for Breach

- Question: Civil or Criminal?
  - Criminal:
    - Law enforcement carries the burden
    - Sanctions include incarceration as well as restitution
  - Civil:
    - Independent action on victim's initiative
    - Sanctions include punitives as well as attorney's fees

Remedies for Breach

- Question: Civil or Criminal?
  - Criminal:
    - Law enforcement carries the burden
    - Sanctions include incarceration as well as restitution
  - Civil:
    - Independent action on victim's initiative
    - Sanctions include punitives as well as attorney's fees

- Answer: Usually should be YES… to both!

Civil Causes of Action

415.1111 Civil actions

709 Power of Attorney

772.11 Civil theft remedy

825.103 Exploitation

This list is not exclusive.

Adult Protective Services

- 415.1111 Civil Actions
- A vulnerable adult who has been abused, neglected, or exploited as specified in this chapter has a cause of action against any perpetrator and may recover actual and **punitive damages** for such abuse, neglect, or exploitation.

"Exploitation" *Remember me?*

- **Concept**
- …means a person who:
  - 1.Stands in a position of trust and confidence with a vulnerable adult and knowingly, by deception or intimidation, obtains or uses, or endeavors to obtain or use, a vulnerable adult's funds, assets, or property with the intent to temporarily or permanently deprive a vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult; or
  - 2.Knows or should know that the vulnerable adult lacks the capacity to consent, and obtains or uses, or endeavors to obtain or use, the vulnerable adult's funds, assets, or property with the intent to temporarily or permanently deprive the vulnerable adult of the use, benefit, or possession of the funds, assets, or property for the benefit of someone other than the vulnerable adult.

Power of Attorney *Remember me?*

Yes, I know you remember this…

Civil Theft Remedy

- 772.11 Civil Remedy
- Any person … injured in any fashion by reason of any violation of ss. 812.012 [through] 812.037 or s. 825.103(1) has a cause of action for **threefold the actual damages sustained … and reasonable attorney's fees and court costs**

Exploitation (the criminal version)

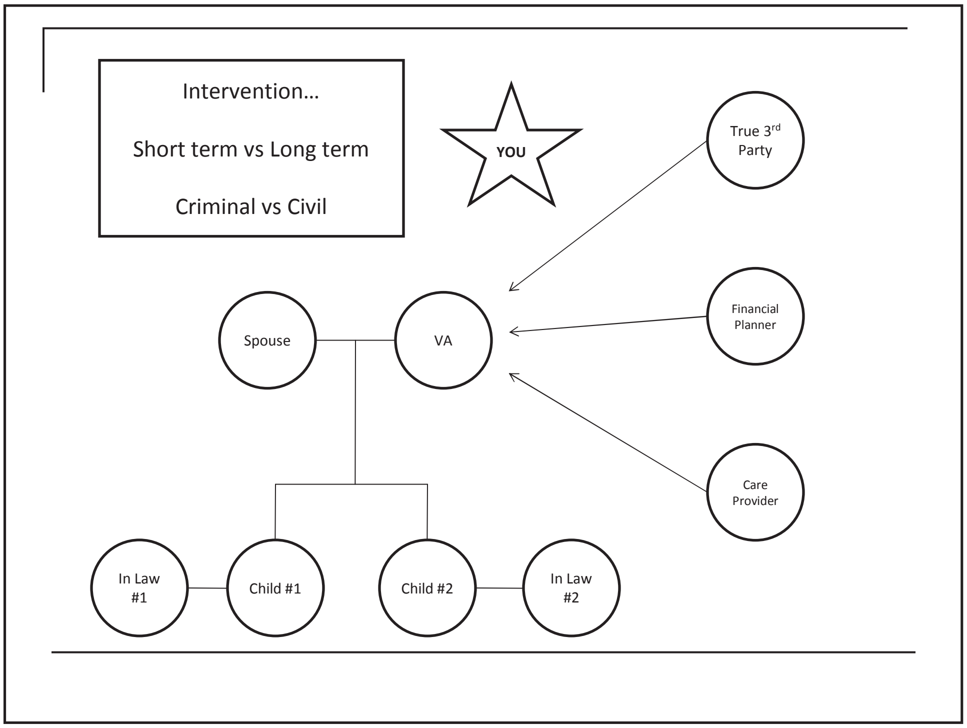
- 825.103(1) "Exploitation of an elderly person or disabled adult" means:
  - (a) Knowingly, by deception or intimidation, obtaining or using, or endeavoring to obtain or use, an elderly person's or disabled adult's funds, assets, or property with the intent to temporarily or permanently deprive the elderly person or disabled adult of the use, benefit, or possession of the funds, assets, or property, or to benefit someone other than the elderly person or disabled adult, by a person who:
    - 1. Stands in a position of trust and confidence with the elderly person or disabled adult; or
    - 2. Has a business relationship with the elderly person or disabled adult;

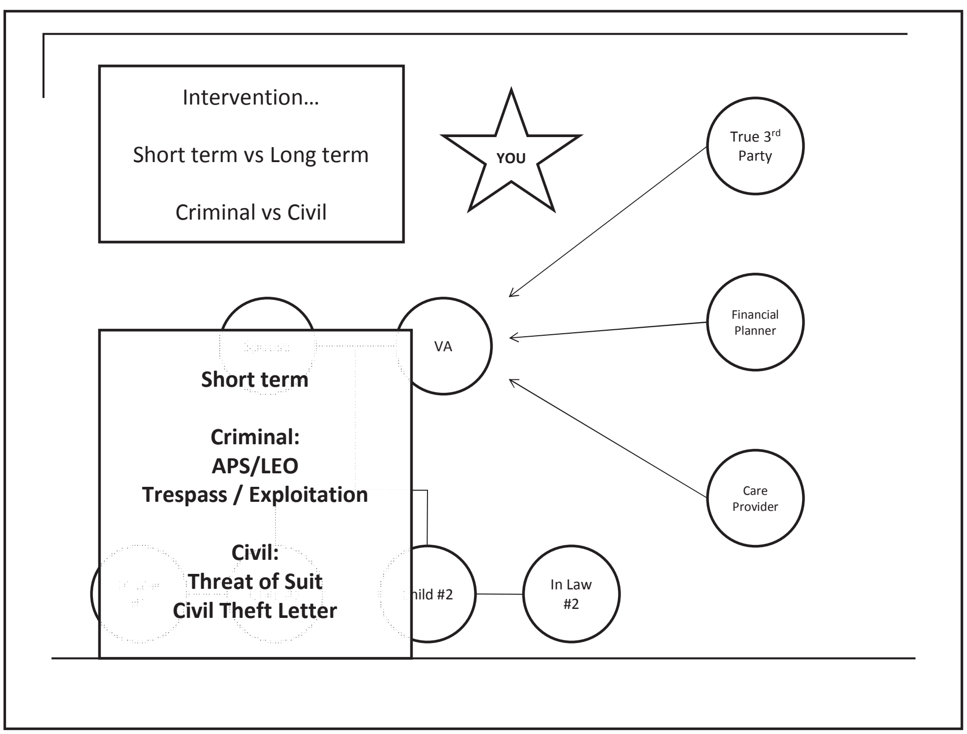
Exploitation (the criminal version)

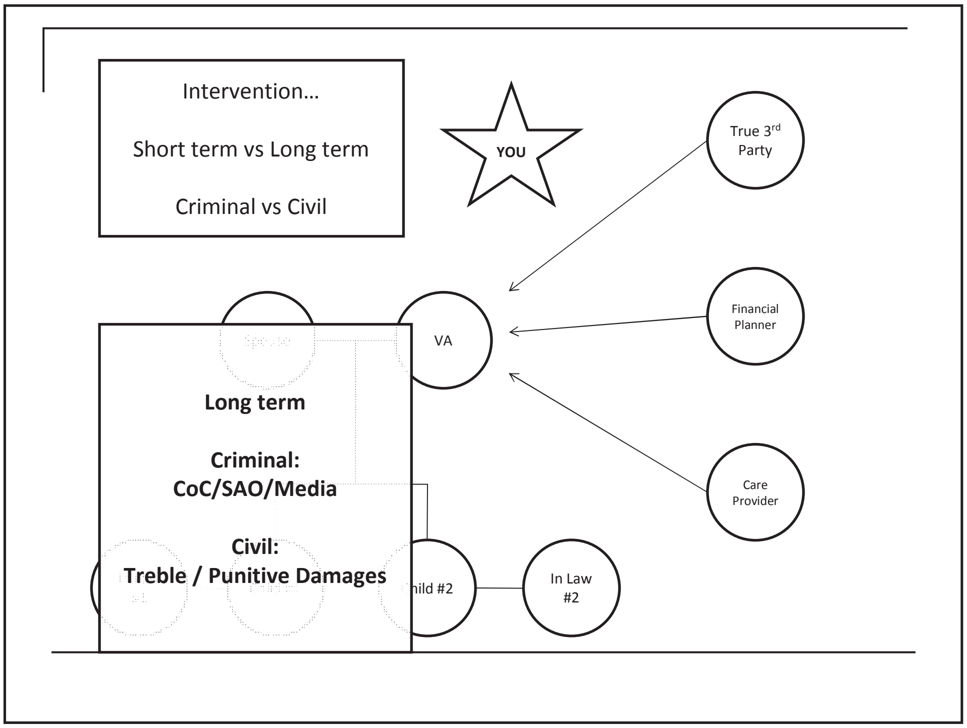
- 825.103(1) "Exploitation of an elderly person or disabled adult" means:
  - (b) Obtaining or using, endeavoring to obtain or use, or conspiring with another to obtain or use an elderly person's or disabled adult's funds, assets, or property with the intent to temporarily or permanently deprive the elderly person or disabled adult of the use, benefit, or possession of the funds, assets, or property, or to benefit someone other than the elderly person or disabled adult, by a person who knows or reasonably should know that the elderly person or disabled adult lacks the capacity to consent; or

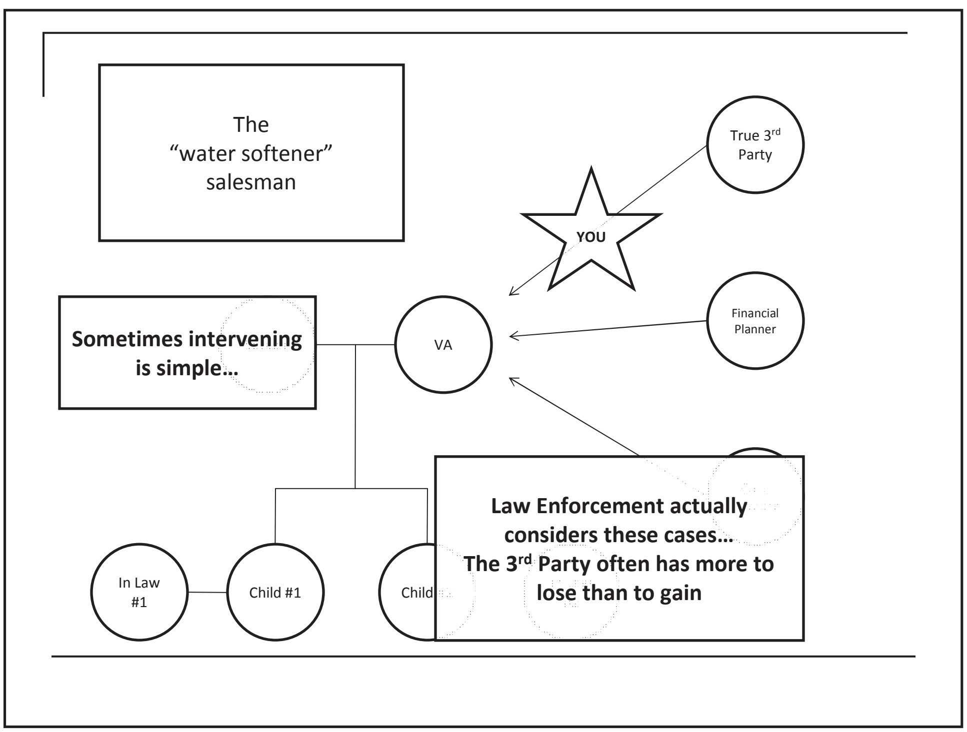
Exploitation (the criminal version)

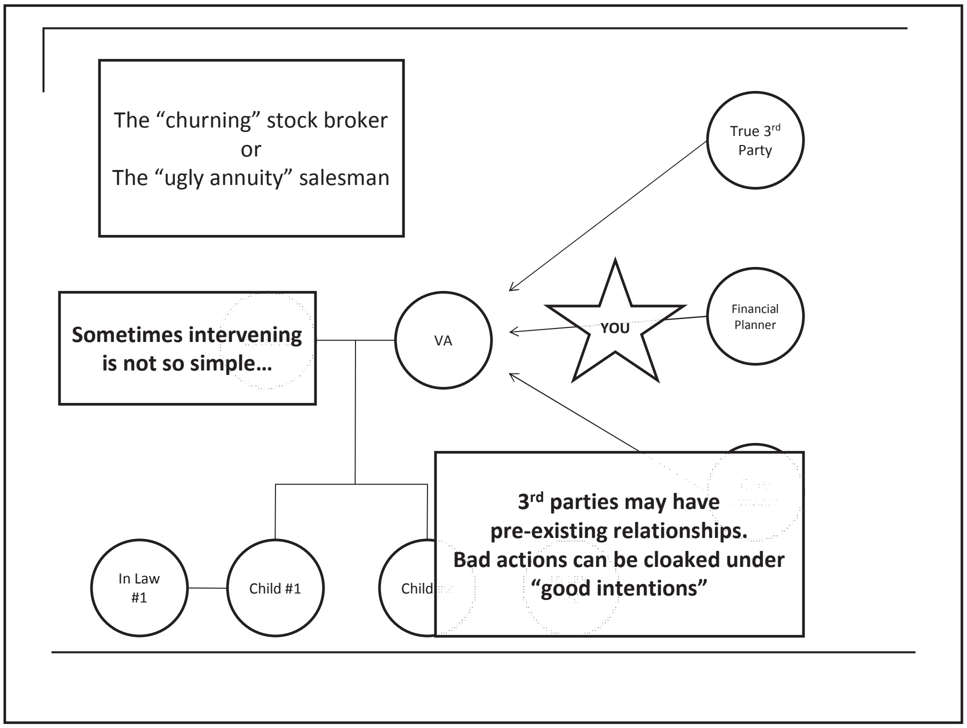
- 825.103(1) "Exploitation of an elderly person or disabled adult" means:
  - (c) Breach of a fiduciary duty to an elderly person or disabled adult by the person's guardian or agent under a power of attorney which results in an unauthorized appropriation, sale, or transfer of property.

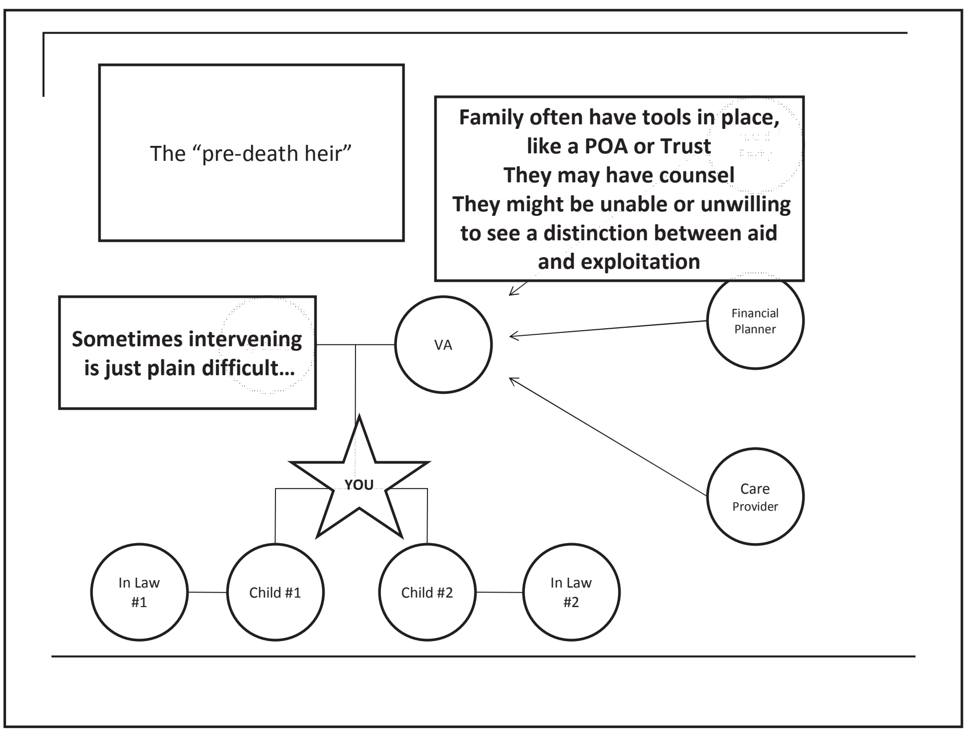

Intervention…
Short term vs Long term
Criminal vs Civil
YOU
True 3rd Party
Financial Planner
Care Provider
Spouse
VA
In Law #1
Child #1
Child #2
In Law #2

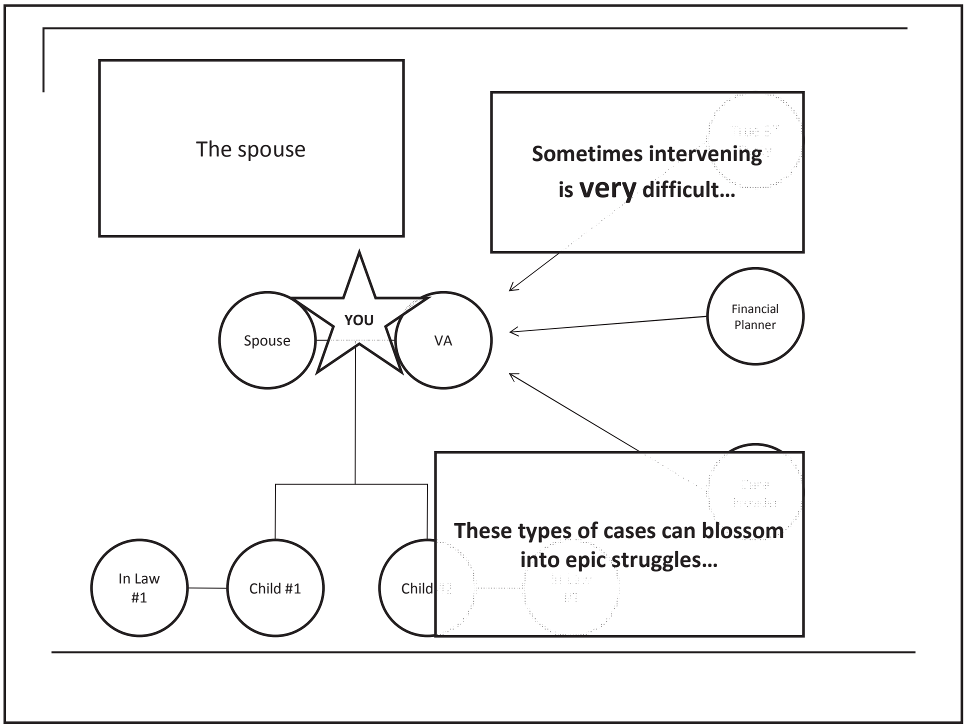

Intervention…
Short term vs Long term
Criminal vs Civil
YOU
True 3rd Party
Financial Planner
Care Provider
VA
Short term
Criminal:
APS/LEO
Trespass / Exploitation
Civil:
Threat of Suit
Civil Theft Letter
In Law #2

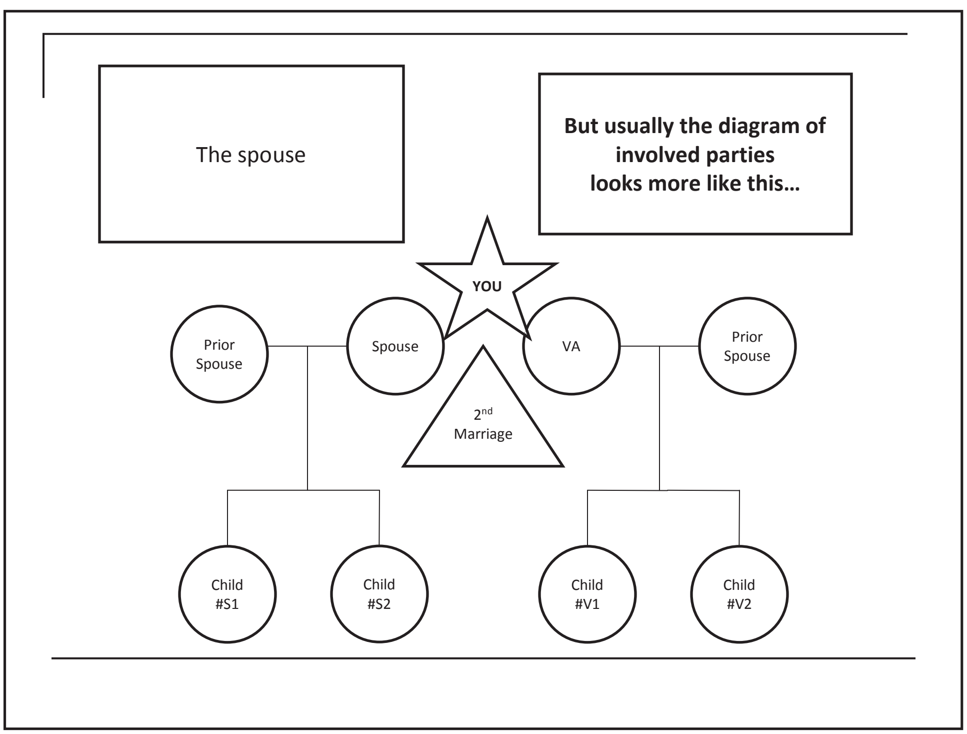

Intervention…
Short term vs Long term
Criminal vs Civil
YOU
True 3rd Party
Financial Planner
Care Provider
VA
Long term
Criminal:
CoC/SAO/Media
Civil:
Treble / Punitive Damages
In Law #2


The
“water softener”
salesman
True 3rd Party
YOU
Financial Planner
VA
Sometimes intervening is simple…
Law Enforcement actually considers these cases…
The 3rd Party often has more to lose than to gain
In Law #1
Child #1


The "churning" stock broker
or
The "ugly annuity" salesman
True 3rd Party
Financial Planner
YOU
VA
Sometimes intervening is not so simple…
3rd parties may have pre-existing relationships.
Bad actions can be cloaked under "good intentions"
In Law #1
Child #1
Child

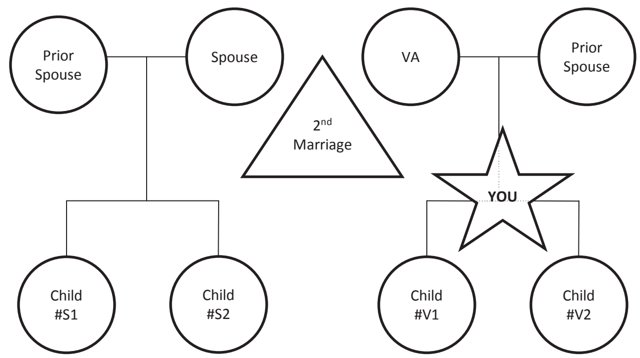

The "pre-death heir"
Family often have tools in place, like a POA or Trust
They may have counsel
They might be unable or unwilling to see a distinction between aid and exploitation
Financial Planner
VA
Sometimes intervening is just plain difficult…
YOU
Care Provider
In Law #1
Child #1
Child #2
In Law #2


The spouse
Sometimes intervening is very difficult…
YOU
Spouse
VA
Financial Planner
These types of cases can blossom into epic struggles…
In Law #1
Child #1
Child


The spouse
But usually the diagram of involved parties looks more like this…
YOU
Prior Spouse
Spouse
VA
Prior Spouse
2nd Marriage
Child #S1
Child #S2
Child #V1
Child #V2

The spouse

Or this…
Depending upon your perspective.



Obstacles to civil relief

- **Failing health**
  - **Accelerated docket**
  - **Preservation of evidence**
- **Diminished capacity**
  - **Power of Attorney**
  - **Guardianship**
- **Death**
  - **Continuation of Action**

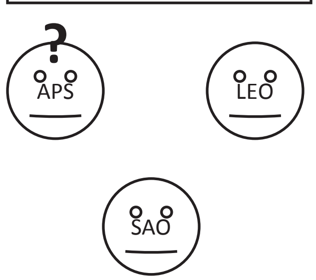
Obstacles to civil relief

- **Emotional frailty**
  - **Community support**
  - **Frequent attention**

- **Concern for bad actors**
  - **Review of bad acts**
  - **Awareness of impacts**

Obstacles to prosecution

Frequent difficulties…
Law enforcement



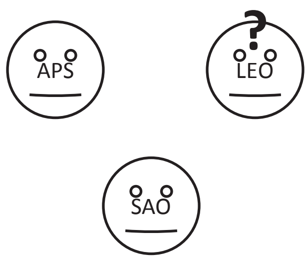
Lack of Knowledge
Inadequate understanding of laws and legal issues
Non-attorney investigators

Lack of Confidence
Complex facts / elderly victim
LEO desires ample proof and clear violation of law

Lack of Interest
Difficult burden of proof
Sympathetic perpetrator
Lack of statistical appeal

Obstacles to prosecution

Frequent difficulties…
Law enforcement



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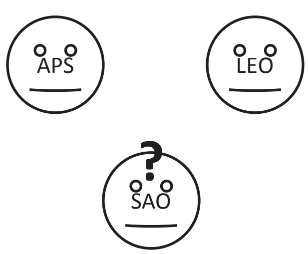

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Compilation and Review Update: Top 10 Issues Plus Others

Cecil Patterson, Jr., CPA, MBA

Cecil “Pat” Patterson, Jr., CPA, MBA
President
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Cecil "Pat" Patterson, Jr., CPA is a recognized author, speaker, and discussion leader for continuing education courses and state societies. Mr. Patterson is the President of Patterson & Associates, P. A. His degrees include a Bachelor of Science in Accounting (Honors) and a Master of Business Administration. Mr. Patterson has experience at the national CPA firm level, at the corporate level as a chief financial officer, and as an adjunct professor at the university level.

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- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Florida Institute of Certified Public Accountants (FICPA)
- Member, FICPA Board of Governors
- Member, FICPA Common Interest Realty Associations Section
- Member, FICPA Accounting & Auditing Section
- Member, FICPA Accounting Shows Committee

Honors and Awards include:

- Outstanding Discussion Leader, FICPA
- Outstanding Author, FICPA
- Distinguished Discussion Leader, New York Society of CPAs

Compilation and Review:
TOP 10 ISSUES

Presented by

Florida Institute of Certified Public Accountants

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NOTICE TO PARTICIPANTS

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- Additionally, the professional standards, pronouncements, procedures, and statutes may change from time to time. It is considered the participant's responsibility to stay current and updated on these issues.
- Some reproduction of the standards may not be complete. See the actual for completeness.

Issue Number 1.

Impact of Ethics and the FASB's Accounting Standards Codification

5

Ethics (ET)

- The Code of Professional Conduct has two sections:
  - Principles
  - Rules
- The rules find their framework in the principles.
- The bodies or groups who set the technical standards are authorized by the Council of the AICPA.
- The bylaws of the AICPA require compliance to rules and standards.
- Ethical standards may also come from other agencies.

AICPA's Code of Professional Conduct

- ***"The code of professional conduct was adopted by the membership to provide guidance and rules to all members – those in public practice, in industry, in government, and in education – in the performance of their professional responsibilities."***

Accounting Standards

- Generally Accepted Accounting Principles (GAAP)
- Agreement on a body of GAAP
- Rule 203 AICPA Code of Professional Conduct
- Obviously, accounting standards (GAAP) apply to Compilation and Review Engagements.

ET Section 203
Accounting Principles

- **.01 Rule 203—Accounting principles**
- A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole.

203-2—Status of FASB, GASB and FASAB interpretations

- **.03** Council is authorized under rule 203 [ET section 203.01] to designate bodies to establish accounting principles.
- Council has designated the Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB Accounting Standards Codification™ (ASC) constitutes accounting principles as contemplated in rule 203 [ET section 203.01].
- Council has also designated the Governmental Accounting Standards Board (GASB), with respect to Statements of Governmental Accounting Standards issued in July 1984 and thereafter, as the body to establish financial accounting principles for state and local governmental entities pursuant to rule 203 [ET section 203.01].

News Release

- **On July 1, 2009, the *FASB Accounting Standards Codification ™* became the *<u>single</u>* official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, AICPA, EITF, and related literature.**
- After that date, ***only one level of authoritative GAAP will exist***, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature will be nonauthoritative.

News… (cont)

- The Codification does not change GAAP; instead, it introduces a new structure—one that is organized into an easily accessible, user-friendly online research system.
- The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics, and displays all Topics using a consistent structure.
- Also included is relevant SEC guidance that follows the same topical structure used in the Codification.

News (cont)

- The new system:
  - reduces the amount of time and effort required to solve an accounting research issue;
  - mitigates the risk of noncompliance with standards through improved usability of the literature;
  - provides accurate information with real-time updates as new standards are released; and
  - assists the FASB with the research and convergence efforts required during the standard-setting process.

News (cont)

- To prepare constituents for the change, the FASB offers a free online Codification tutorial at http://asc.fasb.org.
- In addition, there is a recorded webcast at www.fasb.org.
- For more information, log on to www.fasb.org.

Issue Number 2.

SSARS 19

15

SSARS 19

- **SSARS 19**, ***Compilation and Review Engagements,*** was issued on December 30, 2009.
- It is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010.
- **Only the new compilation report option of paragraph 2.21 may be implemented immediately.**

Actual Paragraph

- Paragraph 2.21 of SSARS 19, ***Compilation and Review Engagements***
  - ***2.21 When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which an accountant is not independent, the accountant's report should be modified. The accountant should indicate his or her lack of independence in a final paragraph of the accountant's compilation report. An example of such a disclosure would be:***

Actual Paragraph (cont)

- 2.21 (cont)
  - ***I am (We are) not independent with respect to XYZ Company***
- ***The accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired. The following are examples of descriptions the accountant may use:***

Actual Paragraph (cont)

– 2.21 (cont)

– ***a. I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.***

Actual Paragraph (cont)

– 2.21 (cont)

– ***b. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company; or***

Actual Paragraph (cont)

– 2.21

– ***c. I am (we are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.***

Actual Paragraph (cont)

– 2.21 (cont)

– ***If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.***

SSARS 19 (cont)

- Pre SSARS 19, there was a prohibition for disclosing reason for not being independent in compilations.
- SSARS 19 eliminates the prohibition.
- **<u>Review engagements may not be performed when not independent.</u>**

SSARS 19 (cont)

- Disclosure of the <u>reason</u> for independence impairment is <u>optional</u> for compilations issued after December 30, 2009.
- The CPA may still report that they are not independent without a reason as always.

SSARS 19 (cont)

- Professional judgment is needed for the option of paragraph 2.21.
- The CPA should know the users of the compiled financials like:
  - Is the impairment understood?
  - Is the information useful?

SSARS 19 (cont)

- If a reason for impairment is disclosed, the CPA should disclose **all** of the reasons.
- The reason(s) may be in one paragraph.
- The disclosures are not limited.
  - Should not be misleading.
  - Detail should be appropriate and may be as much as CPA wants to provide.

SSARS 19 (cont)

- Disclosure of reasons for independence impairment may be made in one period and not in another for same client.
- Disclosure of reasons for independence impairment is not required for all compilations of all clients if one client is disclosed.

SSARS 19 (cont)

- Other issues in SSARS 19 (which are not effective until after December 15, 2010 include:
  - Guidance for Review Engagements is separated from Compilations.
  - New Compilation and Review Reports.
  - Obtaining limited assurance in reviews.
  - ***Review Evidence*** is included now.

SSARS 19 (cont)

- Other issues continued:
  - Tailoring review procedures.
  - Materiality discussions in reviews.
  - An engagement letter would be required in all compilation and review engagements.
  - Documentation requirements.

Differs from Exposure Draft

- SSARS 19 as issued differs from the Exposure Draft issued April 28, 2009.
  - Retains Limited Assurance rather than switch to Moderate Assurance
  - Matches some of the concepts in International Standards.
  - No reviews with an independence impairment.

International Compilation and Review Standards

- The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has issued International Standard on Related Services (ISRS) 4410, ***Engagements to Compile Financial Statements***, and International Standard on Review Engagements (ISRE) 2400, ***Engagements to Review Financial Statements.***

International Compilation and Review Standards (cont)

- The purpose of the ISRS and ISRE is to:
  - **Establish international standards and provide guidance on the accountant's professional responsibilities when engaged to compile or review financial statements.**
  - **Provide guidance on the form and content of the report the accountant issues for that compilation or review.**

International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 can be found in IFAC's ***Handbook of International Auditing, Assurance, and Ethics Pronouncements***.
- The reference is available at www.ifac.org

International Compilation and Review Standards (cont)

- ISRS 4410 and ISRE 2400 do not override SSARS.
- Interpretation No. 30 (AR 9100.130.135), Considerations Related to Financial Statements Prepared in Accordance with International Standards, however, allows an accountant who performs a compilation or review of historical financial statements of a U. S. Entity to follow the compilation and review standards of another set of compilation and review standards in addition to the required AR 100 Standards.

FICPA Further Guidance

- The FICPA will be providing continuing professional education courses (seminars, Webcasts, and Webinars) to help practitioners and others understand the new compilation and review standard.
- Further, 2011 FICPA Conferences will include segments on the new standards.

AICPA Accounting and Auditing Technical Hotline

- For additional information if needed, one may call the AICPA at”
  - Phone: (877) 242-7212
  - techinquiry@aicpa.org
  - aahotline@aicpa.org

Issue Number 3.

Emphasis on Management Responsibilities

37

Establishing an Understanding

Compilation of Financial Statements

- **Issue date, unless otherwise indicated: December 2009**
- **Source: SSARS No. 19**
- **.01**
- This section establishes standards and provides guidance on compilations of financial statements. The accountant is required to comply with the provisions of this section whenever he or she is engaged to report on compiled financial statements or submits financial statements to a client or to third parties

Establishing an Understanding

- **.02**
- The accountant should establish an understanding with management regarding the services to be performed for compilation engagements and should document the understanding through a written communication with management.

Establishing an Understanding (cont)

– reduces the risks that either the accountant or management may misinterpret the needs or expectations of the other party.
– The accountant should ensure that the understanding includes the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

Establishing an Understanding (cont)

- **.03**
- An understanding with management and, if applicable, those charged with governance, regarding a compilation of financial statements should include the following matters:

Establishing an Understanding (cont)

- The objective of a compilation is to assist management in presenting financial information in the form of financial statements.
- The accountant utilizes information that is the representation of management (owners) without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

Establishing an Understanding (cont)

- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.

Establishing an Understanding (cont)

- The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

Establishing an Understanding (cont)

- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion or provide any assurance regarding the financial statements.
- **(Author's note: This paragraph is added to engagement letters)**

Establishing an Understanding (cont)

- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.

Establishing an Understanding (cont)

- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of compilation procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

Issue Number 4.

New Engagement Letter
For Compilations

49

Establishing an Understanding (cont)

- The effect of any independence impairments on the expected form of the accountant's compilation report, if applicable.
- These matters should be communicated in the form of an engagement letter. Examples of engagement letters for compilations are presented in Compilation Exhibit A, "Illustrative Engagement Letters" in SSARS 19, ***Compilation and Review Engagements***.

Establishing an Understanding (cont)

- **.04**
- An understanding with management or, if applicable, those charged with governance, also may include other matters, such as the following:

Establishing an Understanding (cont)

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to compilation documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

Establishing an Understanding (cont)

- **.05**
- If the compiled financial statements are not expected to be used by a third party and the accountant does not expect to issue a compilation report on the financial statements, the accountant should include in the engagement letter an acknowledgment of management's representation and agreement that the financial statements are not to be used by a third party. The engagement letter also should address the following additional matters if applicable:

Establishing an Understanding (cont)

- Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
- Substantially all disclosures (and statement of cash flows, if applicable) required by the applicable financial reporting framework may be omitted.
- Reference to supplementary information.

Compilation Exhibit A— Illustrative Engagement Letters

Illustrative Engagement Letters

- **.63**
- Standard Engagement Letter for a Compilation
- [Appropriate Salutation]
- This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.
- We will perform the following services:

Illustrative Engagement Letters (cont)

- We will compile, from information you provide, the annual [and interim, if applicable] financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the American Institute of Certified Public Accountants (AICPA).

Illustrative Engagement Letters (cont)

- The objective of a compilation is to assist you in presenting financial information in the form of financial statements. We will utilize information that is your representation without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

Illustrative Engagement Letters (cont)

- You are responsible for
- a. the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

Illustrative Engagement Letters (cont)

- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.

Illustrative Engagement Letters (cont)

- We are responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

Illustrative Engagement Letters (cont)

- A compilation differs significantly from a review or an audit of financial statements. A compilation does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review. Additionally, a compilation does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion or provide any assurance regarding the financial statements being compiled.

Illustrative Engagement Letters (cont)

- Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors, and of any evidence or information that comes to our attention during the performance of our compilation procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our compilation procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

Illustrative Engagement Letters (cont)

- ***If, during the period covered by the engagement letter, the accountant's independence is or will be impaired, insert the following:***
- We are not independent with respect to XYZ Company. We will disclose that we are not independent in our compilation report.

Illustrative Engagement Letters (cont)

- If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.
- Our fees for these services…
- We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Illustrative Engagement Letters (cont)

- Sincerely yours,
- ______________________________________
- [Signature of accountant]
- Acknowledged:
- XYZ Company
- __________________________
- President
- __________________________
- Date

Issue Number 5.

New Compilation Documentation Requirements

67

Documentation in a Compilation Engagement

- **.14**
- The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed. Documentation provides the principal support for the representation in the accountant's compilation report that the accountant performed the compilation in accordance with SSARSs.

Documentation…(cont)

- The accountant is not precluded from supporting the compilation report by other means in addition to the compilation documentation. Such other means might include written documentation contained in other engagement files or quality control files (for example, consultation files) and, in limited situations, oral explanations.

Documentation…(cont)

- **.15**
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:

Documentation…(cont)

– a. The engagement letter documenting the understanding with the client
– b. Any findings or issues that, in the accountant's judgment, are significant (for example, the results of compilation procedures that indicate that the financial statements could be materially misstated, including actions taken to address such findings and, to the extent that the accountant had any questions or concerns as a result of his or her compilation procedures, how those issues were resolved)
– c. Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention

Issue Number 6.

Other Compilation and Review Documentation

72

Documentation…(cont)

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:

Documentation…(cont)

- Quality Control Policies and Procedures
- Independence Representations for employees
- Documentation as part of Independence Interpretation 101-3 for non attest services
- Documentation as needed for peer review

Issue Number 7.

New Compilation Reports

75

Reporting on the Financial Statements

-
- **.16**
- When the accountant is engaged to report on compiled financial statements or submits financial statements that are reasonably expected to be used by a third party, the financial statements should be accompanied by a written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.

Reporting (cont)

- **.17**
- The basic elements of the report are as follows:
- a. Title. The accountant's compilation report should have a title that clearly indicates that it is the accountant's compilation report. The accountant may indicate that he or she is independent in the title, if applicable. Appropriate titles would be "Accountant's Compilation Report" or "Independent Accountant's Compilation Report."
- b. Addressee. The accountant's report should be addressed as appropriate in the circumstances of the engagement.

Reporting (cont)

- c. Introductory paragraph. The introductory paragraph in the accountant's report should:

Reporting (cont)

- i. identify the entity whose financial statements have been compiled;
- ii. state that the financial statements have been compiled;
- iii. identify the financial statements that have been compiled;
- iv. specify the date or period covered by the financial statements; and
- v. include a statement that the accountant has not audited or reviewed the financial statements and, accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable financial reporting framework

Reporting (cont)

- d. Management's responsibility for the financial statements and for internal control over financial reporting. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Reporting (cont)

- e. Accountant's responsibility. A statement that the accountant's responsibility is to conduct the compilation in accordance with SSARSs issued by the AICPA.

  A statement that the objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Reporting (cont)

- f. Signature of the accountant. The manual or printed signature of the accounting firm or the accountant, as appropriate.
- g. Date of the accountant's report. The date of the compilation report (the date of completion of the compilation should be used as the date of the accountant's report).

Reporting (cont)

Procedures that the accountant might have performed as part of the compilation engagement should not be described in the report.

See Compilation Exhibit B, "Illustrative Compilation Reports," for illustrative compilation reports.

Reporting (cont)

- **.18**
- Each page of the financial statements compiled by the accountant should include a reference, such as "See accountant's compilation report" or "See independent accountant's compilation report."

Reporting (cont)

- **.19**
- Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include:
- a. a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from generally accepted accounting principles (GAAP). The effects of the differences need not be quantified.
- b. informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

Comparison of Old to New Compilation Reporting Requirements

(*Not applicable until periods ending after December 15, 2010*)

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)

ITEM	OLD	NEW
Title	Not required	Accountant's Compilation Report
Addressee	Not required	(Appropriate Salutation)
Introductory Paragraph	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.	I (we) have compiled the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United State of America.

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)
(cont)

ITEM	OLD	NEW
Paragraph outlining management's responsibilities		Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United State of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.
Paragraph outlining the accountant's responsibilities	None	My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Comparison of Old to New Reporting Requirements
(Not applicable until periods ending after December 15, 2010)
(cont)

ITEM	OLD	NEW
Conclusion paragraph	A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or any other form of assurance on them.	The communication is moved to the introductory paragraph.
Paragraph disclosing independence impairment	I am (we are) not independent with respect to ABC Company. (The accountant is precluded from disclosing the reasons for the independence impairment.)	I am (we are) not independent with respect to ABC Company. (The accountant is not precluded from disclosing the reasons for the independence impairment.)

Reporting on Financial Statements That Omit Substantially All Disclosures

- **.20**
- An entity may request the accountant to compile financial statements that omit substantially all the disclosures required by an applicable financial reporting framework, including disclosures that might appear in the body of the financial statements. The accountant may compile such financial statements, provided that the omission of substantially all disclosures is not, to his or her knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements. elements:

Reporting on Financial Statements That Omit …(cont)

- When reporting on financial statements that omit substantially all disclosures, the accountant should include, after the paragraph describing the accountant's responsibility, a paragraph in the compilation report that includes the following:

Reporting on Financial Statements That Omit …(cont)

- a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with an OCBOA)
- b. A statement that if the omitted disclosures (and statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows (or equivalent for presentations other than accounting principles generally accepted in the United States of America)

Reporting on Financial Statements That Omit …(cont)

- c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters
- When the entity wishes to include disclosures about only a few matters in the form of notes to such financial statements, such disclosures should be labeled "Selected Information—Substantially All Disclosures Required by [identify the applicable financial reporting framework (for example "Accepted Accounting Principles Generally Accepted in the United States of America")] Are Not Included."

Accountant's Communications With the Client When the Compiled Financial Statements Are Not Expected to Be Used by a Third Party

- **.22**
- When the accountant submits compiled financial statements to his or her client that are not expected to be used by a third party, he or she is not required to issue a compilation report.
- **.23**
- The accountant should include a reference on each page of the financial statements restricting their use, such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party."
- **.24**
- If the accountant becomes aware that the financial statements have been distributed to third parties, the accountant should discuss the situation with the client and determine the appropriate course of action, including considering requesting that the client have the statements returned. If the accountant requests that the financial statements be returned and the client does not comply with that request within a reasonable period of time, the accountant should notify known third parties that the financial statements are not intended for third party use, preferably in consultation with his or her attorney.

Emphasis of a Matter

- **.25**
- The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

Emphasis of a Matter (cont)

- Examples of matters that the accountant may wish to emphasize are
  - uncertainties.
  - that the entity is a component of a larger business enterprise.
  - that the entity has had significant transactions with related parties.
  - unusually important subsequent events.
  - accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

Emphasis of a Matter (cont)

- **.26**
- Because an emphasis of matter paragraph should not be used in lieu of management disclosures, the accountant should not include an emphasis paragraph in a compilation report on financial statements that omit substantially all disclosures unless the matter is disclosed in the financial statements. The accountant should refer to paragraph .20 if he or she believes that a disclosure is necessary to keep the financial statements from being misleading.

Compilation Exhibit B—Illustrative Compilation Reports

Standard compilation report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America

Illustrative Compilation Reports

- Accountant's Compilation Report
- [Appropriate Salutation]
- I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Illustrative Compilation Reports

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Illustrative Compilation Reports

- [Signature of accounting firm or accountant, as appropriate]
- [Date]

Illustrative Compilation Reports

- Standard accountant's compilation report on financial statements prepared in accordance with ***the cash basis of accounting***

Illustrative Compilation Reports

- Accountant's Compilation Report
- [Appropriate Salutation]
- I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20XX, and the related statement of revenue collected and expenses paid for the year then ended. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting.

Illustrative Compilation Reports

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- My (our) responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.
- [Signature of accounting firm or accountant, as appropriate]
- [Date]

Illustrative Compilation Reports

- ***Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with accounting principles generally accepted in the United States of America***
- Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Illustrative Compilation Reports

- ***Paragraph the accountant may add after the conclusion paragraph when management has elected to omit substantially all disclosures, but the financial statements are otherwise in conformity with the income tax basis of accounting***
- Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Issue Number 8.

New Review Engagement Letter

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Review of Financial Statements (cont)

- **.02**
- The accountant is precluded from performing a review engagement if the accountant's independence is impaired for any reason. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA's Code of Professional Conduct.

Establishing an Understanding

Establishing an Understanding

- **.03**
- The accountant should establish an understanding with management regarding the services to be performed for review engagements and should document the understanding through a written communication with management.
- Such an understanding reduces the risk that either the accountant or management may misinterpret the needs or expectations of the other party. For example, it reduces the risk that management may inappropriately rely on the accountant to protect the entity against certain risks or to perform certain functions that are management's responsibility.

Establishing an Understanding (cont)

- The accountant should ensure that the understanding includes the objectives of the engagement, management’s responsibilities, the accountant’s responsibilities, and the limitations of the engagement. In some cases, the accountant may establish such understanding with those charged with governance.

Establishing an Understanding (cont)

- An understanding with management and, if applicable, those charged with governance regarding a review of financial statements should include the following matters:

Establishing an Understanding (cont)

- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements

Establishing an Understanding (cont)

- Management is responsible to prevent and detect fraud.
- Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- Management is responsible for making all financial records and related information available to the accountant.

Establishing an Understanding (cont)

- Management will provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.
  - The accountant is responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.
  - A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management.

Establishing an Understanding (cont)

- A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, the accountant will not express an opinion regarding the financial statements as a whole.

Establishing an Understanding (cont)

- The engagement cannot be relied upon to disclose errors, fraud, or illegal acts
- The accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the performance of review procedures that fraud or an illegal act may have occurred. The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated

Establishing an Understanding (cont)

- **These matters should be communicated in the form of an engagement letter**. An example of an engagement letter for a review of financial statements is presented in Review Exhibit A, "Illustrative Engagement Letter."

Establishing an Understanding (cont)

- **.05**
- An understanding with management or, if applicable, those charged with governance also may include other matters, such as the following:

Establishing an Understanding (cont)

- Fees and billings
- Any limitation of or other arrangements regarding the liability of the accountant or the client, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements)
- Conditions under which access to review documentation may be granted to others
- Additional services to be provided relating to regulatory requirements

Establishing an Understanding (cont)

- **.06**
- The engagement letter also should address the following additional matters if applicable:
  - Material departures from the applicable financial reporting framework may exist, and the effects of those departures, if any, on the financial statements may not be disclosed.
  - Reference to supplementary information.

Review Exhibit A—Illustrative Engagement Letter

Review Exhibit A—Illustrative Engagement Letter

- **.70**
- [Appropriate Salutation]
- This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.
- We will perform the following services:

Review Exhibit A—Illustrative Engagement Letter (cont)

- We will review the financial statements of XYZ Company as of December 31, 20XX, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the American Institute of Certified Public Accountants (AICPA).
- The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].

Review Exhibit A—Illustrative Engagement Letter (cont)

- You are responsible for
- a. the preparation and fair presentation of the financial statements in accordance with [the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)].
- b. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.
- c. preventing and detecting fraud.
- d. identifying and ensuring that the entity complies with the laws and regulations applicable to its activities.
- e. making all financial records and related information available to us.
- f. providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

Review Exhibit A—Illustrative Engagement Letter (cont)

- We are responsible for conducting the engagement in accordance with SSARSs issued by the AICPA.

Review Exhibit A—Illustrative Engagement Letter (cont)

- A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope that an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Review Exhibit A—Illustrative Engagement Letter (cont)

- Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential.

Review Exhibit A—Illustrative Engagement Letter (cont)

- If, for any reason, we are unable to complete the review of your financial statements, we will not issue a report on such statements as a result of this engagement.
- Our fees for these services…
- We will be pleased to discuss this letter with you at any time. If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Review Exhibit A—Illustrative Engagement Letter (cont)

- Sincerely yours,
- ____________________________________
- [Signature of accountant]
- Acknowledged:
- XYZ Company
- _________________________
- President
- _________________________
- Date

Issue Number 9.

Documentation in a Review Engagement

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Documentation in a Review Engagement

- **.25**
- The accountant should prepare documentation in connection with each review engagement in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of review procedures performed); the review evidence obtained and its source; and the conclusions reached. Documentation does the following:

Documentation in a Review Engagement

– a. Provides the principal support for the representation in the accountant's review report that the accountant performed the review in accordance with SSARSs

– b. Provides the principal support for the conclusion that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework

Documentation in a Review Engagement (cont)

- **.26**
- The form, content, and extent of documentation depend on the circumstances of the engagement, the methodology and tools used, and the accountant's professional judgment. The accountant's documentation should include the following:
- The engagement letter documenting the understanding with the client.
- The analytical procedures performed, including the following:

Documentation in a Review Engagement (cont)

- The expectations, when the expectations are not otherwise readily determinable from the documentation of the work performed, and the factors considered in the development of the expectations
- Results of the comparison of the expectations to the recorded amounts or ratios developed from recorded amounts
- Management's responses to the accountant's inquiries regarding fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

Documentation in a Review Engagement (cont)

- Any additional review procedures performed in response to significant unexpected differences arising from analytical procedures and the results of such additional procedures.
- The significant matters covered in the accountant's inquiry procedures and the responses thereto. The accountant may document the matters covered by the accountant's inquiry procedures and the responses thereto through a memorandum, checklist, or other means.
- Any findings or issues that, in the accountant's judgment, are significant (for example, the results of review procedures that indicate the financial statements could be materially misstated, including actions taken to address such findings, and the basis for the final conclusions reached).

Documentation in a Review Engagement (cont)

- Significant unusual matters that the accountant considered during the performance of the review procedures, including their disposition.
- Communications, whether oral or written, to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- The representation letter.

Documentation in a Review Engagement (cont)

- The accountant is not precluded from supporting the review report by other means in addition to the review documentation. Such other means might include written documentation contained in other engagement files (for example, compilation or nonattest services) or quality control files (for example, consultation files) and, in limited situations, oral explanations. Oral explanations on their own do not represent sufficient support for the work the accountant performed or conclusions the accountant reached but may be used by the accountant to clarify or explain information contained in the documentation.

Documentation in a Review Engagement (cont)

- Documentation should also include documentation which may not be a part of SSARS 19, but is nevertheless required documentation to include:
  - Quality Control Policies and Procedures
  - Independence Representations for employees
  - Documentation as part of Independence Interpretation 101-3 for non attest services
  - Documentation for peer review

Issue Number 10.

New Review Report

140

Reporting on the Financial Statements

- **.27**
- Financial statements reviewed by an accountant should be accompanied by a written report. The accountant's objective in reporting on the financial statements is to prevent misinterpretation of the degree of responsibility the accountant is assuming when his or her name is associated with the financial statements.
- **.28**
- The basic elements of the report are as follows:
- a. Title. The accountant's review report should have a title that clearly indicates that it is the accountant's review report and includes the word independent. An appropriate title would be "Independent Accountant's Review Report."

Reporting on the Financial Statements (cont)

- b. Addressee. The accountant's report should be addressed as required by the circumstances of the engagement.
- c. Introductory paragraph. The introductory paragraph in the accountant's report should
  - i. identify the entity whose financial statements have been reviewed;
  - ii. state that the financial statements have been reviewed;
  - iii. identify the financial statements; that have been reviewed;

Reporting on the Financial Statements (cont

- iv. specify the date or period covered by the financial statements;
- v. include a statement that a review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners); and
- vi. include a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion.

Reporting on the Financial Statements (cont)

- d. Management's responsibility for the financial statements. A statement that management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Reporting on the Financial Statements (cont)

- e. Accountant's responsibility. A statement that the accountant's responsibility is to conduct the review in accordance with SSARSs issued by the AICPA.

  A statement that those standards require the accountant to perform the procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements.

  A statement that the accountant believes that the results of his or her procedures provide a reasonable basis for his or her report.

Reporting on the Financial Statements (cont)

- f. Results of engagement. A statement that, based on his or her review, the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework, other than those modifications, if any, indicated in the report.
- g. Signature of the accountant. The manual or printed signature of the accounting firm or the accountant as appropriate.

Reporting on the Financial Statements (cont)

- h. Date of the accountant's report. The date of the review report (the accountant's review report should not be dated earlier than the date on which the accountant has accumulated review evidence sufficient to provide a reasonable basis for concluding that the accountant has obtained limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework).
- See Review Exhibit D, "Illustrative Review Reports," for examples of review reports.

Reporting on the Financial Statements (cont)

- **.29**
- Each page of the financial statements reviewed by the accountant should include a reference, such as "See Independent Accountant's Review Report."
- **.30**
- When the accountant is unable to perform the inquiry and analytical procedures he or she considers necessary to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with the applicable financial reporting framework, or the client does not provide the accountant with a representation letter, the review will be incomplete. A review that is incomplete does not provide an adequate basis for issuing a review report. In such a situation, the accountant should consider the matters discussed in paragraphs .56–.61 of section 80 in deciding whether it is appropriate to issue a compilation report on the financial statements.

Reporting on the Financial Statements (cont)

- **.31**
- The accountant may be asked to issue a review report on one financial statement, such as a balance sheet, and not on other related financial statements, such as the statements of income, retained earnings, and cash flows. The accountant may do so if the scope of his or her inquiry and analytical procedures has not been restricted.

Reporting on the Financial Statements (cont)

- **.32**
- Financial statements prepared in accordance with an OCBOA are not considered appropriate in form unless the financial statements include
- a description of the OCBOA, including a summary of significant accounting policies and a description of the primary differences from GAAP. The effects of the differences need not be quantified.
- informative disclosures similar to those required by GAAP if the financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.

Comparison of Review Reporting

Old vs. New

Comparison of Old Review Reporting Requirements and New Requirements

(Not effective until periods ending after December 15, 2010)

ITEM	OLD	NEW
Title	Not required	Independents Accountant's Review Report
Addressee	Not required	(Appropriate Salutation)
Introductory paragraph In the new report, the scope of the engagement is described (it was included in the second paragraph previously), Management's responsibilities are moved to a separate paragraph.	I (we) have reviewed the accompanying balance sheet of ABC Company as of December 31, xxxx, and the related statements of income, retained earnings, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management (owners) of ABC Company.	I (we) have reviewed the accompanying balance sheer of ABC Company as of December 31, xxxx, and the related statements of income retained earnings, and cash flow for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Comparison of Old Review Reporting Requirements and New Requirements
(Not effective until periods ending after December 15, 2010)

(CONT)

ITEM	OLD	NEW
Second paragraph The new report describes management's responsibilities. The scope of the engagement in included in the introductory paragraph.	A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.	Management (owners) is (are) responsible for the preparation and fain presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Comparison of Old Review Reporting Requirements and New Requirements
(Not effective until periods ending after December 15, 2010)

(CONT)

ITEM	OLD	NEW
Paragraph describing the accountant's responsibilities		My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made t5o the financial statements. I (we) believe that the results of my (our) procedures provide a reasonable basis for out report.

Comparison of Old Review Reporting Requirements and New Requirements
(Not effective until periods ending after December 15, 2010)
(CONT)

ITEM	OLD	NEW
Paragraph describing the results of the engagement	Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.	Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for the them to be in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

- **.33**
- The accountant may emphasize, in any report on financial statements, a matter disclosed in the financial statements. Such explanatory information should be presented in a separate paragraph of the accountant's report. Emphasis paragraphs are never required; they may be added solely at the accountant's discretion.

Emphasis of a Matter (cont)

- Examples of matters that the accountant may wish to emphasize are
  - uncertainties.
  - that the entity is a component of a larger business enterprise.
  - that the entity has had significant transactions with related parties.
  - unusually important subsequent events.
  - accounting matters, other than those involving a change or changes in accounting principles, affecting the comparability of the financial statements with those of the preceding period.

Review Exhibit D—Illustrative Review Reports

Review Exhibit D—Illustrative Review Reports

- **.73**
- Standard accountant's review report on financial statements prepared in accordance with accounting principles generally accepted in the United States of America

Review Exhibit D—Illustrative Review Reports (cont)

- Independent Accountant's Review Report
- [Appropriate Salutation]
- I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Review Exhibit D—Illustrative Review Reports (cont)

- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Review Exhibit D—Illustrative Review Reports (cont)

- My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

Review Exhibit D—Illustrative Review Reports (cont)

- Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Review Exhibit D—Illustrative Review Reports (cont)

- [Signature of accounting firm or accountant, as appropriate]
- [Date]

Review Exhibit D—Illustrative Review Reports (cont)

- Standard accountant's review report on financial statements prepared in accordance with the income tax basis of accounting

Review Exhibit D—Illustrative Review Reports (cont)

- Independent Accountant's Review Report
- [Appropriate Salutation]
- I (We) have reviewed the accompanying statement of assets, liabilities, and equity —income tax basis of XYZ Company as of December 31, 20XX, and the related statement of revenue and expenses—income tax basis for the year then ended. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.
- Management (owners) is (are) responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis for accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Review Exhibit D—Illustrative Review Reports (cont)

- My (our) responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I (We) believe that the results of my (our) procedures provides a reasonable basis for our report.
- Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting, as described in note X.

Thank you for your attention…

Federal Tax Update – Including Recent Income Tax Developments Pertaining to Individuals, Administrative Practice, and IRC Section 263A

Russell F. Dunn
Lois Dunn

Russell F. Dunn, CPA, MS (Tax)

Professor of Accounting
Broward College

Russell Dunn, Professor of Accounting at Broward College, began as an adjunct instructor in 1990 at Florida International University in the graduate tax program and at Broward College (formerly Broward Community College). He was also an adjunct professor at Florida Atlantic University. He has been a full-time instructor since 2005. He was graduated from Hofstra University in Hempstead, NY with a Bachelor in Business Administration in Public Accounting in 1979. He was graduated from Florida International University in Miami, Florida with a Master of Science, Taxation in 1989. He has been licensed as a CPA in the state of Florida since 1986. He has been self-employed as a CPA practitioner since leaving the IRS in 1989. He has also been an examiner for the NASD in NY and worked in the corporate reporting department at Merrill Lynch and Co. He is a member of the Florida Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. His interests include family activities, sailing, and travel.

Lois Dunn

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Background/Experience

23 years IRS including 16 years as Internal Revenue Agent Small Business Self Employed (SBSE) including 3 years Passive Activity Loss Coordinator, 4 years Internal Revenue Agent Large & Mid-Size Business (LMSB), 2.5 years 263A Technical Advisor Large Business & International (LB & I)/ Pre-filing & Technical Guidance (PFTG).

Education

BBA Hofstra University, Hempstead NY, 1980.
Completed 90 Graduate credits from various universities (accounting & tax focus) including Pace University in NY, FIU, and FAU.

Awards

6/08-Special Act Award informant case, 9/06-Manager's Award CPE Committee work, Annual Performance Awards most years through 2009, Quality Step Increase-02.

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FICPA
Federal Tax Update
Orlando, Fl
July 29, 2011

Russell F. Dunn, MS (Tax), CPA
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Hollywood, Fl 33020
(954) 924-5314
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Topics include:

- Changes to the tax law affecting taxpayers and tax practitioners
- Changes regarding:
  - Individuals and businesses
- Changes attributable to:
  - Statutory law
  - Administrative law
  - Case law

IRS Examination

INTERNAL REVENUE SERVICE

FISCAL YEAR 2010 ENFORCEMENT RESULTS

Enforcement Revenue Collected(1)

(Dollars in Billions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Collection	$24.30	$24.40	$24.80	$25.70	$26.60	$28.20	$31.80	$31.10	$26.90	$29.10
Examination	$5.60	$5.70	$8.80	$12.50	$13.80	$13.00	$15.20	$15.80	$12.60	$16.90
Appeals(2)	$2.30	$2.20	$1.90	$2.20	$3.90	$4.30	$8.30	$4.80	$4.80	$6.70
Document Matching	$1.60	$1.80	$2.20	$2.70	$3.10	$3.30	$3.90	$4.70	$4.60	$4.90
Total(3)	$33.80	$34.10	$37.60	$43.10	$47.30	$48.70	$59.20	$56.40	$48.90	$57.60

Staffing for Key Enforcement Occupations(4)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue Officers	5,376	5,502	5,076	5,156	5,249	5,627	5,662	5,492	5,451	6,042
Revenue Agents	12,092	11,743	11,780	11,811	12,192	12,778	12,816	12,599	12,958	13,888
Special Agents	2,735	2,868	2,834	2,778	2,771	2,780	2,709	2,631	2,650	2,780
Total	20,203	20,113	19,691	19,746	20,211	21,185	21,187	20,722	21,059	22,710

IRS Exam Issues

- National Research Project
- Indirect Methods of proving income
- Recent court decisions

IRS Collections

- Offer in compromise
- Trust Fund Recovery Penalty
- Installment Agreements

IRS Collections

- Liens and
- Levys and
- Seizures
- Oh my

Tax Legislation 2010

- Three Major Acts
- Hiring Incentives to Restore Employment Act of 2010 (the HIRE Act, enacted March 18, 2010)
- Small Business Jobs Tax Act of 2010 (2010 Jobs Act, enacted September 27, 2010)

Tax Legislation 2010

- Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the 2010 Tax Relief Act, enacted December 17, 2010)

Individual Tax Rates

- Two year extension of the Economic Growth and Tax Relief Act of 2001 (EGTRRA) rates.
- The rates remain at 10%, 15%, 25%, 28%, 33% and 35% for 2011 and 2012.
- Pre-EGTRRA, between 1993 and 2001 had five brackets between 15% and 39.6%.

Individual Tax Rates

- Without a change in law, the 36 and 39.6% brackets will return for 2013.
- Additional effective tax decreases include a two year moratorium on the phase-out of itemized deductions and personal exemptions.

2010 Tax Relief Changes for 2011 and 2012

- Extension of the marriage penalty relief from EGTRRA rate reductions
- Child tax credit remains at $1,000 for 2011 and 2012

2010 Tax Relief Changes for 2011 and 2012

- Enhancements to tax credits:
  - Earned income credit
  - Adoption credit
  - Dependent care credit

Tax Relief Act 2010 Changes

- Extends reduced capital gains and dividend tax rates for 2011 and 2012.
- Zero per cent rate for qualified dividends and capital gains for taxpayers in the ten and fifteen per cent brackets.
- Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) reduced the capital gains and qualifying dividends rates.

Tax Relief Act 2010 Changes

- Fifteen per cent maximum tax rate for all other taxpayers
- If no changes are made, 2013 will see a return to a capital gains rate of up to twenty percent and dividends taxed at ordinary rates (Pre- JGTRRA rules)

Planning relative to rates

- Does a C corporation make more sense if individual rates return to 39.6?
- Or, if dividends are taxed at ordinary rates, would C Corp. status be detrimental when considering Reasonable Compensation/ Accumulated Earnings Tax issues.

Alternative Minimum Tax

- AMT is more than 40 years old
- The 2010 Tax Relief Act entends an AMT "patch" enacted in 2009 for 2010 and 2011.
- For 2010, the exemption amounts are $47,450 for single taxpayers, $72,450 for MFJ, and $36,225 for MFS.

Alternative Minimum Tax

- For 2012, single is $48,450, MFJ is $74,450, and MFS is $37,225.
- For 2010 and 2011, taxpayers can use the full amount of their nonrefundable credits to offset their AMT liability.

2010 Tax Relief Act – Payroll Tax Reduction

- Employee share of OADSI from 6.2% to 4.2% for calendar year wages in 2011 with a ceiling of $106,800.
- This replaced the Making Work Pay credit which expired in 2010.

2010 Tax Relief Act – Payroll Tax Reduction

- The maximum benefit is $2,136 vs the MWP credit of $400 ($800 MFJ).
- Certain workers who do not pay into Social Security will not benefit.

2010 TRA Estate and Gift Changes

- Reinstates the estate tax for decedents dying in 2011 and 2012 at a maximum rate of 35% with a $5 million exclusion.

2010 TRA Estate and Gift Changes

- Estates of decedents dying in 2010 have an option to elect the new 35% maximum rate and $5 million exemption or no estate tax and modified carryover basis rules under EGTRRA.

Gift Tax

- For 2010, 35% tax rate with a maximum exclusion amount of $1 million.
- For 2011, the gift tax structure is reunited with the estate tax.
  - Maximum rate is 35% with a $5 million exclusion

Health Care and Education Reconciliation Act

- A 0.9-percent additional Medicare tax is imposed on single individuals who receive wages with respect to employment during any tax year beginning after December 31, 2012, in excess of $200,000.
- The threshold is $250,000 for a married couple filing a joint return ($125,000 for a married taxpayer filing separately).

Medicare Tax Changes

- For tax years beginning after December 31, 2012,
  - 3.8-percent Medicare contribution tax on qualified unearned income of higher-income individuals
  - imposed on the lesser of an individual's net investment income for the tax year or any excess of modified adjusted gross income (MAGI) in excess of $200,000 for an individual.

Medicare Tax Changes

- For married couples filing a joint return and surviving spouses $250,000 ($125,000 in the case of a married taxpayer filing separately).

TRA extends the extenders

- Extenders safe for 2010 and 2011 include:
  - Tax-free distributions from IRAs for charity
  - State and local sales tax deduction
  - Higher education tuition deduction
  - Teacher's classroom expense deduction

TRA extends the extenders

- The $500 ($1,000 MFJ) real property tax deduction for non-itemizers was **NOT** extended.

American Opportunity Tax Credit (AOTC)

- Formerly known as the Hope Credit
- Significantly expanded by the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act)
- 2010 TRA extends this credit to 2011 and 2012

AOTC for 2011 and 2012

- Singles: phased out for MAGI between \$80,000 and \$90,000
- Phased out for MFJ MAGI between \$160,000 and \$180,000

AOTC for 2011 and 2012

- 100% of the first \$2,000 of tuition, fees, and course materials paid during the tax year
- 25% of the next \$2,000 spent on same

Other credits that expired

- First-time home buyers credit expired for most taxpayers
  - Eligible military taxpayers on extended duty out of the US for more than 90 days have additional time.
  - Must purchase by May 1, 2011 or have a binding contract by May 1, 2011 and close on or before July 1, 2011.

Other credits that expired

- Exclusion for unemployment benefits was not extended for 2010 nor 2011.

Expanded Information Reporting

- The Emergency Economic Stabilization Act of 2008 (EESA) requires brokers to report the adjusted basis and type of gain for covered securities acquired on or after January 1, 2011.

Expanded Information Reporting

- This requirement extends to investments in a mutual fund and stock acquired through a dividend reinvestment plan (DRP) for acquisitions after January 1, 2012.

Business Reporting

- **Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011**
  - **Repealed the Form 1099 filing requirement for payers to corporations of amounts in excess of $600 for goods and services.**

Tax practice and procedure

- E file update
  - If the IRS subcontracted these tasks to Apple Computer, the first change would be to call this process "i file".

E file – One billion returns and counting

- FS-2011-10,Internal Revenue Service, (Jun. 10, 2011)
- "one IRS employee having to manually turn on a modem every time tax returns were e-filed…"

E file – One billion returns and counting

- In 1986, 25,000 returns were electronically filed by five preparers
- "the system could only process returns that were due refunds."

E file history

- "In 1987, 66 preparers from seven cities participated and filed 78,000 tax returns."
- "Laurie Barrett, who now works for IRS Portal Business Management, recalls traveling around Colorado trying to convince tax preparers to make the investment into modems and join electronic filing."

E-file

  - "In 1990, IRS e-file became operational nationwide and 4.2 million returns were filed electronically.
  - The IRS currently is phasing in its Modernized e-File (MeF) system, the next generation of electronic filing.

E-file

- MeF means acknowledgements will be sent within minutes as opposed to 48 hours. If a return is rejected, a more detailed message will allow taxpayers to quickly correct errors and resend the return."

E-file

- "MeF and the Customer Account Data Engine (CADE), which will replace the IRS master file tapes, will provide the foundation for the future electronic transactions by taxpayers and by tax preparers,

E-file

- eventually providing real-time access to accounts and speeding refunds to a matter of a few days instead of a few weeks."

E-file

- "2011: E-filed returns cross the 100 million threshold in one filing season; cumulative total exceeded 1 billion returns. Approximately three out of every four individual tax returns were filed electronically."
- Final regulations: T.D. 9518

T.D. 9518

- Regulations provide guidance to specified tax return preparers who prepare and file individual income tax returns.
- These regulations provide a two-year transition period for certain specified tax return preparers.

T.D. 9518

- Unless an exception in these regulations applies, a tax return preparer who meets the definition of a "specified tax return preparer" must electronically file Federal income tax returns that the preparer prepares and files for individuals, trusts, and estates.

Returns exempt from requirement to e-file include:

- certain individual income tax returns such as Form 990-T, Form 1040-NR (U.S. Nonresident Alien Income Tax Return), Form 1041-QFT (U.S. Income Tax Return for Qualified Funeral Trusts),

Returns exempt from requirement to e-file include:

- all amended individual income tax returns, such as Form 1040X (Amended U.S. Individual Income Tax Return)

Specified tax return preparer

- For calendar year 2011, the regulations define a specified tax return preparer as a tax return preparer who reasonably expects to file (or if the tax return preparer is a member of a firm, the firm's members in the aggregate reasonably expect to file) 100 or more individual income tax returns during the year

Specified tax return preparer

- while beginning January 1, 2012, a specified tax return preparer would be a tax return preparer who reasonably expects to file (or if the tax return preparer is a member of a firm, the firm's members in the aggregate reasonably expect to file) 11 or more individual income tax returns in a calendar year.

Specified tax return preparer

- Determination made on an annual basis at the end of each calendar year
- “Based upon all relevant, objective, and demonstrable facts and circumstances prior to the time the tax return preparer and the preparer’s firm first file an individual income tax return during the calendar year”
  - (Regs. Sec. 301.6011-7(d)(2)

Mailing a tax return for a taxpayer

- By preparers, for 2011 only
- Permissible subject to compliance with transitional rules contained in IRS Notice 2011-27.

Mailing a tax return for a taxpayer

- Hand signed and dated statement must be obtained from taxpayers
- Statement sample language is provided in this Notice.

Mailing a tax return for a taxpayer

- If the taxpayer actually mails the return, "providing filing or delivery instructions, an addressed envelope, postage estimates, stamps, or similar acts designed to assist the taxpayer…" will not constitute filing by the return preparer.

Rev. Proc. 2011-25, Taxpayer’s opt out of e-file

- Preparer must obtain a a signed a dated statement
  - MFJ return: only one taxpayer need sign statement
  - Email not sufficient unless scanned signed and dated statement attached
- Statement not attached to return, but retained by the preparer

E-file Hardship Waivers

- Rev. Proc. 2011-25
- Granted under rare circumstances
- If relief needed due to technological issues, an administrative exemption may be granted.

E-file Hardship Waivers

- Requested on Form 8944, Preparer E-file Hardship Waiver Request
- Generally must be submitted between October 1 of the preceding year and before February 15 of the applicable year.

E-file Administrative Exemptions

- Notice 2011-26 – Some examples:
- Certain religious groups who conscientiously object to electronic technology

E-file Administrative Exemptions

- Certain foreign preparers without SSN's (but they still must apply for a PTIN)
- Returns rejected and the cause for the rejection remains unresolved
  - Identity theft example

FBARS and FATCA: What's new

- Foreign Account Tax Compliance Act (FACTA)
- Reporting requirements for individuals with foreign assets begins in 2011 (2011 1040's)
- Foreign financial institutions have reporting requirements beginning in 2013

FBAR vs FATCA

- FBAR includes owners and signature authority
- FATCA applies only to owners
- Thresholds:
  - FBAR - $10,000
  - FATCA - $50,000 (aggregate the value of all accounts)

- IRS Suspends Some FATCA Reporting Requirements;
- IR-2011-70, Notice 2011-55
- The IRS has suspended certain information reporting requirements under FATCA until the agency releases new Form 8938, Statement of Foreign Financial Assets, and a revised version of Form 8621, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund.

FBAR Changes effective March 28, 2011

- Elimination of waiver for individuals with only signature authority (non-owners) for accounts that were reported by the owner.
- This exception will also no longer apply to foreign bank accounts of foreign subsidiaries of publicly traded companies.

FBAR Changes

- Foreign individuals deemed to be in the US and doing business in the US were dropped from the filing requirements on this year's revised form and instructions.

Report of Foreign Bank and Financial Accounts (FBARS)

- Who Must File an FBAR
- United States persons are required to file an FBAR if:
  - The United States person had a financial interest in or signature authority over at least one financial account located outside of the United States, and

Report of Foreign Bank and Financial Accounts (FBARS)

- the aggregate value of all foreign financial accounts exceeded $10,000 at any time during the calendar year to be reported.

FBAR Requirement

- United States person means:
  - United States citizens
  - United States residents
  - entities, including but not limited to, corporations, partnerships, or limited liability companies created or organized in the United States or under the laws of the United States
  - trusts or estates formed under the laws of the United States.

Exceptions to FBAR filing requirements

- Certain foreign financial accounts jointly owned by spouses
- United States persons included in a consolidated FBAR
- Correspondent/nostro accounts
- Wikipedia:
  - Speaking from the bank's point-of-view:
  - A *nostro is our account of our money, held by you*
  - *A vostro is our account of your money, held by us*

Exceptions to FBAR filing requirements

- Foreign financial accounts owned by a governmental entity
- Foreign financial accounts owned by an international financial institution
- IRA owners and beneficiaries

Exceptions to FBAR filing requirements

- Participants in and beneficiaries of tax-qualified retirement plans
- Certain individuals with signature authority over, but no financial interest in, a foreign financial account
-

Exceptions to FBAR filing requirements

- Trust beneficiaries
- Foreign financial accounts maintained on a United States military banking facility.

FBAR Compliance

- A person who holds a foreign financial account may have a reporting obligation even though the account produces no taxable income.

FBAR Compliance

- Check the appropriate block on FBAR-related federal tax return or information return questions (e.g., on Schedule B of Form 1040, the "Other Information" section of Form 1041, Schedule B of Form 1065, and Schedule N of Form 1120) and
- file the FBAR.

FBAR Compliance

- The FBAR is not filed with the filer's federal income tax return.
- The granting, by the IRS, of an extension to file federal income tax returns does not extend the due date for filing an FBAR.

FBAR Compliance

- The taxpayer may not request an extension for filing the FBAR.
- The FBAR must be received by the IRS on or before June 30 of the year following the calendar year being reported.

2009 Offshore Voluntary Disclosure Program (OVDP)

- The 2009 Offshore Voluntary Disclosure Program ended on Oct. 15, 2009.
- Linda Stiff, Deputy Commissioner for Services and Enforcement memo March 23, 2009
- Six year period for filing/ amending returns and FBARs

2009 Offshore Voluntary Disclosure Program (OVDP)

- Assess accuracy or delinquency penalties and,
- In lieu of all other possible penalties, 20% of the highest aggregate balance in all accounts in any one year.

OVDI - Son of OVDP

- Offshore Voluntary Disclosure Initiative
- Expires August 31, 2011 (unless extended)
- Applies to taxpayers making voluntary disclosures after the expiration of the first program, Oct. 15, 2009
- Not as beneficial as the first program
- Goes back to 2003 like the first program, however, this now encompasses 8 years, not 6

Son of OVDP

- 20% penalty could be reduced :
- to 5% for two narrow categories
- To 12.5% if the highest aggregate balance during the disclosure period did not exceed $75,000

OVDI

- Penalty applies to the value of assets acquired by income that escaped tax even though those assets are not reportable on an FBAR.
  - Even if those assets did not produce taxable income. i.e. a land investment

OVDPI

- Must file all required amended returns
- Must pay all other applicable tax, penalties, and interest
- www.irs.gov details the requirements and FAQ's for the program.

Recent changes

- IR-2011-69, Ann. 2011-40
- The IRS has announced a mid-year adjustment to the 2011 optional mileage rates to reflect an increase in gasoline prices since the rates were set late last year.
- The business standard mileage rate rises to 55.5 cents-per-mile and the medical/moving standard mileage rate to 23.5 cents-per-mile, both representing a 4.5 cents-per-mile increase for the second half of 2011.

Recent changes

- The charitable standard mileage rate, which is determined by statute, is unchanged for the second half of 2011.

Corrosive Drywall

- IRS Rulings & Other Documents (2002-Current),IRS Fact Sheet FS-2011-1,Internal Revenue Service, (Jan. 4, 2011)
- Taxpayers may claim a casualty loss deduction
  - using a special formula,

Corrosive Drywall

- for amounts paid to repair damage to their homes and household appliances resulting from corrosive drywall.
- The deduction is smaller for taxpayers with a pending claim for reimbursement or those who plan to pursue reimbursement through property insurance, litigation or other means

Open discussion

- Thank you,

- Russell Dunn
- rdunncpa@cpafla.com

§ 263A aspects of Rev. Proc. 2011-14

Lois Dunn, Subject Matter Expert , CAM

IRS LARGE BUSINESS AN
INTERNATIONAL DIVISIO

Rev. Proc. 2011-14

Changes in accounting periods & in methods of accounting.

Rev. Proc. 2011-14, SECTION 13.

Effective date.

Rev. Proc. 2011-14, SECTION 1.

Purpose.

Rev. Proc. 2011-14 , SECTION 2.02

Securing permission to make method change.

§ 446(e)

Requirement respecting change of accounting method.

§ 1.446-1(e)(2)(i)

Consent of Commissioner.

Rev. Proc. 2011-14, SECTION 4.03

Non-automatic changes.

Rev. Proc. 2011-14, SECTION 2.03

Terms & conditions of method change.

Rev. Proc. 2011-14, SECTION 5.01

In general.

§ 1.446-1(e)(3)(ii)

Administrative Procedures prescribe terms & conditions.

Rev. Proc. 2011-14, SECTION 6.01

Consent.

Rev. Proc. 2011-14,SECTION 6.02(1)(a

Form 3115.

§ 1.446-1(e)(3)(i)

Form 3115.

Rev. Proc. 2011-14, SECTION 6.02 (2)

Waiver of taxable year filing requirement.

Rev. Proc. 2011-14, SECTION 6.02 (3)(a)(ii)

Copy of application.

Rev. Proc. 2011-14, SECTION 6.02 (3)(a)(ii)

Copy of application continued.

Rev. Proc. 2011-14, SECTION 6.02 (3)(d)(i)

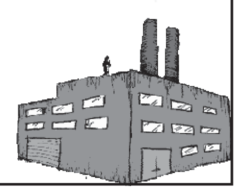
Automatic extension.

Rev. Proc. 2008-52

Changes in accounting periods & in methods of accounting.

Rev. Proc. 2008-52, SECTION 15.

Significant Changes.



Rev. Proc. 2008-52, SECTION 15.

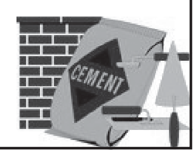
Significant changes continued.

Rev. Proc. 2008-52, SECTION 15.

Significant changes continued.

Rev. Proc. 2011-14, APPENDIX, …SECTION 3.05

Materials and supplies.



Rev. Proc. 2011-14, APPENDIX, …SECTION 3.05 (1)(b)

Inapplicability.

Rev. Proc. 2011-14, APPENDIX, …SECTION 3.05 (3)

Concurrent automatic change.

Rev. Proc. 2011-14, APPENDIX

Other sections containing "Inapplicability" & "concurrent automatic change" language.

Rev. Proc. 2011-14, APPENDIX

Other sections containing "Inapplicability" & "concurrent automatic change", language.

Rev. Proc. 2011-14, APPENDIX

Other sections containing "Inapplicability" & "concurrent automatic change" language.

§ 1.263A-1(a)(3)(i)

Property subject to § 263A.

§ 1.263A-1(a)(3)(ii)

What costs are capitalized?

§ 1.263A-1(a)(3)(iii)

What TPs must capitalize?

Rev. Proc. 2011-14, APPENDIX, SECTION 11.01

Certain uniform capitalization (UNICAP methods used by resellers & reseller-producers.

Rev. Proc. 2011-14, APPENDIX, SECTION 11.01(2)(g)

A UNICAP method specifically described in the regulations includes…

Rev. Proc. 2011-14, SECTION 2.05

Method change with § 481(a) adjustment.

§ 481(a)

Adjustments required by changes in method of accounting.

Rev. Proc. 2011-14, SECTION 2.05

Method change with § 481(a) adjustment continued.

Rev. Proc. 2011-14, SECTION 2.05

Method change with § 481(a) adjustment continued.

Rev. Proc. 2011-14, SECTION 2.05

Example.

Rev. Proc. 2011-14, SECTION 3.07

§ 481(a) adjustment period
& year of change.

Rev. Proc. 2011-14, SECTION 5.03

§ 481(a) adjustment.

Rev. Proc. 2011-14, SECTION 5.04

§ 481(a) adjustment period.

§ 1.263A-7(b)(2)(ii)

Change treated as initiated by TP.

§ 1.263A-7(b)(2)(ii) continued

Take net § 481(a) adjustment into account over § 481(a) adjustment period.

§ 1.263A-7(c)(1)

TP must… take into account adjustments required by § 481(a).

§ 1.263A-7(c)(2)(i)

Revalue items or costs in beginning inventory.

§ 1.263A-7(c)(2)(i)

Inventory (originally valued) – inventory (revalued) = § 481(a) adjustment.

§ 1.263A-7(c)(2)(ii)

Methods to revalue inventory.

Questions/Discussion

Fiduciary Accounting

Ralph J. Poe, CPA

Ralph J. Poe, CPA

Ralph Poe Senior VP &Trust Officer – Private Client Services

During his career of over thirty years, Ralph has worked on many of Florida's largest and most complicated estates and trusts. Because of his experience in Estate Planning, Administration and Financial Planning, the Florida Institute and American Institute of CPAs have sought him out to teach other CPAs and lawyers many of the intricate aspects of estate planning and related topics. He also acts as consultant to many CPAs and lawyers.

As an educator, Ralph has taught courses in the graduate programs at the University of South Florida, University of Tampa, and the American College. He has served as guest lecturer at several colleges and universities across the country and has authored a number of articles on taxes and estate planning. He has been a Becker CPA Review Instructor since 1973.

Ralph has been in great demand as a guest speaker before many professional groups including the American Institute of CPAs, many different state CPA Societies, the Practicing Law Institute, the American Society of CLU, and many local chapters and societies of professional groups. He has been named FICPA Outstanding Discussion Leader every year since 1980 and was named Outstanding Instructor by the AICPA.

A past president of the Tampa Bay Estate Planning Council and the West Coast Chapter and as a member of the Board of Governors of the FICPA, he remains active in several service and social organizations in the Tampa Bay area.

FIDUCIARY ACCOUNTING

Ralph J. Poe

SECTION 1
ACCOUNTING FOR ESTATES
AND TRUSTS - GAAP - REPORTING
REQUIREMENTS AND STANDARDS

Introduction

Accountants in general have become very involved in estate and trust matters in recent years. In addition to the traditional tax planning and tax compliance roles of the past, the accountant today is often asked to prepare or to assist in the preparation of Judicial Accountings and other financial statements for estates and trusts.

The purpose of such financial statements is usually very different from the intended purposes of financial statements for commercial enterprises which are: (1) to inform investors in analyzing the financial position and results of operations of the enterprise, and (2) to compare the enterprise to those competing for the creditors' and investors' dollars. The financial statements of estates and trusts are generally intended to inform beneficiaries, courts and other interested parties regarding the actions and investment performance of the Fiduciary.

This course is intended to acquaint the accountant with:

1. Generally accepted accounting principles for estates and trusts in Florida;
2. Reporting requirements and standards for estates and trusts;
3. Impact of local laws on GAAP and the reporting standards;
4. Accounting systems for estates and trusts;
5. Conflicts between Fiduciary accounting principles and Federal Tax Law; and
6. Related laws, rules, practices and procedures.

Key Definitions

<u>"Estate" (Probate Estate)</u>

An entity created after the death of an individual, by a local court, and consisting of the property which was owned by the decedent alone. It is usually only a part of the "Gross Estate" (Federal Estate Tax) and is generally referred to as "Property Subject to Claims" (Claims of unsecured creditors of the decedent.) However, F,S, §736.0505(3) requires the trustee of a grantor trust to pay to the personal representative amounts that are required to pay the expenses of administration and obligations of the grantor's estate.

<u>"Personal Representative"</u>

The person or institution appointed by the court to administer the estate.

<u>"Trust"</u>

An entity created when one person or other entity (grantor or trustor) transfers property to a second person or corporation (trustee) who will manage the property for the benefit of the third person or persons (beneficiary). Legal title to the property is held by the trustee in a fiduciary capacity equitable title rests with the beneficiaries. Generally a trust is created either during the lifetime of the grantor by a trust agreement signed by the grantor and trustee, or after death by the decedent's will.

<u>"Fiduciary Accounting"</u>

Accounting for the interests of different classes of beneficiaries of a trust: Most trusts have two different classes of beneficiaries:

1. income beneficiaries; those entitled to or eligible for current distributions of "income"; and
2. remainderman; those entitled to receive the principal or corpus at the end of the trust term.

Thus, determining what constitutes "income" and "principal" is the key issue of Fiduciary Accounting.

GAAP for Fiduciary Accounting

The Financial Accounting Standards Board and its predecessors have so far failed to issue an authoritative pronouncement dealing with Fiduciary Accounting. However, the absence of an official AICPA pronouncement does not necessarily mean that generally Accepted Accounting Principles for estates and trusts do not exist. GAAP may be based on prevalent practice, policies and procedures for a particular entity or industry as described in applicable literature, as well as local law.

Thus it would seem that the governing instrument (the will or trust agreement) together with state law and court mandated local rules and accepted procedures could constitute GAAP for any given estate or trust.

The primary accounting conventions that have emerged in recent years that could be categorized as generally accepted fiduciary accounting principles are as follows: (These conventions were adopted by the Committee on National Fiduciary Accounting Standards in the recommended Model Account Formats for fiduciary accountings.)

a. The assets under the fiduciary's (executor/trustee) control should be accounted for in accordance with the governing instrument and/or state law. Normally, such accounting pertains to the determination of transactions that affect the interest of various classes of beneficiaries.

b. Assets over which fiduciary has no management and control, either through contractual arrangements, operations of law, or lack of exercise of management and control by the fiduciary are excluded from any statements prepared. (Note, that would not necessarily be true of financial statements prepared on the income tax basis.)

c. Assets are not recognized until there is passage of legal title, other indications of ownership, or the asset has been converted to cash. Thus, receivables are not recognized unless there is written evidence of their existence. Accrued interest and dividends may be assets for estate tax purposes but not for GAAP fiduciary accounting purposes.

d. Liabilities and disbursements were not recognized until there was payment by transferring cash or another asset of the entity. That was a departure from the usual practice (even in a tax or cash basis entity) of recognizing liabilities when assets were acquired. However, new FS736.08135(c) now requires the Accounting to identify each known non-contingent liability with an estimated current amount of the liability if known.

e. The principal financial statement is called the "Summary of Account", which is supported by subsidiary schedules and notes explaining items on the statement. The statement begins with assets on hand at the beginning of the period, shows receipts and disbursements during the period, and ends with assets on hand at the end of the period.

f. Assets are reported in the Summary of Account at "fiduciary acquisition value," which represents market value on the date assets are transferred to the fiduciary (or cost for assets purchased) in addition to the current market value of the assets. (See new FS737.3035(c) which now requires that both the asset acquisition value and the estimated current value be disclosed.)

Application of SAS 58 Report on Audited Financial

If you conclude that GAAP does exist for estates and trusts and assuming the statements are in compliance (etc), the Standard Auditor's Report, prescribed in SAS 58 can simply be modified as necessary for an estate or trust. A sample follows:

Independent Auditors Report

Recommended by Course Authors, not PPC

To John M. Fiduciary, Personal Representative
Estate of John Doe, Deceased [Trust changes are parenthetical]

We have audited the accompanying Fiduciary Accounting for[the] Estate of John Doe, Deceased,[SunTrust successor trustee of The John Doe Trust u/a dtd 01/01/11] and the related schedules on pages ____ to ____ as of December 31, 20X1 and for the year then ended. This fiduciary accounting is the responsibility of the Personal Representative of the Estate [Trustee of the Trust]. Our responsibility is to express an opinion on this fiduciary accounting based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fiduciary accounting is free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by the Personal Representative [Trustee], as well as evaluating the overall fiduciary accounting presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion this ficuciary accounting and related schedules referred to above, present fairly, in all material respects, the asset balances as of December 31, 20X1 and receipts, disbursements and distributions, and the capital transactions and adjustments, for the year then ended in conformity the provisions of the governing instrument, Florida Statute §738.08135 Trust Accounitngs, Rule 5.346 of the Florida Rules of Court and Florida Statute §738 Principal and Income.. [This fiduciary accounting is a “trust disclosure document” as defined by Florida Statute §736.1008 and an action for breach of trust based on any matter adequately disclosed in a trust disclosure document may be barred unless the action is commenced within 6 months after receipt of the trust disclosure document or recipt of a limitation notice that applies to that trust disclosure document, whichever is later.]

____

(Firm's Signature)

Date, 20xx

<u>SAS 62</u>

If, however, the practitioner believes that fiduciary accounting in general, and/or the summary Account and its related schedules, are based on something other than generally accepted accounting principles, he/she may wish to modify his/her report.

The examples provided in SAS 62 do not address fiduciary accountings so the auditor is left on his/her own to modify the report.

<u>Review - in accordance with GAAP</u>

The following sample Review Report and Compilation Report are reprinted with permission of Practitioners Publishing Company, Fort Worth, Texas, from <u>Guide to Compilation and Review</u>.

To John M. Davidson, Executor

Estate of David C. Connon, Deceased

I (We) have reviewed the accompanying fiduciary acciybtubg of the Estate of David C. Connon, Deceased (or the ____________ Trust) and the related schedules on pages _____ to _____ as of July 15, 20.., and for the period December 10, 20.. to July 15, 20.., in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this fiduciary accounting is the representation of the executor of the Estate of David C. Connon, Deceased[or insert Trust name].

A review consists principally of inquires of the executor [trustee] and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the fiducairy accounting taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the provisions of the gtoverning instrument, Florida Statute §738.08135 Trust Accountings, Ruld 5.346 of the Florida Rules of Court and Florida Statute §738 Prinicpal and Income. [This fiduciary accounting is a "trust disclosure document" as defined by Florida Statute §736.1008 and an action for breach of trust based on any matter adequately disclosed in a trust disclosure document may be barred unless the action is commenced within 6 months after receipt of the trust disclosure document or recipt of a limitation notice that applies to that trust disclosure document, whichever is later.]

____

(Firm's Signature)

August 5, 20xx

Compilation - in accordance with GAAP

Should a fiduciary accounting include a compilation report?

The answer to this question depends upon your interpretation of the AICPA Statement on Standards for Accounting and Review Services (SSARS). SSARS require a CPA to attach a compilation report to every financial statement he or she compiles. [SSARS, AR § 100.11]

SSARS NO. 1, AR 100.04 includes the following definition of a financial statement:

"A presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles (GAAP) or a comprehensive basis of accounting other than GAAP. Financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not financial statements for purposes of this Statement. The following financial presentations are examples of financial statements:

- Balance Sheet
- Statement of income
- Statement of comprehensive income
- Statement of retained earnings
- Statement of cash flows
- Statement of changes in owners' equity
- Statement of assets and liabilities (with or without owners' equity accounts)
- Statement of revenue and expenses
- Statement of financial position
- Statement of activities
- Summary of operations
- Statement of operations by product lines
- Statement of cash receipts and disbursements

A financial statement may be, for example, that of a corporation, a consolidated group of corporations, a combined group of affiliated entities, a not-for-profit organization, a government unit, and estate or trust, a partnership, a proprietorship, a segment of any of these, or an individual. The method of preparation (for example, manual or computer preparation) is not relevant to the definition of a financial statement."

While it is possible to prepare many of the above financial statements for a trust or estate, which would require the issuance of a compilation report, none of the above defined financial statements matches the definition of a fiduciary accounting. As discussed in Q 3:1 [*see* Q 3:8, *supra*] the basic objective of a fiduciary accounting is to provide essential and useful information in a meaningful form to the parties of interest in the accounting process. It is not designed to report on the financial position of the estate or trust. As further discussed in Q 3:6 [*see* Q 3:6, *supra*] the Uniform Trust Code uses the word "report" instead of "accounting" to avoid any inference that the report must be prepared in any particular format or with a high degree of formality. This is in contrast to the rigorous presentation guidelines prescribed for financial statements performed in accordance with GAAP or OCBOA. The matter becomes even murkier when the basis of accounting used in the preparation of a fiduciary accounting is compared to GAAP or OCBOA. [*See* Q 3:22, *infra*] If it is decided that a fiduciary accounting is in fact not a financial statement as defined in SSARS 1 it would follow that a compilation or review report is not required. If it is determined that a fiduciary accounting is a financial statement then a compilation or review report would be appropriate.

In any event, SSARS do not apply to financial statements submitted in conjunction with litigation services that involve pending or potential formal legal or regulatory proceedings before a trier of fact in connection with the resolution of a dispute between two or more parties. [SSARS, ARI § 100.77] Therefore, a trustee who prepares a financial statement for the beneficiaries need not attach a compilation report unless the trustee is engaged as a CPA.
[Fiduciary Accounting Answer Book, 2011 Edition, CCH]

To John M. Davidson, Executor
Estate of David C. Connon, Deceased

I (We) have compiled the accompanying fiduciary accounting of the Estate of David C. Connon, Deceased (or the _____ Trust) and the related schedules on pages ____ to ____ as of July 15, 20.., and for the period December 10, 19.., in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of of a fiduciary accounting information that is the representation of the executor of the Estate of David C. Connon, Deceased [or trustee of]. I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

with GAAP, the only category of OCBOA that could possibly encompass a fiduciary accounting is the last category—as an accounting basis that has substantial support.

As you can see, there is no authoritative literature that addresses the preparation of a fiduciary accounting. As such, a conclusion that there is not GAAP or OCBOA has as much authority as a conclusion that there is GAAP or OCBOA for fiduciary accountings.

[Fiduciary Accounting Answer Book – 2011 Edition, CCD]

FINANCIAL STATEMENTS SUBMITTED TO A COURT OF LAW

The following discussion is reprinted with permission of Practitioners Publishing Company, Fort Worth, Texas, from Guide to Compilation and Review.

As discussed in Paragraph 1610.02, in the authors' opinion, the requirements of a court of law have priority over the requirements of SSARS. If the court requests a report different from that required by SSARS, the accountant should comply with the court. On the other hand, if the court is silent with respect to a specific reporting requirement, the accountant should follow SSARS. The reasoning for this guidance is best articulated by the following excerpts from a letter dated January 20, 1977, written by Emanuel Saxe, CPA, and Bernard Barnett, CPA. The letter was published in *The CPA Journal*, August, 1977, pp. 80-82.

> An account of proceedings (accounting) of an executor, trustee or guardian, which is submitted for judicial settlement to a surrogate, probate or other court having proper jurisdiction, is a document in a legal proceeding having as its objective the discharge of the fiduciary from all further accountability for his administration of the estate or trust with respect to all matters set forth therein. The format of this account is normally prescribed by the court to which it is submitted and may vary considerably in different jurisdictions.

Fiduciary accountings, unlike the usual financial statements, are *sui generis*. They are not submitted to the world at large for a variety of purposes; they are merely a part of the legal papers in an accounting proceeding, served on the specific parties interested in the particular estate or trust estate being settled. They are the representations, under oath, of the accounting fiduciary, for whom the preparer (whether he be an attorney or a CPA) merely acts as an amanuensis.

Since the judicial settlement of a fiduciary's accounting will only serve to discharge him as to the matters set forth therein, the account must be sufficiently detailed to enable any interested party to ascertain the date, necessity for and reasonableness of any included transaction. Especially when conflicting interests of life tenant and remainderman are involved, it must separately state all transactions as to principal and income. In addition, the fiduciary must obtain and retain sufficient appropriate documentation to support the authenticity of all reported transactions which may be challenged on the court proceeding.

The rights of infants and incompetents are jealously protected and the right to priority of conflicting claims (whether those of the fiduciary, funeral director, taxing authority, creditor or beneficiary) is equitably regulated by statute under the strict supervisory aegis of the court.

The various duties, powers, and responsibilities of the fiduciary during his administration of the estate or trust are limited to those granted in the governing instrument or by the laws of the jurisdiction involved. Unless specifically exempted therefrom by the testator or settlor, every fiduciary must be bonded for the faithful performance of his duties, generally in an amount equal to the value of the property entrusted to him for administration.

All interested parties have the right to be, and generally are, represented by counsel in the judicial accounting proceeding, and they have the unfettered right, ordinarily exercised, to examine the account and, in the protection of their respective interests, to require proof of or to object to any item included therein before it can be settled and the court's decree discharging the fiduciary is entered.

Thus, the fiduciary's accounting is thoroughly examined, not only by the accounting executor, administrator or trustee (who must attest under oath to its completeness and accuracy) and his counsel as well as by the court's accounting clerk, but also by all parties involved in the accounting proceeding and/or counsel.

Once the account is judicially settled by the court, in the absence of fraud it is ordinarily binding and conclusive on all interested parties cited in the proceeding as to all matters embraced therein. Accordingly, a CPA preparer would, in the ordinary cases, have no further liability. in the event of undisclosed fraud on the part of the accounting party that is unknown to the CPA preparer, the fiduciary and his bonding company would continue to remain liable to the estate or trust estate. To our knowledge no case has arisen where such liability has ever been extended to the CPA preparer. Of course, if he were a participant in the fraud, the presence of his disclaimer would afford him no protection at all.

Under these circumstances, such an accounting (account of proceedings) should not be considered as being in the same category as an unaudited financial statement and, therefore, a disclaimer of opinion[1] by a CPA would *not* be appropriate. It is noted in this connection that counsel for the estate and trust, over whose name the account is actually submitted to the court and interested parties for examination, review and settlement, do not find it desirable or necessary to take similar action by way of disclaimer of responsibility.

For sample accountings, please refer to Section 6: Preparation of a Judicial Accounting. Also, please refer to Section 7: Appendix A: Auditing of Estates and Trusts, and Section 9: Appendix C, Report of Fiduciary Accounting Standard Committee.

Sample Engagement Letters

Engagement for preparation of fiduciary accountings and related income tax returns:
(The below engagement letter includes the bare minimum that should be in an engagement letter. It can be revised to meet the needs of your particular engagement and to add further language in accordance with your firms risk policies)

January 31, 2011

John Doe–Trustee
123 Main Street
Anytown, USA 10111

Re: The Mary Doe Revocable Trust
u/a dtd 01/01/2009

DearJohn:

This letter constitutes an agreement between yourselves as trustees of The Mary Doe Revocable Trust u/a dtd 01/01/09 and Spoor + associates, P.A., under which we will provide accounting and tax services to you in connection with The Mary Doe Revocable Trust u/a dtd 01/01/2009..

The professional accounting services we currently expect to provide include, but are not limited to the following:

Based upon information provided by you, we will prepare fiduciary accountings in accordance with the provisions of the provisions of the Mary Doe Revocable Trust u/a dtd 01/01/2009, F.S. §736.08135 and F.S. §738 [Make sure you change statute references for a non-Florida trust] for the periods 03/20/2009 through 12/31/2009 and 01/01/2010 through 12/.31/2010 as well as the 2010 Federal Form 1041 Income Tax Return for Estates and Trusts [insert related state returns].

The services will be rendered exclusively by F. Gordon Spoor, CPA/PFS, other than the occasional use of support staff for ministerial tasks.

We are being directed by you. Please understand that you may expand or limit the scope of our services. .

During this process, you or other third parties may be asked to provide documents and/or other information. Unless you instruct otherwise, we will not be auditing such documents and/or other information--i.e., we will accept these documents and/or other information at face value.

Furthermore, understand that we have not been asked to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist. We will, however, inform you of any such matters that come to our attention. Additionally, circumstances sometimes change during the process- i.e., expected information is not available. As such, we may be precluded from performing the above services or making certain conclusions.

As we proceed, we will bill all fees and costs incurred. Invoices will be sent on a periodic basis, usually monthly and are due upon presentment. Fees will be offset first against any retainer received.

Fees will be billed based upon our standard hourly rates for this type of consulting of $XXX per hour, for the services of F. Gordon Spoor, CPA/PFS and lesser rates for any support staff that may from time to time be used for the performance of ministerial duties, plus out of pocket expenses. Also, please be aware that our hourly rates will increase to $XXX per hour for expert witness testimony during any trial or deposition. In order to begin our work we will require a retainer of $X,XXX. This retainer will be applied against fees as incurred.

Circumstances may arise that require us to terminate this engagement. As such, we retain the right to terminate our involvement at anytime without notice, at which time all fees incurred will be due as stated above.

In order to begin our engagement we will require the following information at a minimum:

- A copy of statements for all financial accounts covering the period beginning 03/20/2009 and ending 12/31/2010.
- A journal or register describing the nature of all receipts and disbursements of the trust that are not readily apparent from a review of the statements provided by the financial institution.
- A copy of the Trust's 2009 Form 1041

We appreciate the opportunity to work with you on this engagement and trust the association will be mutually beneficial. If the foregoing is in accordance with your understanding, please sign the copy of this letter and return it and the retainer fee in the envelope provided.

Sincerely,

F. Gordon Spoor, CPA/PFS
Spoor + associates, P.A.

Accepted by:

______________________________________ ___________________________

John Doe Date

Trustee__________________________ ___________________________

FLORIDA LAW AND RULES OF COURT

[1]**736.0813 Duty to inform and account.--**The trustee shall keep the qualified beneficiaries of the trust reasonably informed of the trust and its administration.

(1) The trustee's duty to inform and account includes, but is not limited to, the following:

(a) Within 60 days after acceptance of the trust, the trustee shall give notice to the qualified beneficiaries of the acceptance of the trust and the full name and address of the trustee.

(b) Within 60 days after the date the trustee acquires knowledge of the creation of an irrevocable trust, or the date the trustee acquires knowledge that a formerly revocable trust has become irrevocable, whether by the death of the settlor or otherwise, the trustee shall give notice to the qualified beneficiaries of the trust's existence, the identity of the settlor or settlors, the right to request a copy of the trust instrument, and the right to accountings under this section.

(c) Upon reasonable request, the trustee shall provide a qualified beneficiary with a complete copy of the trust instrument.

(d) A trustee of an irrevocable trust shall provide a trust accounting, as set forth in s. 736.08135, to each qualified beneficiary annually and on termination of the trust or on change of the trustee.

(e) Upon reasonable request, the trustee shall provide a qualified beneficiary with relevant information about the assets and liabilities of the trust and the particulars relating to administration.

Paragraphs (a) and (b) do not apply to an irrevocable trust created before the effective date of this code, or to a revocable trust that becomes irrevocable before the effective date of this code. Paragraph (a) does not apply to a trustee who accepts a trusteeship before the effective date of this code.

(2) A qualified beneficiary may waive the trustee's duty to account under paragraph (1)(d). A qualified beneficiary may withdraw a waiver previously given. Waivers and withdrawals of prior waivers under this subsection must be in writing. Withdrawals of prior waivers are effective only with respect to accountings for future periods.

(3) The representation provisions of part III apply with respect to all rights of a qualified beneficiary under this section.

(4) As provided in s. 736.0603(1), the trustee's duties under this section extend only to the settlor while a trust is revocable.

(5) This section applies to trust accountings rendered for accounting periods beginning on or after January 1, 2008.

History.--s. 8, ch. 2006-217.

[1]**Note.--**Effective July 1, 2007.

[1]736.08135 Trust accountings.--

(1) A trust accounting must be a reasonably understandable report from the date of the last accounting or, if none, from the date on which the trustee became accountable, that adequately discloses the information required in subsection (2).

(2)(a) The accounting must begin with a statement identifying the trust, the trustee furnishing the accounting, and the time period covered by the accounting.

(b) The accounting must show all cash and property transactions and all significant transactions affecting administration during the accounting period, including compensation paid to the trustee and the trustee's agents. Gains and losses realized during the accounting period and all receipts and disbursements must be shown.

(c) To the extent feasible, the accounting must identify and value trust assets on hand at the close of the accounting period. For each asset or class of assets reasonably capable of valuation, the accounting shall contain two values, the asset acquisition value or carrying value and the estimated current value. The accounting must identify each known noncontingent liability with an estimated current amount of the liability if known.

(d) To the extent feasible, the accounting must show significant transactions that do not affect the amount for which the trustee is accountable, including name changes in investment holdings, adjustments to carrying value, a change of custodial institutions, and stock splits.

(e) The accounting must reflect the allocation of receipts, disbursements, accruals, or allowances between income and principal when the allocation affects the interest of any beneficiary of the trust.

(f) The trustee shall include in the final accounting a plan of distribution for any undistributed assets shown on the final accounting.

(3) This section applies to all trust accountings rendered for any accounting periods beginning on or after January 1, 2003.

History.--s. 8, ch. 2006-217.

[1]**Note.**--Effective July 1, 2007.

[1]736.1008 Limitations on proceedings against trustees.--

(1) Except as provided in subsection (2), all claims by a beneficiary against a trustee for breach of trust are barred as provided in chapter 95 as to:

(a) All matters adequately disclosed in a trust disclosure document issued by the trustee, with the limitations period beginning on the date of receipt of adequate disclosure.

(b) All matters not adequately disclosed in a trust disclosure document if the trustee has issued a final trust accounting and has given written notice to the beneficiary of the availability of the trust records for examination and that any claims with respect to matters not adequately disclosed may be barred unless an action is commenced within the applicable limitations period provided in chapter 95. The limitations period begins on the date of receipt of the final trust accounting and notice.

(2) Unless sooner barred by adjudication, consent, or limitations, a beneficiary is barred from bringing an action against a trustee for breach of trust with respect to a matter that was adequately disclosed in a trust disclosure document unless a proceeding to assert the claim is commenced within 6 months after receipt from the trustee of the trust disclosure document or a limitation notice that applies to that disclosure document, whichever is received later.

(3) When a trustee has not issued a final trust accounting or has not given written notice to the beneficiary of the availability of the trust records for examination and that claims with respect to matters not adequately disclosed may be barred, a claim against the trustee for breach of trust based on a matter not adequately disclosed in a trust disclosure document accrues when the beneficiary has actual knowledge of the trustee's repudiation of the trust or adverse possession of trust assets, and is barred as provided in chapter 95.

(4) As used in this section, the term:

(a) "Trust disclosure document" means a trust accounting or any other written report of the trustee. A trust disclosure document adequately discloses a matter if the document provides sufficient information so that a beneficiary knows of a claim or reasonably should have inquired into the existence of a claim with respect to that matter.

(b) "Trust accounting" means an accounting that adequately discloses the information required by and that substantially complies with the standards set forth in s. 736.08135.

(c) "Limitation notice" means a written statement of the trustee that an action by a beneficiary against the trustee for breach of trust based on any matter adequately disclosed in a trust disclosure document may be barred unless the action is commenced within 6 months after receipt of the trust disclosure document or receipt of a limitation notice that applies to that trust disclosure document, whichever is later. A limitation notice may but is not required to be in the following form: "An action for breach of trust based on matters disclosed in a trust accounting or other written report of the trustee may be subject to a 6-month statute of limitations from the receipt of the trust accounting or other written report. If you have questions, please consult your attorney."

(5) For purposes of this section, a limitation notice applies to a trust disclosure document when the limitation notice is:

(a) Contained as a part of the trust disclosure document or as a part of another trust disclosure document received within 1 year prior to the receipt of the latter trust disclosure document;

(b) Accompanied concurrently by the trust disclosure document or by another trust disclosure document that was received within 1 year prior to the receipt of the latter trust disclosure document;

(c) Delivered separately within 10 days after the delivery of the trust disclosure document or of another trust disclosure document that was received within 1 year prior to the receipt of the latter trust disclosure document. For purposes of this paragraph, a limitation notice is not delivered separately if the notice is accompanied by another written communication, other than a written communication that refers only to the limitation notice; or

(d) Received more than 10 days after the delivery of the trust disclosure document, but only if the limitation notice references that trust disclosure document and:

1. Offers to provide to the beneficiary on request another copy of that trust disclosure document if the document was received by the beneficiary within 1 year prior to receipt of the limitation notice; or

2. Is accompanied by another copy of that trust disclosure document if the trust disclosure document was received by the beneficiary 1 year or more prior to the receipt of the limitation notice.

(6) This section applies to trust accountings for accounting periods beginning on or after January 1, 2008, and to written reports, other than trust accountings, received by a beneficiary on or after January 1, 2008.

History.--s. 10, ch. 2006-217.

[1]**Note.**--Effective July 1, 2007.

[1]736.1017 Certification of trust.--

(1) Instead of furnishing a copy of the trust instrument to a person other than a beneficiary, the trustee may furnish to the person a certification of trust containing the following information:

(a) The trust exists and the date the trust instrument was executed.

(b) The identity of the settlor.

(c) The identity and address of the currently acting trustee.

(d) The powers of the trustee.

(e) The revocability or irrevocability of the trust and the identity of any person holding a power to revoke the trust.

(f) The authority of cotrustees to sign or otherwise authenticate and whether all or less than all are required in order to exercise powers of the trustee.

(g) The manner of taking title to trust property.

(2) A certification of trust may be signed or otherwise authenticated by any trustee.

(3) A certification of trust must state that the trust has not been revoked, modified, or amended in any manner that would cause the representations contained in the certification of trust to be incorrect.

(4) A certification of trust need not contain the dispositive terms of a trust.

(5) A recipient of a certification of trust may require the trustee to furnish copies of any excerpts from the original trust instrument and later amendments that designate the trustee and confer upon the trustee the power to act in the pending transaction.

(6) A person who acts in reliance on a certification of trust without knowledge that the representations contained in the certification are incorrect is not liable to any person for so acting and may assume without inquiry the existence of the facts contained in the certification. Knowledge of the terms of the trust may not be inferred solely from the fact that a copy of all or part of the trust instrument is held by the person relying on the certification.

(7) A person who in good faith enters into a transaction in reliance on a certification of trust may enforce the transaction against the trust property as if the representations contained in the certification were correct.

(8) This section does not limit the right of a person to obtain a copy of the trust instrument when required to be furnished by law or in a judicial proceeding concerning the trust.

History.--s. 10, ch. 2006-217.

[1]**Note.**--Effective July 1, 2007.

Florida Court Rules

Rule 5.345. Accountings other than Personal Representatives' Final account; and
Rule 5.346. Fiduciary Accounting

These Rules while adopted primarily for estate administration may be interpreted to apply to both Trust and Estate Accountings since the Rule references "fiduciary accountings" and should be followed while preparing the statements. Copies of these rules appear in Section 6 (pgs 6 –10 through pp 6-32).

SECTION 2
ESTATES

Introduction

The personal representatives or trustees engaging accountants are often not experienced in their duties. They are relatives or friends of the decedent or grantor and are acting as such rather than as a professional fiduciary. Such individuals expect their accountants to know the ins and outs of fiduciary accounting, taxes and reporting - they also expect their CPAs to know the duties of an executor or trustee.

Fortunately there is a wealth of material available. The duties of a personal representative are generally well defined within a given state or jurisdiction The duties of a trustee are ordinarily defined in a broad sense by statutes in the respective states. The instructions to and powers of a trustee in a specific instance are usually stated in the trust instrument itself.

In addition to being generally (and to satisfy client expectations specifically) acquainted with the duties of an executor and trustee accountants must:

1. Study each will or trust instrument they are involved with and must obtain legal interpretation from the client's attorney of any provisions not clear to them. (Summaries of matters to be noted from wills and trust documents are presented in Section 9 of this manual.)

2. Be familiar with the local sequence and timings for probate procedures such as:
   - admitting the will
   - hearing to appoint personal representative

- publishing notice to creditors (F.S. 733.2121)
- notice of administration (F.S. 733.212)
- marshaling of assets, including inventory of safety deposit box
- filing estate inventory
- payment of claims against estate and whether <u>each</u> must have Court's approval prior to payment
- distributions to legatees and beneficiaries
- intermediate and final accounting reports - including format and detail required

3. Know the rights of election (to take under the will or not) of a surviving spouse.

4. Be acquainted with rules and practices relating to widows' allowances.

5. Know the rules and practices related to distributions in kind and resultant income tax effects.

6. Know the rules and practices relating to interest payable to devisees or beneficiaries due to late distribution.

7. Know the classification between income and principal transactions in his jurisdiction.

8. Know if all devisees and beneficiaries bear a portion of federal and state estate taxes.

9. Know if the common instruction in a will to "pay all my just debts" means mortgages, leases and other long term obligations.

10. Know if decedent's out-of-state property must go through ancillary probate proceedings or if a short cut is available.

11. Be familiar with local laws and rules of inheritance under intestacy.

12. Be familiar with local laws with respect to how beneficiaries named in the will can disclaim a bequest.

Other than through personal experience, such information can be obtained from:

- client's attorney
- probate court
- individuals in bank trust departments
- local statutes and regulations

When CPAs are engaged to perform accounting services for an estate or trust, they are usually also asked to prepare income tax returns and often estate tax returns. This course deals primarily with accounting but you should be aware that tax matters play a major part in accounting for estates and trusts.

See F. S. 733-735 for complete law regarding Estate Administration.

Estate Administration

SIGNIFICANT EVENTS AND DATES

Event	**Date**
Will filed with court	Within 10 days of receiving information of testators death (F.S. §732.901)
Letters of Administration issued by court	
Publish Notice of Administration and Notice to Creditors (See page 2-6)	As soon as practicable after Letters of Administration issued. Once a week for two weeks in a newspaper published in the county where the estate is administered., If there is no newspaper in that county, in a newspaper of general circulation. F.S. (733.212 &733.2121) Additionally F.S. §733.2121(3) requires that the personal representative promptly make a diligent search to determine the names and addresses of creditors of the decedent who are reasonable ascertainable, even if the claims are unmatured, contingent, or unliquidated and shall promptly serve a copy of the notice on those creditors.
File IRS Form 56	Within 30 days after Letters of Administration.
File Court Inventory	Within 60 days after Letters of Administration. Probate Rule 5.340(a)
File Copy of Inventory and Information Report with Florida Department of Revenue	Within 60 days after Letters of Administration
Creditors' claims period expires	3 months after Notice of Administration published, or 30 days after actual service for identified creditors. F.S. §733.702

SIGNIFICANT EVENTS AND DATES (Continued)

Event	Date
Object to Claims	Within 1 month after claims period expires, or within thirty days of filing of a claim, whichever is later. F.S.§733.705
Estate tax alternate valuation date	6 months after date of death, or date of sale or distribution if earlier
Estate tax return due	9 months after date of death
Decedent's final income tax return due and file form 5495 requesting discharge from personal liability for decedents income and gift tax liabilities.	April 15 of year following date of death for calendar year taxpayer and 3 months and 15 days after year end of fiscal year (taxpayer's)
<u>Select fiscal year for estate for income tax purposes</u>	File first return (Form 1041) within 3 months 15 days after close of fiscal year
Pay claims	When Personal Representative is satisfied that assets are sufficient. See F. S. 733.707, "Order of Payment of Expenses and Obligations" and F. S. 733.805, "Order in Which Assets are Appropriated".
Receive Estate Tax Closing Letter and Release from Personal Liability	
Petition Court for Order of Distribution and Discharge	
Final Accounting	
Distribute assets per will	
File final income tax return	Within 3 months 15 days after estate closes
File Notice of Termination of Fiduciary Relationship with IRS	File with final Fiduciary Income Tax Return

Notice To Creditors

Until April 19, 1988, the published Notice of Administration was the only communication to creditors of the decedent. If creditors failed to file a Claim within the statutory three month period, the claim was barred.

On April 19, 1988, the United States Supreme Court decided Tulsa Professional Services, Inc. v. Pope, 108 S. Ct. 1340. This case will have substantial impact on the method for handling (and barring) creditors' claims. This case stands for the proposition that a creditor may not be barred by the usual publication if that creditor was actually known or reasonably ascertainable by the Personal Representative, and the Personal Representative failed to give notice to the creditor by mail or other means as certain to ensure actual notice. Less than actual notice in these circumstances would deprive the creditor his Due Process rights under the 14th Amendment to the U. S. Constitution. Probably actual notice of the death (as in the case of a hospital where the decedent died as a patient) without notice of the institution of probate proceedings is not sufficient.

As a result of the Supreme Court decision, the Florida Rules of Probate have been changed to require that the Personal Representative shall:

1. Make a diligent search to ascertain the names and addresses of all creditors, and
2. Serve actual notice on such creditors
   (See Florida Rule 5.240 and F.S. §733.2121)

This rule may impose a significant burden on some Personal Representatives.

The 1993 Florida Legislature has imposed on trustees of some "Grantor Type" trusts, a duty to pay claims and expenses of administration when probate assets are insufficient (F.S. 733.707, F. S. 733.607(2), and F. S. 737.3054). Likewise, if a decedent left no probate estate, the trustees of his "Grantor Type" Trust may be required to publish a notice to creditors (see F. S. 737.3054).

Illiquid Estates

It is not uncommon for estates to lack sufficient assets to satisfy all claims, expenses and devises. Therefore, the Personal Representative may need to refer to FS 733.707 – Order of Payment of Expenses and Obligations; and FS 733.805 – Order in Which Assets are Appropriated. Also, in general, distributions from Florida estates to beneficiaries are made “in kind”. Therefore, FS 733.810 should be carefully reviewed.

Copies of these three key statutes follow.

Order of payment of expenses and obligations.—

733.707 Order of payment of expenses and obligations.--

(1) The personal representative shall pay the expenses of the administration and obligations of the decedent's estate in the following order:

(a) *Class 1.*--Costs, expenses of administration, and compensation of personal representatives and their attorneys fees and attorneys fees awarded under s. 733.106(3).

(b) *Class 2.*--Reasonable funeral, interment, and grave marker expenses, whether paid by a guardian, the personal representative, or any other person, not to exceed the aggregate of $6,000.

(c) *Class 3.*--Debts and taxes with preference under federal law, and claims pursuant to ss. 409.9101 and 414.28.

(d) *Class 4.*--Reasonable and necessary medical and hospital expenses of the last 60 days of the last illness of the decedent, including compensation of persons attending the decedent.

(e) *Class 5.*--Family allowance.

(f) *Class 6.*--Arrearage from court-ordered child support.

(g) *Class 7.*--Debts acquired after death by the continuation of the decedent's business, in accordance with s. 733.612(22), but only to the extent of the assets of that business.

(h) *Class 8.*--All other claims, including those founded on judgments or decrees rendered against the decedent during the decedent's lifetime, and any excess over the sums allowed in paragraphs (b) and (d).

(2) After paying any preceding class, if the estate is insufficient to pay all of the next succeeding class, the creditors of the latter class shall be paid ratably in proportion to their respective claims.

(3) Any portion of a trust with respect to which a decedent who is the grantor has at the decedent's death a right of revocation, as defined in paragraph (e), either alone or in conjunction with any other person, is liable for the expenses of the administration and obligations of the

decedent's estate to the extent the decedent's estate is insufficient to pay them as provided in s. 733.607(2).

(a) For purposes of this subsection, any trusts established as part of, and all payments from, either an employee annuity described in s. 403 of the Internal Revenue Code of 1986, as amended, an Individual Retirement Account, as described in s. 408 of the Internal Revenue Code of 1986, as amended, a Keogh (HR-10) Plan, or a retirement or other plan established by a corporation which is qualified under s. 401 of the Internal Revenue Code of 1986, as amended, shall not be considered a trust over which the decedent has a right of revocation.

(b) For purposes of this subsection, any trust described in s. 664 of the Internal Revenue Code of 1986, as amended, shall not be considered a trust over which the decedent has a right of revocation.

(c) This subsection shall not impair any rights an individual has under a qualified domestic relations order as that term is defined in s. 414(p) of the Internal Revenue Code of 1986, as amended.

(d) For purposes of this subsection, property held or received by a trust to the extent that the property would not have been subject to claims against the decedent's estate if it had been paid directly to a trust created under the decedent's will or other than to the decedent's estate, or assets received from any trust other than a trust described in this subsection, shall not be deemed assets of the trust available to the decedent's estate.

(e) For purposes of this subsection, a "right of revocation" is a power retained by the decedent, held in any capacity, to:

1. Amend or revoke the trust and revest the principal of the trust in the decedent; or

2. Withdraw or appoint the principal of the trust to or for the decedent's benefit.

History.--s. 1, ch. 74-106; s. 86, ch. 75-220; s. 35, ch. 77-87; s. 7, ch. 85-79; s. 69, ch. 87-226; s. 20, ch. 93-208; s. 11, ch. 93-257; s. 10, ch. 95-401; s. 1018, ch. 97-102; s. 3, ch. 97-240; s. 150, ch. 2001-226.

Note.--Created from former s. 733.20.

733.805 Order in which assets are appropriated.—

(1) Funds or property designated by the will shall be used to pay debts, family allowance, exempt property, elective share charges, expenses of administration, and devises, to the extent the funds or property is sufficient. If no provision is made or the designated fund or property is insufficient, the funds and property of the estate shall be used for these purposes, and to raise the shares of a pretermitted spouse and children, except as otherwise provided in subsections (3) and (4), in the following order:

(a) Property passing by intestacy.

(b) Property devised to the residuary devisee or devisees.

(c) Property not specifically or demonstratively devised.

(d) Property specifically or demonstratively devised.

(2) Demonstrative devises shall be classed as general devises upon the failure or insufficiency of funds or property out of which payment should be made, to the extent of the insufficiency. Devises to the decedent's surviving spouse, given in satisfaction of, or instead of, the surviving spouse's statutory rights in the estate, shall not abate until other devises of the same class are exhausted. Devises given for a valuable consideration shall abate with other devises of the same class only to the extent of the excess over the amount of value of the consideration until all others of the same class are exhausted. Except as herein provided, devises shall abate equally and ratably and without preference or priority as between real and personal property. When property that has been specifically devised or charged with a devise is sold or used by the personal representative, other devisees shall contribute according to their respective interests to the devisee whose devise has been sold or used. The amounts of the respective contributions shall be determined by the court and shall be paid or withheld before distribution is made.

(3) Section 733.817 shall be applied before this section is applied.

(4) In determining the contribution required under s. 733.607(2), subsections (1)-(3) of this section and s. 737.3054(2) shall be applied as if the beneficiaries of the estate and the beneficiaries of a trust described in s. 733.707(3), other than the estate or trust itself, were taking under a common instrument.

History.--s. 1, ch. 74-106; s. 88, ch. 75-220; s. 1, ch. 77-174; s. 1020, ch. 97-102; s. 156, ch. 2001-226.

Note.--Created from former s. 734.05.

733.810 Distribution in kind; valuation.--

((1) Assets shall be distributed in kind unless:

(a) A general power of sale is conferred;

(b) A contrary intention is indicated by the will or trust; or

(c) Disposition is made otherwise under the provisions of this code.

(2) Any pecuniary devise, family allowance, or other pecuniary share of the estate or trust may be satisfied in kind if:

(a) The person entitled to payment has not demanded cash;

(b) The property is distributed at fair market value as of its distribution date; and

(c) No residuary devisee has requested that the asset remain a part of the residuary estate.

(3) When not practicable to distribute undivided interests in a residuary asset, the asset may be sold.

(4) When the fiduciary under a will or trust is required, or has an option, to satisfy a pecuniary devise or transfer in trust, to or for the benefit of the surviving spouse, with an in-kind distribution, at values as finally determined for federal estate tax purposes, the fiduciary shall, unless the governing instrument otherwise provides, satisfy the devise or transfer in trust by distribution of assets, including cash, fairly representative of the appreciated or depreciated value of all property available for that distribution, taking into consideration any gains and losses realized from a prior sale of any property not devised specifically, generally, or demonstratively.

(5) A personal representative or a trustee is authorized to distribute any distributable assets, non-pro rata among the beneficiaries subject to the fiduciary's duty of impartiality.

History.--s. 1, ch. 74-106; s. 92, ch. 75-220; s. 40, ch. 77-87; s. 160, ch. 2001-226.

Note.--Created from former s. 734.031.

COMPENSATION OF FIDUCIARIES AND PROFESSIONALS

Trustees, guardians and personal representatives of decedent's estates are entitled to reasonable compensation and reimbursements of out-of-pocket costs and expenses.

733.617 Compensation of personal representative.--

(1) A personal representative shall be entitled to a commission payable from the estate assets without court order as compensation for ordinary services. The commission shall be based on the compensable value of the estate, which is the inventory value of the probate estate assets and the income earned by the estate during administration.

(2) A commission computed on the compensable value of the estate is presumed to be reasonable compensation for a personal representative in formal administration as follows:

(a) At the rate of 3 percent for the first $1 million.

(b) At the rate of 2.5 percent for all above $1 million and not exceeding $5 million.

(c) At the rate of 2 percent for all above $5 million and not exceeding $10 million.

(d) At the rate of 1.5 percent for all above $10 million.

(3) In addition to the previously described commission, a personal representative shall be allowed further compensation as is reasonable for any extraordinary services including, but not limited to:

(a) The sale of real or personal property.

(b) The conduct of litigation on behalf of or against the estate.

(c) Involvement in proceedings for the adjustment or payment of any taxes.

(d) The carrying on of the decedent's business.

(e) Dealing with protected homestead.

(f) Any other special services which may be necessary for the personal representative to perform.

(4) If the will provides that a personal representative's compensation shall be based upon specific criteria, other than a general reference to commissions allowed by law or words of similar import, including, but not limited to, rates, amounts, commissions, or reference to the personal representative's regularly published schedule of fees in effect at the decedent's date of death, or words of similar import, then a personal representative shall be entitled to

compensation in accordance with that provision. However, except for references in the will to the personal representative's regularly published schedule of fees in effect at the decedent's date of death, or words of similar import, if there is no written contract with the decedent regarding compensation, a personal representative may renounce the provisions contained in the will and be entitled to compensation under this section. A personal representative may also renounce the right to all or any part of the compensation.

(5) If the probate estate's compensable value is $100,000 or more, and there are two representatives, each personal representative is entitled to the full commission allowed to a sole personal representative. If there are more than two personal representatives and the probate estate's compensable value is $100,000 or more, the compensation to which two would be entitled must be apportioned among the personal representatives. The basis for apportionment shall be one full commission allowed to the personal representative who has possession of and primary responsibility for administration of the assets and one full commission among the remaining personal representatives according to the services rendered by each of them respectively. If the probate estate's compensable value is less than $100,000 and there is more than one personal representative, then one full commission must be apportioned among the personal representatives according to the services rendered by each of them respectively.

(6) If the personal representative is a member of The Florida Bar and has rendered legal services in connection with the administration of the estate, then in addition to a fee as personal representative, there also shall be allowed a fee for the legal services rendered.

(7) Upon petition of any interested person, the court may increase or decrease the compensation for ordinary services of the personal representative or award compensation for extraordinary services if the facts and circumstances of the particular administration warrant. In determining reasonable compensation, the court shall consider all of the following factors, giving weight to each as it determines to be appropriate:

(a) The promptness, efficiency, and skill with which the administration was handled by the personal representative;

(b) The responsibilities assumed by and the potential liabilities of the personal representative;

(c) The nature and value of the assets that are affected by the decedent's death;

(d) The benefits or detriments resulting to the estate or interested persons from the personal representative's services;

(e) The complexity or simplicity of the administration and the novelty of the issues presented;

(f) The personal representative's participation in tax planning for the estate and the estate's beneficiaries and in tax return preparation, review, or approval;

(g) The nature of the probate, nonprobate, and exempt assets, the expenses of administration, the liabilities of the decedent, and the compensation paid to other professionals and fiduciaries;

(h) Any delay in payment of the compensation after the services were furnished; and

(i) Any other relevant factors.

History.--s. 1, ch. 74-106; s. 80, ch. 75-220; s. 1, ch. 76-172; s. 5, ch. 88-340; s. 1, ch. 90-129; s. 10, ch. 93-257; s. 1, ch. 95-401; s. 141, ch. 2001-226; s. 109, ch. 2002-1.

Note.--Created from former s. 734.01.

733.6171 Compensation of attorney for the personal representative.--

(1) Attorneys for personal representatives shall be entitled to reasonable compensation payable from the estate assets without court order.

(2) The attorney, the personal representative, and persons bearing the impact of the compensation may agree to compensation determined in a different manner than provided in this section. Compensation may also be determined in a different manner than provided in this section if the manner is disclosed to the parties bearing the impact of the compensation and if no objection is made as provided for in the Florida Probate Rules.

(3) Compensation for ordinary services of attorneys in formal estate administration is presumed to be reasonable if based on the compensable value of the estate, which is the inventory value of the probate estate assets and the income earned by the estate during the administration as provided in the following schedule:

(a) One thousand five hundred dollars for estates having a value of $40,000 or less.

(b) An additional $750 for estates having a value of more than $40,000 and not exceeding $70,000.

(c) An additional $750 for estates having a value of more than $70,000 and not exceeding $100,000.

(d) For estates having a value in excess of $100,000, at the rate of 3 percent on the next $900,000.

(e) At the rate of 2.5 percent for all above $1 million and not exceeding $3 million.

(f) At the rate of 2 percent for all above $3 million and not exceeding $5 million.

(g) At the rate of 1.5 percent for all above $5 million and not exceeding $10 million.

(h) At the rate of 1 percent for all above $10 million.

(4) In addition to fees for ordinary services, the attorney for the personal representative shall be allowed further reasonable compensation for any extraordinary service. What is an extraordinary service may vary depending on many factors, including the size of the estate. Extraordinary services may include, but are not limited to:

(a) Involvement in a will contest, will construction, a proceeding for determination of beneficiaries, a contested claim, elective share proceeding, apportionment of estate taxes, or any adversarial proceeding or litigation by or against the estate.

(b) Representation of the personal representative in audit or any proceeding for adjustment, determination, or collection of any taxes.

(c) Tax advice on postmortem tax planning, including, but not limited to, disclaimer, renunciation of fiduciary commission, alternate valuation date, allocation of administrative expenses between tax returns, the QTIP or reverse QTIP election, allocation of GST exemption, qualification for Internal Revenue Code ss. 6166 and 303 privileges, deduction of last illness expenses, fiscal year planning, distribution planning, asset basis considerations, handling income or deductions in respect of a decedent, valuation discounts, special use and other valuation, handling employee benefit or retirement proceeds, prompt assessment request, or request for release of personal liability for payment of tax.

(d) Review of estate tax return and preparation or review of other tax returns required to be filed by the personal representative.

(e) Preparation of the estate's federal estate tax return. If this return is prepared by the attorney, a fee of one-half of 1 percent up to a value of $10 million and one-fourth of 1 percent on the value in excess of $10 million of the gross estate as finally determined for federal estate tax purposes, is presumed to be reasonable compensation for the attorney for this service. These fees shall include services for routine audit of the return, not beyond the examining agent level, if required.

(f) Purchase, sale, lease, or encumbrance of real property by the personal representative or involvement in zoning, land use, environmental, or other similar matters.

(g) Legal advice regarding carrying on of the decedent's business or conducting other commercial activity by the personal representative.

(h) Legal advice regarding claims for damage to the environment or related procedures.

(i) Legal advice regarding homestead status of real property or proceedings involving that status and services related to protected homestead.

(j) Involvement in fiduciary, employee, or attorney compensation disputes.

(k) Proceedings involving ancillary administration of assets not subject to administration in this state.

(5) Upon petition of any interested person, the court may increase or decrease the compensation for ordinary services of the attorney or award compensation for extraordinary services if the facts and circumstances of the particular administration warrant. In determining reasonable compensation, the court shall consider all of the following factors, giving weight to each as it determines to be appropriate:

(a) The promptness, efficiency, and skill with which the administration was handled by the attorney.

(b) The responsibilities assumed by and the potential liabilities of the attorney.

(c) The nature and value of the assets that are affected by the decedent's death.

(d) The benefits or detriments resulting to the estate or interested persons from the attorney's services.

(e) The complexity or simplicity of the administration and the novelty of issues presented.

(f) The attorney's participation in tax planning for the estate and the estate's beneficiaries and tax return preparation, review, or approval.

(g) The nature of the probate, nonprobate, and exempt assets, the expenses of administration, the liabilities of the decedent, and the compensation paid to other professionals and fiduciaries.

(h) Any delay in payment of the compensation after the services were furnished.

(i) Any other relevant factors.

(6) If a separate written agreement regarding compensation exists between the attorney and the decedent, the attorney shall furnish a copy to the personal representative prior to commencement of employment, and, if employed, shall promptly file and serve a copy on all interested persons. Neither a separate agreement nor a provision in the will suggesting or directing that the personal representative retain a specific attorney will obligate the personal representative to employ the attorney or obligate the attorney to accept the representation, but if the attorney who is a party to the agreement or who drafted the will is employed, the compensation paid shall not exceed the compensation provided in the agreement or in the will.

History.--s. 4, ch. 93-257; s. 2, ch. 95-401; s. 142, ch. 2001-226.

733.6175 Proceedings for review of employment of agents and compensation of personal representatives and employees of estate.--

(1) The court may review the propriety of the employment of any person employed by the personal representative and the reasonableness of any compensation paid to that person or to the personal representative.

(2) Court proceedings to determine reasonable compensation of the personal representative or any person employed by the personal representative, if required, are a part of the estate administration process, and the costs, including attorneys' fees, of the person assuming the burden of proof of propriety of the employment and reasonableness of the compensation shall be determined by the court and paid from the assets of the estate unless the court finds the requested compensation to be substantially unreasonable. The court shall direct from which part of the estate the compensation shall be paid.

(3) The burden of proof of propriety of the employment and the reasonableness of the compensation shall be upon the personal representative and the person employed. Any person who is determined to have received excessive compensation from an estate for services rendered may be ordered to make appropriate refunds.

(4) The court may determine reasonable compensation for the personal representative or any person employed by the personal representative without receiving expert testimony. Any party may offer expert testimony after notice to interested persons. If expert testimony is offered, a reasonable expert witness fee shall be awarded by the court and paid from the assets of the estate. The court shall direct from what part of the estate the fee shall be paid.

History.--s. 2, ch. 76-172; s. 1014, ch. 97-102; s. 143, ch. 2001-226.

733.619 Individual liability of personal representative.--

(1) Unless otherwise provided in the contract, a personal representative is not individually liable on a contract, except a contract for attorney's fee, properly entered into as fiduciary unless the personal representative fails to reveal that representative capacity and identify the estate in the contract.

(2) A personal representative is individually liable for obligations arising from ownership or control of the estate or for torts committed in the course of administration of the estate only if personally at fault.

(3) Claims based on contracts, except a contract for attorney's fee, entered into by a personal representative as a fiduciary, on obligations arising from ownership or control of the estate, or on torts committed in the course of estate administration, may be asserted against the estate by proceeding against the personal representative in that capacity, whether or not the personal representative is individually liable.

(4) Issues of liability as between the estate and the personal representative individually may be determined in a proceeding for accounting, surcharge, or indemnification, or other appropriate proceeding.

History.--s. 82, ch. 75-220; s. 32, ch. 77-87; s. 228, ch. 77-104; s. 1015, ch. 97-102; s. 144, ch. 2001-226.

Customarily, accountants base their compensation on hourly billing rates. However, several years ago, the Journal of Accountancy published the results of a national survey which indicated that many CPAs charge premium rates for estate and/or estate planning work. The premium rates were justified by such factors as: greater than normal potential liability; length of the relationship with the decedent; and the fact that most estate engagements do not result in an ongoing professional relationship with the estate's beneficiaries. Several informal non-scientific surveys conducted in Florida indicate that many Florida CPAs also follow the practice of utilizing premium rates. Typical premiums range from 25% to 100% above "normal" rates.

A question often asked is: "Should fees for the administration of an estate be paid only upon termination of the estate or may they be paid periodically during the life of the estate?" There is no clear-cut answer. In small estates, fees are customarily paid at termination. However, in larger estates, fees are normally paid in at least two installments. For example, many Trust Departments and many attorneys charge one half of the fees upon the filing of the estate tax return, with the balance being paid at termination.

However, a more important consideration is based on the fact that such administrative expenses may be deducted on the estate tax return or on the fiduciary income tax return. But if used on the fiduciary income tax return, a deduction can be taken for only those amounts actually paid within the tax year, on a strict cash basis. Executors should, therefore, determine the comparative advantages of the two options and plan their payments to themselves accordingly if any portion of their fee is to be used as an income tax deduction.

SECTION 5
DISTRIBUTIONS

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CLASS DISCUSSION QUESTION
ESTATE OF MINI TAX

Mini Tax died in 2003 when the unified credit-exemption equivalent amount was $1,000,000 (rounded). She was survived by her husband, Max and by a niece, Mae. While Max and Mae tolerated each other, they were not very friendly.

Excerpts from Mini's will are shown below. The family trust was to pay income to Max for life with the remainder to pass to Mae or her heirs. The marital trust also was to pay income to Max for life. Max was granted a general power of appointment over the remainder, to be exercised in his last will. If the power was not exercised, the remainder was to pass to Mae or her heirs. After Mini's death, Max executed a new will exercising the general power of appointment in favor of his son by a previous marriage.

After several years of administration, the estate is ready for distribution. The attorney has asked you to review the will, the estate tax return, and a proposed distribution schedule and to comment.

WILL OF MINI TAX

Article I Pay all of my just debts, taxes and administrative expense.

Article II I leave all of my tangible personal property to my niece.

Article III The balance of my estate shall be divided into two parts, a Family Trust and a Marital Trust. The Family Trust shall consist of an amount equal to $1,000,000 reduced by any amounts passing to someone other than my spouse. In no event shall the assets passing to the Family Trust have a value in excess of the amount, which can pass free of estate tax by utilizing the Unified Credit available to my estate. My Homestead shall be used to fund the Family Trust. Any additional amounts required to fully fund the Family Trust shall be paid from the residual of my estate. My residuary estate, after the payments required under Article I and II and after funding the Family Trust, shall pass to the Marital Trust.

ESTATE OF MINI TAX

Probate Assets

Cash & CDs	$225,000
Stock & Bonds	$1,000,000
Tangible Personal Property	$45,000
Total Probate	$1,270,000

Expenses

Funeral Expense	$15,000
Administration Expense	$200,000
Total Expenses	$215,000

Non-Probate Assets

Homestead	$170,000

FORM 706

Schedule A	$170,000	
Schedule B	$1,000,000	
Schedule C	$225,000	
Schedule D	$0	
Schedule E	$0	
Schedule F	$45,000	
Gross Estate	$1,440,000	
Schedule J (Funeral)	$(15,000)	
Schedule M		
Homestead	$170,000	
MD Trust	$255,000	$(425,000)
Taxable Estate		$1,000,000
Tax		$345,800
Unified Credit		$(345,800)
Net Tax		$0

ESTATE OF MINI TAX

Proposed Distribution Schedule

Total Probate Assets DOD		$1,270,000
Tangible Personal Property to		
Niece		$45,000
Family Trust at DOD		
Unified Credit Equivalent	$1,000,000	
Less amount to Niece	$(45,000)	
	$955,000	
Expenses Paid from Family Trust	$215,000	
Total Family Trust before Payment		
of Expenses		$1,170,000
M.D. Trust at DOD		$55,000
		$1,270,000

Allocation of Appreciation

Family Trust	$1,155,000	=	95.5%
MD Trust	$55,000	=	4.5%
Total	$1,210,000	=	100.00%

Value of assets, distribution date	$1,800,000
Value of distributable assets,	
DOD*	$1,010,000
Appreciation	$790,000

	Family Trust	MDTrust	Total
DOD	$955,000	$55,000	$1,010,000
Appr.	$755,000	$35,000	$790,000
	$1,710,000	$90,000	$1,800,000

*Value of Distributable Assets at DOD

Probate Assets		$1,270,000
less:		
Funeral expenses	$15,000	
Admin expenses	$200,000	
Tangible property	$45,000	
		$(260,000)
Net distributable assets		$1,010,000

SECTION 6
PREPARATION OF A JUDICIAL ACCOUNTING

Preliminary Considerations

As in any project, the first step in preparing a judicial accounting is a determination of the requirements of the accounting. This is a group project of the accountant, the attorney and the personal representative, and should be determined at the time of the initial conference. Consideration should be given to the will, the classification or types of assets in the estate, the kind of settlement that will take place, and the possibility or probability of objections by any beneficiaries. The decision here will dictate the final selection of the accounting system that was discussed in Section 4.

The Will

The will or trust instrument contains the basic charter under which the administration of a trust or estate must proceed. A copy of the will or trust instrument should be procured, and the general dispositive scheme examined and abstracted. Of particular concern to the accountant should be those aspects of the will or trust instrument relating to the accounting problems and the account itself.

A will or trust instrument will often contain directions on the allocation of principal and income items, the computation of commissions, the amortization of bond premiums and the designation of particular funds out of which legacies are to be paid. There are any number of items, limited only by the imagination of the testator or settlor of the trust, that may be contained in the will or trust instrument, and that have a bearing on the preparation of the fiduciary accounting and on the manner in which the administration must proceed.

As a general rule a provision in the will or trust instrument, unless unlawful or unenforceable, will control. It may be difficult for an accountant to attempt to interpret the legal ramifications of the instrument, so this analysis may have to be made with the aid of counsel for the estate, who, with the benefit of legal training and knowledge of applicable case and statutory law, can advise the accountant on the legal meaning of the fine points in the instrument.

The Type of Settlement

Under Florida law periodic accountings are optional. Only an initial inventory and a final accounting are required and the final accounting may be waived. In summary or family administrations accountings are not normally used, but even in such cases an accurate record of the transactions of the estate should be maintained. The only difference may be in the form of or in the detail included in the record.

Waivers of the final accounting may be obtained from the beneficiaries at the end of the administration, but the attorney should determine at the outset whether or not obtaining waivers and a settlement by "receipt and consent" would be prudent. Waivers of accounting by the decedent in his or her will have no effect. Such waivers can be made only by the beneficiaries.

The existence of a number of beneficiaries, particularly where all are not family members, or the existence of complications, such as a business operated by or substantially owned by the decedent, special legacies or specified distributions of income, usually dictate a Judicial settlement, that is, one fully reported to and controlled by the court. In this case the accounting must be prepared with a view to possible objections by parties to the proceeding or close scrutiny by the court. Courts do not routinely audit accountings, but rely on objections by interested parties to reveal mishandling, so accountings should be in sufficient detail for all parties to understand the nature of each transaction.

In a family estate a simple entry for receipt of income could be made as follows:

4/28/2006	ABC bond interest	$100.00

Where a more detailed accounting is required, the entry could be described:

04/28/2006	Received quarterly interest on	
	$5,000.00 face value ABC bonds at 8%	$100.00

In the first entry an interested party would need to examine the basic documents of the estate records to determine the accuracy of the entry which is obvious in a reading of the second. Merely by fully explaining each entry the accountant can eliminate most, if not all, grounds for objection.

In a settlement by receipt and consent, which includes a waiver of accounting, the interested parties signify that they have received the property to which they are entitled, are satisfied with the accounting and consent to the discharge of the personal representative. While the accountant always should strive to tell completely the story of the administration, a settlement by receipt and consent does not require the pondering, self-analysis of one's own work, and the pre-occupation with possible objections as a judicial settlement does. In such cases a wide latitude in the form and arrangement of the accounting is permissible and thorny problems in the presentation or allocation of items to be accounted for can be settled by consultation and agreement between the parties.

The discharge of the personal representative or trustee can be materially affected by the manner and form in which details of the administration are presented, and there should be close harmony and consultation among counsel for the estate or trust in setting forth the basic facts in the accounting.

The Estate Accounting

The accounting record is normally prepared and filed by the attorney for the estate, includes all known assets of the estate which are subject to probate. This, together with any other assets of the estate which are not subject to probate, but are includable for estate tax and income tax purposes, is the starting point of the accounting record. However, only those transactions involving probate assets are included in the accountings to the court.

For example, under Florida law, real property located outside of Florida, insurance proceeds payable to a named beneficiary other than the estate or trust and jointly owned property passing under survivorship rules are not includable in the inventory. Homestead property is not subject to probate, but must be reported separately in the inventory. Details of such items should be disclosed in the footnotes.

Assets subject to probate that were unknown at the time of the filing of the initial inventory must be included in receipts in subsequent accountings. Subsequent accounts must also include adjustments to the values reported in the initial inventory. In some cases attorneys prefer to file amended inventories to account for changes in the initial inventory, or amended inventories may be required by the court.

For Florida probate purposes and Federal and Florida estate tax purposes, assets are included in the estate at the fair market value at the date of death. If the alternate valuation date for Federal estate tax purposes is elected, this may be shown parenthetically or the carrying value may be adjusted. Any adjustments, of course, must be included in the interim or final accountings.

Florida law requires that the personal representative wind up the administration of an estate within twelve months following the date of death. If this is not feasible, as is usually the case except in the smallest estates, a petition must be filed in the court for approval of an extension of the period of administration. Although apparently not required, prudent personal representatives would include in their petition an accounting of the first year of administration with their reasons for requesting the extension.

Also, although not required by law, periodic accountings corresponding to the estate's taxable year as selected by the personal representative would greatly aid the preparation and possible subsequent audit of the estate's income tax returns. Periodic accountings may help to establish the reasonableness of administration expenses included therein.

Any basic chronological form of accounting can be utilized. So long as each transaction is recorded with sufficient explanation to satisfy the basic requirements of the different types of administration described above, a simple listing of receipts and disbursements in order of occurrence is sufficient. In most cases transactions involving principal should be separated from those involving income. Here it should be noted that accrued items of income at the date of a decedent's death, under Florida law, are assets includable in principal even though for income tax purposes they are "income in respect of a decedent." The beginning income balance is always zero.

Florida Bar Form P-5.0338, a facsimile of which is reproduced later in this chapter with the permission of The Florida Bar, is the accepted form for the final accounting for a Florida estate. This form is presented as a model by The Florida Bar in Appendix A, Rule 5.346 of the Florida Probate Rules of the Court.

The final accounting is a statement of receipts and disbursements including distributions, if any, from the date of the last previous interim accounting or, if none, from the filing of the initial inventory. In addition, the final accounting includes a listing of all assets remaining on hand which have not yet been distributed to the beneficiaries.

As noted previously, often a supplemental accounting is required to report final distribution and the payment of any expenses arising after the final accounting. This is submitted with the petition for discharge, or it may be made subsequent to discharge in order to include in the court record the final distribution and relinquishment of all of the assets of the estate by the personal representative.

The attorney should give the final approval of the form used for the accounting. In some jurisdictions forms are definitely prescribed and alterations are not allowed. In others, the court will allow any suitable, but complete form, which is acceptable to the attorney and beneficiaries.

The Fiduciary's Discharge and the Accountant's Responsibility

At the conclusion or settlement of each accounting proceeding, either by decree or on receipt and consent a provision is usually inserted to the effect that the fiduciary is discharged as to "all matters embraced within the account."

These words are of great significance, for it is only as to those matters included within the account that the fiduciary is discharged. If the accounting has been improperly prepared and material misstatements or omissions made, the fiduciary will not be discharged regardless of whether a Judicial decree has been entered, or a receipt and consent executed. Years later the specter of a job done poorly or negligently could arise to impose liability upon the fiduciary.

There are Judicial decisions in many jurisdictions which declare that a decree releasing a fiduciary does not "affect any adjudication in regard to assets not specified or embraced therein."

If an item or transaction is omitted in an accounting, or is not presented fairly, any decree or receipt and consent discharging the fiduciary will not be conclusive and will not discharge that fiduciary as to those matters not presented or not fairly presented.

The obligation of the accountant and the attorney in fulfilling and in fully presenting the story of administration presents a serious responsibility. Great care must be taken to insure full disclosure in discharging that responsibility.

SAMPLE INVENTORY FORM

IN THE CIRCUIT COURT FOR
POLK COUNTY, FLORIDA
PROBATE DIVISION

IN RE: ESTATE OF
A.D. SEEDENT

File Number 77CP-XXXX
Division

Deceased

INVENTORY

The undersigned personal representative of the estate of A. D. Seedent, deceased, files this inventory of all the property of the estate that has come into the hands, possession, control, or knowledge of this personal representative:

REAL ESTATE IN FLORIDA - HOMESTEAD:

Description:

House and lot at 123 Avenue X, S.W., Winter Haven, Florida legally described as Lot 9, Winter Subdivision according to plat recorded in Plat Book 99, page 87 of the Public Records of Polk County, Florida.

REAL ESTATE IN FLORIDA - NON-HOMESTEAD:

Description	Estimated Fair Market Value
Residential lot, Lake Rosalie, Polk County, Fla.	$2,500.00

Total Real Estate in Florida - Non-Homestead $ 2,500.00

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Form No. P-37
The Florida Bar 1978

SAMPLE INVENTORY FORM, CONT.

PERSONAL PROPERTY WHEREVER LOCATED:

Description	**Estimated Fair Market Value**
2,000 shares Steam Automobile Corporation common stock, Certificate #B-210157	$ 100,000.00
Dividend declared on Steam Automobile Corporation common stock but unpaid at July 1, 1987	2,000.00
500 Shares of XYZ, Inc. common stock, Certificate #X-2345	7,500.00
100 - $1,000, 8% First Mortgage Bond of Real Estate Mortgage Company, due January 2, 2009, Bond #501-600	100,500.00
Accrued interest on Real Estate Mortgage Company bonds	4,000.00
Cash Savings account #18-4309, Lemon Savings Bank, W.H., FL	10,000.00
Promissory note of John Debtor dated July 1, 1986, $100,000 principal, 7% due 18 mos, after date, interest payable at maturity	97,100.00
Accrued interest on John Debtor note	7,000.00
Cash checking account #040-304, County Bank and Trust Company, Winter Haven, FL	7,600.00
1976 Ford Automobile	5,000.00
Furniture and household effects	5,000.00

Total Personal Property - Wherever Located $ 345,700.00

TOTAL OF ALL ESTATE PROPERTY - EXCEPT HOMESTEAD REALTY $348,200.00

Copies of this inventory have been filed with the Department of Revenue, Tallahassee, Florida, and sent to the following interested persons:

Ann T. Seedent, 123 Avenue X, S.W., Winter Haven, Florida

Under penalties of perjury I declare that I have read the foregoing and the facts alleged are true, to the best of my knowledge and belief.

Executed this 2nd day of July, 19XX.

/s/ Andrew Seedent
Personal Representative

Attorney and Personal Representative:
LEAGLE AND EAGLE, P.O. BOX XXX, WINTER HAVEN, FL 33880 813/123-4455

Florida Fiduciary Accounting Standards

The Probate and Guardianship Rules Committee of the Florida Bar formed a subcommittee on Fiduciary Accounting Standards. The purpose of this subcommittee was to review the report of the National Fiduciary Accounting Standards Committee with the objective of adopting a modified version of the Principles and Standards developed by the National Committee for use in Florida. The new Fiduciary Accounting Principles and Standards were approved by the Florida Supreme Court in 1989.

Rule 5.345 and 5.346 of the Florida Probate Rules, including Appendix A and Appendix B now provide authoritative guidance for the preparation of an Estate Accounting in Florida. Although rarely are Trusts in Florida subject to court supervision, Rule 5.346 makes it clear that Trusts and Guardianships are required to follow the same Accounting Standards and Accounting Format as Estates.

Prior to the preparation of the Fiduciary Accounting, the practitioner should carefully review Rule 5.346 and Appendix B thereto. Footnote and supplemental schedules should be utilized quite freely to explain transaction to make them more understandable. Items like liabilities not normally appearing in the accounting should also be fully disclosed in the footnotes and supplemental schedules.

Following are copies of Rules 5.345 and 5.346 of the Florida Probate Rules and the Florida Rules of the Court.

CASH TOTAL $

TOTAL ASSETS (must agree with the Total for Item VI on Summary) $

NOTE: Schedule E should be a complete list of all assets on hand reflecting inventory values for each item, adjusted in accord with any appropriate entries on Schedule D.

Current market values for any assets that are known to be different from the inventory or carrying values as of the close of the accounting period should be shown in the column marked "Current Value." The total inventory or adjusted carrying value (not Current Value) must agree with the Total for Item VI on Summary.

APPENDIX B

UNIFORM FIDUCIARY ACCOUNTING PRINCIPLES

I. ACCOUNTS SHOULD BE STATED IN A MANNER THAT IS UNDERSTANDABLE BY PERSONS WHO ARE NOT FAMILIAR WITH PRACTICES AND TERMINOLOGY PECULIAR TO THE ADMINISTRATION OF ESTATES AND TRUSTS.

Commentary: In order for an account to fulfill its basic function of communication, it is essential that it be stated in a manner that recognizes that the interested parties are not usually familiar with fiduciary accounts. It is neither practical nor desirable to require that accounts be tailored to meet individual disabilities of particular parties but any account should be capable of being understood by a person of average intelligence, literate in English, and familiar with basic financial terms who has read it with care and attention.

Problems arising from terminology or style are usually a reflection of the fact that people who become versed in a particular form of practice tend to forget that terms which are familiar and useful to them may convey nothing to someone else or may even be affirmatively misleading. For example, the terms "debit" and "credit" are generally incomprehensible to people with no knowledge of bookkeeping and many people who are familiar with them in other contexts would assume that in the context of fiduciary accounting, the receipt of an item is a "credit" to the fund rather than a "debit" to the fiduciary.

While the need for concise presentation makes a certain amount of abbreviation both acceptable and necessary, uncommon abbreviation of matters essential to an understanding of the account should be avoided or explained.

No position is taken for or against the use of direct print-outs from machine accounting systems. The quality of the accounts produced by these systems varies widely in the extent to which they can be understood by persons who are not familiar with them. To endorse or object to a direct print-out because it is produced by machine from previously stored data would miss the essential point by focusing attention upon the manner of preparation rather than the product.

II. A FIDUCIARY ACCOUNT SHALL BEGIN WITH A CONCISE SUMMARY OF ITS PURPOSE AND CONTENT.

Commentary: Very few people can be expected to pay much attention to a document unless they have some understanding of its general purpose and its significance to them. Even with such an understanding, impressions derived from the first page or two will often determine whether the rest is read. The use that is made of these pages is therefore of particular significance.

The cover page should disclose the nature and function of the account. While a complete explanation of the significance of the account and the effect of its presentation upon the rights of the parties is obviously impractical for inclusion at this point, there should be at least a brief statement identifying the fiduciary and the subject matter, noting the importance of examining the account and giving an address where more information can be obtained.

It is assumed that the parties would also have enough information from other sources to understand the nature of their relationship to the fund (e.g., residuary legatee, life tenant, remainderman), the function of the account, and the obligation of the fiduciary to supply further relevant information upon request. It is also assumed that notice will be given of any significant procedural considerations such as limitation on the time within which objections must be presented. This would normally be provided by prior or contemporaneous memoranda, correspondence, or discussions.

A summary of the account shall also be presented at the outset. This summary, organized as a table of contents, shall indicate the order of the details presented in the account and shall show separate totals for the aggregate of the assets on hand at the beginning of the accounting period; transactions during the period; and the assets remaining on hand at the end of the period. Each entry in the summary shall be supported by a schedule in the account that provides the details on which the summary is based.

III. A FIDUCIARY ACCOUNT SHALL CONTAIN SUFFICIENT INFORMATION TO PUT THE INTERESTED PARTIES ON NOTICE AS TO ALL SIGNIFICANT TRANSACTIONS AFFECTING ADMINISTRATION DURING THE ACCOUNTING PERIOD.

Commentary: The presentation of the information account shall allow an interested party to follow the progress of the fiduciary's administration of assets during the accounting period.

An account is not complete if it does not itemize, or make reference to, assets on hand at the beginning of the accounting period.

Illustration:

3.1 The first account for a decedent's estate or a trust may detail the items received by the fiduciary and for which the fiduciary is responsible. It may refer to the total amount of an inventory filed elsewhere or assets described in a schedule attached to a trust agreement.

Instead of retyping the complete list of assets in the opening balance, the preparer may prefer to attach as an exhibit a copy of the inventory, closing balance from the last account, etc., as appropriate, or may refer to them if previously provided to the interested parties who will receive it.

Transactions shall be described in sufficient detail to give interested parties notice of their purpose and effect. It should be recognized that too much detail may be counterproductive to making the account understandable. In accounts covering long periods or dealing with extensive assets, it is usually desirable to consolidate information. For instance, where income from a number of securities is being accounted for over a long period of time, a statement of the total dividends received on each security with appropriate indication of changes in the number of shares held will be more readily understandable and easier to check for completeness than a chronological listing of all dividends received.

Although detail should generally be avoided for routine transactions, it will often be necessary to proper understanding of an event that is somewhat out of the ordinary.

Illustrations:

3.2 Extraordinary appraisal costs should be shown separately and explained.

3.3 Interest and penalties in connection with late filing of tax returns should be shown separately and explained.

3.4 An extraordinary allocation between principal and income such as apportionment of proceeds of property acquired on foreclosure should be separately stated and explained.

3.5 Computation of a formula marital deduction gift involving non-probate assets should be explained.

IV. A FIDUCIARY ACCOUNT SHALL CONTAIN TWO VALUES, THE ASSET ACQUISITION VALUE OR CARRYING VALUE, AND CURRENT VALUE.

Commentary: In order for transactions to be reported on a consistent basis, an appropriate carrying value for assets must be chosen and employed consistently.

The carrying value of an asset should reflect its value at the time it is acquired by the fiduciary (or a predecessor fiduciary). When such a value is not precisely determinable, the figure used should reflect a thoughtful decision by the fiduciary. For assets owned by a decedent, inventory values or estate tax values - generally reflective of date of death - would be appropriate. Assets received in kind by a trustee from a settlor of an inter vivos trust should be carried at their value at the time of receipt. For assets purchased during the administration of the fund, cost would normally be used. Use of Federal income tax basis for carrying value is acceptable when basis is reasonably representative of real values at the time of acquisition. Use of tax basis as a carrying value under other circumstances could be affirmatively misleading to beneficiaries and therefore is not appropriate.

In the Model Account, carrying value is referred to as "fiduciary acquisition value." The Model Account establishes the initial carrying value of assets as their value at date of death for inventoried assets, date of receipt for subsequent receipts, and cost for investments.

Carrying value would not normally be adjusted for depreciation.

Except for adjustments that occur normally under the accounting system in use, carrying values should generally be continued unchanged through successive accounts and assets should not be arbitrarily "written up" or "written down." In some circumstances, however, with proper disclosure and explanation, carrying value may be adjusted.

Illustrations:

4.1 Carrying values based on date of death may be adjusted to reflect changes on audit of estate or inheritance tax returns.

4.2 Where appropriate under applicable local law, a successor fiduciary may adjust the carrying value of assets to reflect values at the start of that fiduciary's administration.

4.3 Assets received in kind in satisfaction of a pecuniary legacy should be carried at the value used for purposes of distribution.

Though essential for accounting purposes, carrying values are commonly misunderstood by laypersons as being a representation of actual values. To avoid this, the account should include both current values and carrying values.

The value of assets at the beginning and ending of each accounting period is necessary information for the evaluation of investment performance. Therefore, the account should show, or make reference to, current values at the start of the period for all assets whose carrying values were established in a prior accounting period.

Illustrations:

4.4 The opening balance of the first account of a testamentary trustee will usually contain assets received in kind from the executor. Unless the carrying value was written up at the time of distribution (e.g., 4.2 or 4.3 supra) these assets will be carried at a value established during the executor's administration. The current value at the beginning of the accounting period should also be shown.

4.5 An executor's first account will normally carry assets at inventory (date of death) values or costs. No separate listing of current values at the beginning of the accounting period is necessary.

Current values should also be shown for all assets on hand at the close of the accounting period. The date on which current values are determined shall be stated and shall be the last day of the accounting period, or a date as close thereto as reasonably possible.

Current values should be shown in a column parallel to the column of carrying values. Both columns should be totalled.

In determining current values for assets for which there is no readily ascertainable current value, the source of the value stated in the account shall be explained. The fiduciary shall make a good faith effort to determine realistic values but should not be expected to incur expenses for appraisals or similar costs when there is no reason to expect that the resulting information will be of practical consequence to the administration of the estate or the protection of the interests of the parties.

Illustrations:

4.6 When an asset is held under circumstances that make it clear that it will not be sold (e.g., a residence held for use of a beneficiary) the fiduciary's estimate of value would be acceptable in lieu of an appraisal.

4.7 Considerations such as a pending tax audit or offer of the property for sale may indicate the advisability of not publishing the fiduciary's best estimate of value. In such circumstances, a statement that value was fixed by some method such as "per company books," "formula under buy-sell agreement," or "300% of assessed value" would be acceptable, but the fiduciary would be expected to provide further information to interested parties upon request.

V. GAINS AND LOSSES INCURRED DURING THE ACCOUNTING PERIOD SHALL BE SHOWN SEPARATELY IN THE SAME SCHEDULE.

Commentary: Each transaction involving the sale or other disposition of securities during the accounting period shall be shown as a separate item in one combined schedule of the account indicating the transaction, date, explanation, and any gain or loss.

Although gains and losses from the sale of securities can be shown separately in accounts, the preferred method of presentation is to present this information in a single schedule. Such a presentation provides the most meaningful description of investment performance and will tend to clarify relationships between gains and losses that are deliberately realized at the same time.

VI. THE ACCOUNT SHALL SHOW SIGNIFICANT TRANSACTIONS THAT DO NOT AFFECT THE AMOUNT FOR WHICH THE FIDUCIARY IS ACCOUNTABLE.

Commentary: Transactions such as the purchase of an investment, receipt of a stock split, or change of a corporate name do not alter the total fund for which a fiduciary is accountable but must be shown in order to permit analysis and an understanding of the administration of the fund. These can be best shown in information schedules.

One schedule should list all investments made during the accounting period. It should include those subsequently sold as well as those still on hand. Frequently the same money will be used for a series of investments. Therefore, the schedule should not be totalled in order to avoid giving an exaggerated idea of the size of the fund.

A second schedule (entitled "Changes in Investment Holdings" in the Model Account) should show all transactions affecting a particular security holding, such as purchase of additional shares, partial sales, stock splits, change of corporate name, divestment distributions, etc. This schedule, similar to a ledger account for each holding, will reconcile opening and closing entries for particular holdings, explain changes in carrying value, and avoid extensive searches through the account for information scattered among other schedules.

HISTORICAL NOTES

The opinion of the Florida Supreme Court of May 2, 2002, (824 So.2d 849), states that "(t)he amendments shall become effective immediately and shall be applicable to decedents dying after December 31, 2001." Rule 5.346 previously read:

"(a) Contents. A fiduciary accounting shall include all cash and property transactions since the date of the last accounting or, if none, from the commencement of administration.

"(b) Accounting Standards. The following standards are required for the accounting of all transactions occurring on or after January 1, 1994:

"(1) Accountings shall be stated in a manner that is understandable to persons who are not familiar with practices and terminology peculiar to the administration of estates and trusts.
"(2) The accounting shall begin with a concise summary of its purpose and content.
"(3) The accounting shall contain sufficient information to put interested persons on notice as to all significant transactions affecting administration during the accounting period.
"(4) The accounting shall contain 2 values, the asset acquisition value or carrying value, and estimated current value.
"(5) Gains and losses incurred during the accounting period shall be shown separately in the same schedule.

"(6) The accounting shall show significant transactions that do not affect the amount for which the fiduciary is accountable.

"(c) Accounting Format. A model format for an accounting is attached to this rule as Appendix A."

LIBRARY REFERENCES

1995 Main Volume

Executors and Administrators 458, 465.
Westlaw Topic No. 162.
C.J.S. Executors and Administrators § § 785 to 786.

RESEARCH REFERENCES

Encyclopedias

FL Jur. 2d Decedents' Property § 643, Particular Accounting Standards.

IN THE CIRCUIT COURT FOR ______HOME______ COUNTY, FLORIDA

IN RE: ESTATE OF ANN T. SEDENT PROBATE DIVISION

File Number ________91-001_______

Deceased Division ____________Y____________

___6 Month___ **ACCOUNTING OF PERSONAL REPRESENTATIVE(S)**

From: _______January 1___, 19_99_, Through: _______June 30___, 19_99

The purpose of this accounting is to acquaint all interested persons with the transactions that have occurred during the period covered by the accounting and the assets that remain on hand. It consists of a SUMMARY sheet and Schedule A showing all Receipts, Schedule B showing all Disbursements, Schedule C showing all Distributions, Schedule D showing all Capital Transactions and Adjustments (the effect of which are also reflected in other schedules, if appropriate), and Schedule E showing assets on hand at the end of the accounting period.

If this is a FINAL accounting, the amount and manner of determining compensation for attorneys for the personal representative(s) are disclosed on Schedule F, unless the disclosure is waiver pursuant to Section 733.6171(9) of the Florida Statutes by the parties bearing the impact of the compensation.

It is important that this accounting be carefully examined. Requests for additional information and any questions should be addressed to the personal representative(s) or the attorneys for the personal representative(s), the names and addresses of whom are set forth below.

Under penalties of perjury, the undersigned personal representative(s) declare(s) that I (we) have read and examined this accounting and that the facts and figures set forth in the Summary and the attached Schedules are true, to the best of my (our) knowledge and belief, and that it is a personal representative(s) of the estate of _ANN T. SEDENT____ deceased, from January 1, 19_99__ through ______June 30________, 19 99 .

Signed on __________August 1, 1999 .

Attorney for Personal Representative	Personal Representative
Leagle Beagle	Home Town Bank, by
Attorney	Trusty Banker, Trust Officer
	Name
Florida Bar No. 00001	
X X	Home Town Bank
X X	# 1 Last Street
X X	Hometown, FL 33601
(address)	(address)
Telephone: __________________________	[Print or Type Names Under All Signature Lines]

Bar Form No. P-5.0338
Florida Lawyers Support Services, Inc.; October 1, 1998

IN THE CIRCUIT COURT FOR ______HOME______ COUNTY, FLORIDA

IN RE: ESTATE OF ANN T. SEDENT PROBATE DIVISION

File Number ________91-001_______

Deceased Division ____________Y____________

___6 Month___ ACCOUNTING OF PERSONAL REPRESENTATIVE(S)

From: _______January 1___, 19_99_, Through: _______June 30___, 19_99

		Income	Principal	Totals
I.	Starting Balance Assets per Inventory or on Hand at Close of Last Accounting Period	$ -0-	$ 200,000	$ 200,000
II.	Receipts Schedule A:	$ 10,000	$ 5.000	$ 15,000
III.	Disbursements Schedule B:	$ (1,000)	$ (1,000)	$ (2,000)
IV.	Distributions Schedule C:	$ (9,000)	$ (-0-)	$ (9,000)
V.	Capital Transactions and Adjustments Schedule D: Net Gain or (Loss)	$ ______	$ 1,000	$ 1,000
VI.	Assets on Hand at Close of Accounting Period Schedule E: Cash and Other Assets	$ -0-	$ 205,000	$ 205,000

NOTE:

Refer to Florida Probate Code, FS 733.901(1) and to FPR 5.330(b); 5.345; 5.346; and 5.4000

Also see Accountings, Chapter 12 of Practice Under Florida Probate Code, 1994.

Entries on Summary are to be taken from totals on Schedules A, B, C, D, and E.

The Summary and Schedules A, B, C, D and E are to constitute the full accounting. Every transaction occurring during the accounting period should be reflected on the Schedules.

All purchases and sales, all adjustments to the inventory or carrying value of any asset, and any other changes in the assets (such as stock splits) should be described on Schedule D.

The last entry on the Summary is to reflect the total inventory or adjusted carrying value of all assets on hand at the close of the account period.

Bar Form No. P-5.0340

Florida Lawyers Support Services, Inc.; October 1, 1998

6 MONTH ACCOUNTING OF PERSONAL REPRESENTATIVE

ESTATE OF ANN T. SEDENT

From: JANUARY 1, 19 99 , Through: JUNE 30, 19 99

SCHEDULE A Receipts During Period

(Does not include receipts from sale or other dispositions of principal assets. Such transactions are shown on Schedule D.)

Date	Brief Description of Item	Income	Principal
01-01-99	Received Interest on $100,000 US Treasury Note 10% due 07-01-94	$ 5,000	
04-01-99	Received payment on Jones note	$ 3,000	$ 1,000
04-01-99	Received ABC Corp. Dividend	$ 2,000	
04-15-99	Received proceeds of Sun Bank checking account #12345. Discovered subsequent to filing of Inventory		$ 4,000
	Total Receipts	$ 10,000	$ 5,000

NOTE:

Schedule A should reflect only those items received during administration that are not shown on the inventory. Classification of items as income or principal is to be in accordance with the provisions of the Florida Principal and Income Act, Chapter 738, Florida Statutes.

Entries involving sale of assets or other adjustments to the carrying values of assets are to be shown on Schedule D and not on Schedule A.

Bar Form No. P-5.0341
Florida Lawyers Support Services, Inc.; October 1, 1998

6 MONTH ACCOUNTING OF PERSONAL REPRESENTATIVE

ESTATE OF ANN T. SEDENT

From: JANUARY 1, 19 99 , Through: JUNE 30, 19 99

SCHEDULE B Disbursements

(Does not include purchases of principal assets. Such transactions are shown on Schedule D.)

Date	Brief Description of Items	Income	Principal
01-01-99	John Smith payment of fees and expenses	$ 1,000	$ 1,000
	Total Disbursements	$ 1,000	$ 1,000

NOTE:

Schedule B should reflect only those items paid out during the accounting period. Classification of disbursements as income or principal is to be in accordance with the provisions of the Florida Principal and Income Act, Chapter 738, Florida Statues.

Entries involving the purchase of assets or adjustments to the carrying values of assets are to be shown on Schedule D, and not on Schedule B.

Bar Form No. P-5.0342
Florida Lawyers Support Services, Inc.; October 1, 1998

6 MONTH ACCOUNTING OF PERSONAL REPRESENTATIVE

ESTATE OF ANN T. SEDENT

From: JANUARY 1, 19 99, Through: JUNE 30, 19 99

SCHEDULE C Distributions

Date	Brief Description of Items	Income	Principal
06-30-99	Distribution of income to Mary Doe	$ 9,000	
	Total Distributions	$ 9,000	

NOTE:

Schedule C should reflect only those items or amounts distributed to beneficiaries during the accounting period. Assets distributed should be shown at their inventory or adjusted carrying values. Classification of distributions as income or principal is to be in accordance with the provisions of the Florida Principal and Income Act, Chapter 738, Florida Statutes.

Entries involving adjustments to the carrying values of assets are to be shown on Schedule D, and not on Schedule C.

Bar Form No. P-5.0343
Florida Lawyers Support Services, Inc.; October 1, 1998

_____6 MONTH______ ACCOUNTING OF PERSONAL REPRESENTATIVE

ESTATE OF ________ANN T. SEDENT____

From: ____JANUARY 1_____________, 19__99__, Through: ________JUNE 30______, 19_99___

SCHEDULE D Capital Transactions and Adjustments

(Does not include distributions. Such transactions are shown on Schedule C.)

Date	Brief Description of Transactions	Net Gain	Net Loss
01-15-99	Sale of 100 shares of XYZ Corp. Common Net Proceeds $10,000 Carrying Value $8,000	$ 2,000	$
01-19-99	Purchased 100 shares of ABC Corp. Common Cost $ 10,000	.00	
04-01-99	Adjusting Carrying Value of Jones note due to Principal Payment Received		$ 1,000
	TOTAL NET GAINS AND LOSSES	$ 2,000	$ 1,000
	NET GAIN OR (LOSS)	$ 1,000	$

NOTE:

Schedule D should reflect all purchases and sale of assets and any adjustments to the carrying values of any assets.

Entries reflecting sales should show the inventory or adjusted carrying values, the costs and expenses of the sale, and the net proceeds received. The net gain or loss should be extended in the appropriate column on the right side of Schedule D.

Entries reflecting purchases should reflect the purchase price, any expenses of purchase or other adjustments to the purchase price, and the total amount paid. Presumably no gain or loss would be shown for purchases.

Entries reflecting adjustments in capital assets should explain the change (such as a stock split) and the net gain or loss should be shown in the appropriate column on the right side of Schedule D.

The NET gain or loss should be entered in the Principal column of the Summary.

Bar Form No. P-5.0344

Florida Lawyers Support Services, Inc.; October 1, 1998

6 MONTH ACCOUNTING OF PERSONAL REPRESENTATIVE

ESTATE OF ANN T. SEDENT

From: JANUARY 1, 19 99 , Through: JUNE 30, 19 99

SCHEDULE E — Assets on Hand at Close of Accounting Period

(Indicate where held and legal description, certificate numbers or other identification.)

		Estimated Current Value	Carrying Value
ASSETS OTHER THAN CASH:			
$ 100,000	US Treasury Note 10% due 07-01-94	$ 100,500	$ 100,000
$ 100,000	Jones Note dated 01-02-85 due 12-31-98 Principal Balance	70,000	70,000
100 shares	ABC Corp. Common Stock	12,000	10,000
100 shares	MUO Corp. Common Stock	$ 9,000	$ 10,000
	Other Assets Total	$ 191,500	$ 190,000
CASH:			
	Ajax Ltd. Money Market Account # 919089	$ 15,000	
	CASH TOTAL		$ 15,000
	TOTAL ASSETS (entered as Item VI on Summary)		$ 205,000

NOTE:

Schedule E should be a complete list of all assets on hand reflecting inventory values for each item, adjusted in accord with any appropriate entries on Schedule D.

Current market values for any assets that are known to be different from the inventory or carrying values as of the close of the accounting period should be shown in the column marked.

"Current Value". The total inventory or adjusted carrying value (not Current Value) is to be shown as Item VI on Summary.

Bar Form No. P-5.0345

Florida Lawyers Support Services, Inc.; October 1, 1998

Technology Update

A. David Bergstein, CPA, CITP
Mark W. Ryburn, CITP, CPA

A. David Bergstein, CPA

Director, Strategic Relationships

CCH, a Wolters Kluwer business

David Bergstein, CPA, CITP, is the Director, Strategic Relationships for CCH, a Wolters Kluwer business. Mr. Bergstein focuses on providing CPAs and corporations with tools to generate new revenue streams through self-service applications on the Internet. Prior to CCH, David was Vice President of Sales and Marketing and part of a strategic team that opened up the U.S. marketplace to Acctrak21.

He is well known as a speaker and trainer in the field of utilizing new technology to improve the efficiency of operations in tax, accounting, practice management, and general operations of the accounting process.

Mr. Bergstein has been a practicing accountant since 1966. He joined the IRS and held various positions: Agent, Trainer, Speaker, and Technical Chief. He received his CPA, and later a Master's of Taxation from Long Island University's CW Post College.

He was an accounting professor at Suffolk County Community College in New York for over 15 years. This led to his fascination with efficiency through the use of computerized applications and his long career in Technology Solutions Sales. At present, he teaches adjunct at various colleges in the state of Florida.

He has educated and empowered the sales forces of two major software developers, Computer Language Research, Inc. – which later became part of the RIA Group – and Micro Vision Software.

He then became Vice President of Sales at Micro Vision Software and helped increase the client base and usage of the highly rated Internet portal, Accountantsworld.com.

Mr. Bergstein was a leader in the Internet revolution in the structure of three dot-com startups – INET, a division of Bell Canada, Accountantsworld.com and CPA2Biz, a strategic partner of the AICPA. David served as the first person hired by CPA2Biz in the position of Channel Solutions Manager.

In addition, he has served on the following committees: AICPA Top Tech 2001 Technology Team and the FICPA Florida Gulf Coast University Conference Committee. Presently he is a member of the FICPA Business Technology Section and the Financial Literacy Committee.

Presentation Will Be Available On-line After the Conference

Ethics: Protecting the Integrity of Florida CPAs (4980)

Cecil Patterson Jr., CPA, MBA

Cecil “Pat” Patterson, Jr., CPA, MBA

President

Patterson CPA Group, Inc.

Cecil "Pat" Patterson, Jr., CPA is a recognized author, speaker, and discussion leader for continuing education courses and state societies. Mr. Patterson is the President of Patterson & Associates, P. A. His degrees include a Bachelor of Science in Accounting (Honors) and a Master of Business Administration. Mr. Patterson has experience at the national CPA firm level, at the corporate level as a chief financial officer, and as an adjunct professor at the university level.

His firm is involved in the full spectrum of CPA activities including auditing, accounting services, federal and state corporate and individual income tax preparation, and consulting services to clients, businesses, and other professionals.

Memberships include:

- Member, American Institute of Certified Public Accountants (AICPA)
- Member, Florida Institute of Certified Public Accountants (FICPA)
- Member, FICPA Board of Governors
- Member, FICPA Common Interest Realty Associations Section
- Member, FICPA Accounting & Auditing Section
- Member, FICPA Accounting Shows Committee

Honors and Awards include:

- Outstanding Discussion Leader, FICPA
- Outstanding Author, FICPA
- Distinguished Discussion Leader, New York Society of CPAs

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Cherry, Bekaert & Holland, LLP
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Ray Monteleone, CPA
President, Paladin Global Partners
Fort Lauderdale
Member since 1979

"I'm renewing my FICPA membership because it keeps me professionally and socially connected to my fellow peers in the profession."

David White, CPA
Carr Riggs & Ingram LLC
Tallahassee
Member since 2010

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- Marriott
- Sherwin-Williams
- Black & Decker
- Northrop Grumman Corporation

For more information

Contact Carol Kearney at (800) 342-3197 (in Florida) or (850) 224-2727, Ext. 271 or e-mail kearneyc@ficpa.org.

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Attention: Business Editor

For Immediate Release

Contact: **(CONTACT NAME)**
(CONTACT'S TITLE)
(FIRM NAME)
Phone ____________________
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(WEB ADDRESS, IF APPLICABLE)

(MEMBER'S NAME), CPA, Completes course on (SUBJECT AREA)

(MEMBER'S CITY), (DATE), 2011 -- ________(MEMBER'S FULL NAME____________, CPA, of _____(FIRM NAME)______ in ________(CITY)_______________________, completed a course, "________(COURSE TITLE)______," on ____(DATE)_____. This continuing-education course covered the topic of_____________________(SUBJECT AREA)______________________.

___(MEMBER'S LAST NAME)_________ is a ______(POSITION TITLE)___________ practicing in the area of (MEMBER'S AREA OF PRACTICE – TAS, AUDIT, ETC.) with the firm.

In addition to (MEMBER'S LAST NAME)'S professional responsibilities, HE/SHE is also active in (LIST ANY OTHER PROFESSIONAL/CIVIC/ VOLUNTEER/COMMUNITY ACTIVIES – OPTIONAL). HE/SHE is an active member of the Florida Institute of Certified Public Accountants, the professional association representing the interests of more then 18,400 CPAs with over 4,400 offices throughout Florida.

(MEMBER NAME) can be reached by telephone at _____(PHONE NUMBER)____, or via e-mail at _______(E-MAIL ADDRESS)_______.

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