DEAN, DORTON & FORD
CPAs | Consultants | Financial Advisors
NEWSLETTER FALL 2007

Understanding Compilation, Review, and Audit Reports

Users of financial statements accompanied by a CPA firm's report should understand differences in the levels of service described in the report. The three primary types of reports are **compilations, reviews**, and **audits**. This article briefly describes the levels of service and their differences.

Compilations. As the compilation report indicates, a CPA is taking financial information provided by the client and putting it in the format of financial statements. The CPA provides no assurance on the quality or validity of the information provided by the client. The report states: "A compilation is limited to presenting in the form of financial statements information that is the representation of management. 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."

Reviews. A review provides negative assurance. The basic report reads: "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, we do not express such an opinion. Based on our review, 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." If the CPA is aware of material departures from GAAP, the report would describe them.

Audits. An audit is positive assurance that the financials presented are, in all material respects, in accordance with GAAP. The audit report states: "We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ... as of ... and the results of its operations and its cash flows...in conformity with accounting principles generally accepted in the United States of America." The CPA would identify material GAAP departures, if any.

We often work with our clients to identify the most cost-effective service to meet the financial reporting needs of their owners, lenders, and other users of their financial statements. Please call us with any questions about these services.

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INSIDE

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More on Retirement Savings

In our last newsletter we discussed some information provided in a research paper of Alliance Bernstein's Wealth Management Group titled "Retirement: Plan Early and Often." In that article we primarily discussed the issue of how much is needed (to provide a 90% confidence level that it will be sufficient through mortality) at certain retirement ages to support specified spending levels.

Alliance Bernstein's paper points out certain retirement plan variables that are largely unpredictable and uncontrollable. These include:

- longevity
- inflation
- health-related financial needs
- tax rates
- investment returns

Others may be controllable, at least to a large degree:

- asset allocation
- spending level
- retirement date

As the paper suggests, customized and frequent monitoring of one's plans is important so changes, if called for, can be made in the controllable variables.

The study also analyzes the post-retirement decision of which to use first: tax-deferred assets (retirement plan accounts) or taxable accounts (after tax funds). The study concludes that the benefits of continuing tax deferral provided by tax-deferred accounts usually makes initial use of taxable accounts advantageous. An exception may exist when tax-deferred accounts make up such a large portion of a married person's estate that they must be used to fund a Credit Shelter Trust (CST). In this case some wasting of the credit shelter amount results as income taxes are paid when the retirement plans make distributions to the CST.

Please contact us if you'd like to discuss these concepts.

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Nonqualified Deferred Compensation Plans Update

Nonqualified deferred compensation plan documents were required to conform by the end of this year to the strict requirements legislatively enacted in 2004 as Section 409A of the Internal Revenue Code. On September 10, the IRS announced that this deadline has been postponed until December 31, 2008.

Operational conformity to Section 409A's requirements continues to be important. The September 10 announcement promises relief for certain as yet unidentified operational violations; the IRS anticipates issuing guidance permitting taxpayers to voluntarily correct certain violations.

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Multiple Retirement Accounts and Minimum Required Distributions

A question some of our clients have asked is along these lines: *If I have multiple IRA and 401(k) accounts, do I have to take my required minimum distribution (RMD) from each account, or as long as I take the total RMD, can I take distributions from one or more, but not all accounts?* The answer is that IRAs may be aggregated for purposes of complying with the RMD rules, but each 401(k) account must comply separately.

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Health Care Accounts—Comparison

As the cost of medical care soars, so too do the options available to pay for qualifying medical expenses with pre-tax dollars. Following are key features of three types of employer-sponsored health spending accounts:

	Flexible Spending Arrangement	Health Reimbursement Arrangement	Health Savings Account
Eligibility	All employees but not self-employed.	All employees but not self-employed.	Individuals under age 65 who have a high-deductible health plan and are not enrolled in a flexible spending plan or covered by a spouse's plan.
Qualified medical expenses	Unreimbursed medical care expenses as defined by IRC Section 213, but not premiums for health insurance coverage and long-term care expenses.	Unreimbursed medical care expenses as defined by IRC Section 213.	HSA distributions are tax-free if they are used to pay for qualified medical expenses, including prescription drugs, qualified long-term care services and long-term care insurance, COBRA coverage, Medicare expenses (but not Medigap), and retiree health expenses for individuals age 65 and older.
Nonqualified medical expenses	Expenses not covered under IRC Section 213. Health insurance premiums under a continuation-of-coverage arrangement (such as COBRA). Health insurance premiums when receiving unemployment compensation. Qualified long-term care insurance premiums.	Expenses not covered under IRC Section 213.	Distributions made for any other purpose.
Must be covered by a health insurance plan	No.	No.	Yes.
Contributor	Employee, employer, or both.	Employer.	Tax-advantaged contributions can be made in three ways: (1) the individual and family members can make tax-deductible contributions even if the individual does not itemize deductions; (2) the individual's employer can make contributions that are not taxed to the employee; and (3) employers with cafeteria plans can allow employees to contribute untaxed salary through a salary reduction plan.
Contribution limits	No statutory limit; limits may be set by employer.	No statutory limit; limits may be set by employer.	The maximum annual contribution is \$2,850 for self-only policies and \$5,650 for family policies (indexed annually). Individuals age 55 to 65 may make additional "catch-up" contributions of up to \$800 in 2007, increasing to \$1,000 annually in 2009 and thereafter. A married couple can make two catch-up contributions as long as both spouses are at least 55.
Funds carried over to next year	No, except plans may offer a 2-1/2-month grace period.	Yes, if allowed by the plan.	Yes.
Portability	Account cannot be maintained if the employee is no longer working for the employer, except under COBRA continuation-of-benefit provisions.	At employer discretion.	Amounts contributed to an HSA belong to individuals and are completely portable. Money not spent stays in the account and gains interest tax-free, like an IRA. Unused amounts remain available for later years.

Source: Division of Compensation Data Analysis and Planning, Bureau of Labor Statistics, Department of the Treasury, Office of Public Affairs

People News

New People at Dean, Dorton & Ford

Anthony Allen, who has an accounting degree from the University of South Florida, has joined us as a client service professional. He has 1.5 years of public accounting experience and another 7 years of business experience.

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

Lisa Haddix, **Gargi Parikh**, and **Sheri Bradshaw** have joined our Client Accounting and Payroll Services group. Lisa has more than 12 years of work experience and holds a degree from Kentucky Business College. Gargi has more than 18 years of work experience and received her degree from Gujarat University in India. Sheri, a CPA, has an accounting degree from the University of Kentucky and has 20 years of work experience.

Jessica Hanson, a Transylvania University graduate with a B.A. in Accounting, has joined the firm as an Office Assistant.

Jim Moavero is a CPA and will be working with us in the tax services area of our practice. Jim has an undergraduate degree from St. Bonaventure University and a Master's degree from the University of Akron. He has 18 years of public accounting experience.

Megan Pope, a DePaul University graduate and CPA, has joined us after relocating from St. Louis. She has two years of public accounting experience.

Daniel Schoenbaechler, a CPA with 13 years of work experience, has joined our consulting practice working principally on Medicare and Medicaid cost reporting for healthcare organizations. Dan earned his undergraduate degree in accounting at Bellarmine University and his MBA at Indiana University Southeast.

Jerry Studdard has joined our assurance services group after relocating from Atlanta. He is a graduate of Clark Atlanta University and has 3 years of public accounting and private industry experience.

Jack Branum and **Jessica Haurylko** are working in part-time positions with the firm. Jack holds Philosophy and Economics degrees from Transylvania University and will be an Office Assistant. Jessica, a University of Kentucky grad, is a consulting intern with the firm.

Professional and Community Activities and Accomplishments

Pam Crouch has been elected Treasurer of Lexington Traditional Magnet School PTSA and Secretary of Veterans Park Elementary PTA.

Kathy Jaeger is serving as chairperson of the Steering Committee of the Commerce Lexington Leadership Lexington Youth Program for 2007-08, as well as being Treasurer of the Lexington Employee Benefits Council for 2007-08.

Elizabeth Woodward is serving as Treasurer of Eastern Little League Baseball.

Rachel Brown is serving on the Board of Directors and as Treasurer for the Lexington Dream Factory.

Jason Miller has been selected as a member of this year's Leadership Lexington class.

2007 Winner Best Places to Work In Kentucky

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