Burt & Company CPAs, LLC

Accounting, Tax, & Financial Advisors

Introduction

Welcome to the first edition of the Burt & Company CPAs, LLC Audit & Accounting (A&A) Update. In this document, we will pass on information we feel is important for you and your business, and provide resources for you to find additional information.

We look forward to receiving feedback from you, our clients and community partners, on A&A topics you would find interesting and relevant to your business. For tax-related issues, please read our "Tax Updates" publication from our tax department.

In addition, we encourage you to visit our website regularly for up-to-date tax information, hundreds of financial calculators, and other important tools and information for your business. You can also register on our client portal "File Share" to exchange documents with us in a secure environment.

Thank you for your business and your support!

Ronald Schranz, CPA
Audit & Accounting Partner

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Payments Fraud Rampant in Majority of U.S. Organizations, Says Association for Financial Professionals

Deteriorating financial conditions in 2008, coupled with the emergence of new payment types and the growth of electronic payments, opened up new opportunities for payment fraud, according to the *2009 AFP Payments and Fraud Control Survey,* which was recently published by the Association for Financial Professionals (AFP). The assault on payments is widespread, says the AFP: over 70% of organizations surveyed experienced attempted or actual payments fraud in 2008.

Large organizations were more likely to have experienced payments fraud than were smaller ones, the survey found. 80% of organizations with annual revenues over $1 billion were victims of payments fraud in 2008, compared with 63% of organizations with annual revenues under $1 billion.

30% of survey respondents report that incidents of fraud increased in 2008 compared to 2007. Further, nearly 40% of organizations experienced increased fraud activity during the second half of 2008 as economic conditions worsened in the United States.

"The fraud attacks on payment activities have occurred at a greater frequency than we've seen in the past," said Nasreen Quibria, Director of Payments for the AFP. "Now, the vulnerability of all payment methods—especially checks—demands a range of fraud-fighting tools and the vigilance of financial and treasury professionals responsible for protecting organizations' assets."

Despite the fact that the use of checks for payments is declining, 9 out of 10 organizations (91%) that experienced attempted or actual payments fraud in 2008 were victims of check fraud. "Organizations that incurred a financial loss resulting from check fraud identified a number of factors that led to the loss," says the survey report. "23% of respondents indicate that the event involved internal fraud perpetrated by an employee of the organization. 21% of organizations did not use payee positive pay while 20% did not use positive pay or reverse positive pay. 20% of organizations did not reconcile their accounts on a timely basis while another 21% did not return checks on a timely basis."

If you're unsure about your fraud controls, please call us at 505-265-6604 and talk to Ron Schranz or Cheryl Silcox about how we can help.

Improving the Effectiveness of Nonprofit Boards—Some Steps to Take

Year after year, significant failures in large publicly traded businesses can be clearly traced, at least partially if not completely, to an ineffective board of directors.

Unfortunately, ineffective boards can plague nonprofits too, so it's important to take countermeasures.

One crucial step is to build good communication between board and staff, and a key way to achieve this is to institute an effective committee structure.

Successful nonprofits commonly have vibrant committees involved in key areas such as planning, human resources, finance, and fundraising. Board members with actual training and experience are assigned to appropriate committees. In addition, senior staff members also attend the meetings of these committees.

Another crucial item is to get a good system into place to recruit the right board members. This involves giving careful forethought to exactly what role a prospective member would play on the board. This in turn rests on analysis of the skills and talents each member may bring, such as a flair for fundraising, an understanding of pension law, or membership on the boards of other key organizations in the field.

A third key item is to orient and train board members. This should include as much as a full day of initial orientation and an annual day-long "retreat" for information-sharing and strategizing.

For further discussion about building an effective board of directors, please contact us. We have extensive experience on various boards of directors in the Albuquerque community and would be happy to help.

FINANCIAL ACCOUNTING STANDARDS BOARD

FASB Codification Q&A

What is the GAAP codification? The formal name is the FASB Accounting Standards Codification, or codification for short. The codification organizes thousands of U.S. GAAP pronouncements under approximately 90 accounting topic areas.

When was the codification released? The FASB released the codification on Jan. 15, 2008, for verification by users of U.S. GAAP. The verification period will be one year, during which users may review the codification and submit their feedback electronically.

Where can the codification be found? The Codification Research System is housed on the FASB Web site. Users who wish to review the codification free of charge may register at **http://asc.fasb.org**.

Why codify? U.S. GAAP consists of thousands of individual pronouncements issued by standard setters, including the FASB, the AICPA's Accounting Standards Executive Committee, the Emerging Issues Task Force and the SEC. Many users of GAAP believe it is confusing.

What does FASB hope to achieve through codification? The FASB believes the codification will:
- reduce the amount of time and effort required to solve an accounting research issue;
- improve usability of the literature thereby mitigating the risk of noncompliance with standards;
- provide real-time updates as new standards are released;
- assist the FASB with the research and convergence efforts required during the standard-setting process; and a
- become the authoritative source of literature for the completed XBRL taxonomy.

Is the codification an attempt to change U.S. GAAP? The codification does not change U.S. GAAP. The goal of the codification is to provide a more user friendly, topically organized set of standards that decreases the research time necessary to address accounting issues.

What is included in the codification? The codification includes all the following standards:

FASB
- Statements (FAS)
- Interpretations (FIN)
- Technical Bulletins (FTB)
- Staff Positions (FSP)
- Staff Implementation Guides (Q&A)

Emerging Issues Task Force
- Abstracts
- Topic D

Derivative Implementation Group (DIG) Issues

Accounting Principles Board (APB) Opinions

Accounting Research Bulletins (ARB)

Accounting Interpretations (AIN)

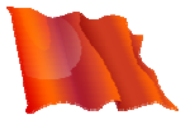
AICPA
- Statements of Position (SOP)
- Audit and Accounting Guides (AAG) – only incremental accounting guidance
- Practice Bulletins (PB)
- Technical Inquiry Service (TIS) – only for software revenue recognition.

Also included will be relevant SEC guidance that will follow the same topical structure in separate sections of the codification.

Are governmental standards included? No.

Whom does the codification affect? The codification affects preparers, auditors, tax practitioners, financial statement users, academics and students preparing to sit for the Uniform CPA Exam.

What is the AICPA's position on the codification? As a standard setter whose pronouncements are represented, the AICPA supports the codification because it organizes and simplifies GAAP. The AICPA is encouraging all its members to review the codification and submit their comments to the FASB.



Are You Complying with the Red Flags Rule?

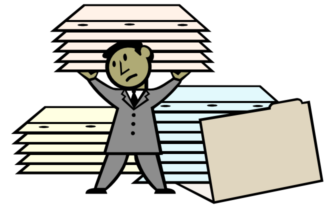
The Federal Trade Commission has issued a new guide regarding the Red Flags Rule which requires many businesses and organizations to implement a written Identity Theft Prevention Program designed to detect the warning signs – or "red flags" – of identity theft in their day-to-day operations. Are you covered by the Red Flags Rule? To find out, read *Fighting Fraud with the Red Flags Rule: A How-To Guide for Business* which can be obtained from the FTC's website at: http://www.ftc.gov/bcp/edu/microsites/redflagsrule/index.shtml.

This guide will help to:
- Find out if the rule applies to your business or organization;
- Get practical tips on spotting the red flags of identity theft, taking steps to prevent the crime, and mitigating the damage it inflicts; and
- Learn how to put in place your written Identity Theft Prevention Program.

By identifying red flags in advance, you'll be better equipped to spot suspicious patterns when they arise and take steps to prevent a red flag from escalating into a costly episode of identity theft. Take advantage of other resources on this site to educate your employees and colleagues about complying with the Red Flags Rule.

Organized Financial Records Pay Off

If looking for an important document sends you searching through shoeboxes and overstuffed drawers, your financial records are in need of a makeover. Time spent gaining control of your financial records will pay off in the long run.



Good recordkeeping can —
- Make tax preparation easier and remind you of deductions you might otherwise overlook. Back-up documentation may save you taxes, interest charges, and penalties if the IRS ever questions your return.
- Give you a better handle on your overall financial position and help your CPA better understand your or your company's financial position by having financial reports available and organized, having supporting documentation such as accounts receivable agings, banking agreements, etc. available for review.

Start a Filing System

The best way to ensure your financial records are in order is simple: start a filing system. Begin by finding a convenient place for "current" files, those you will be adding to regularly. A filing cabinet works best for most people, but a plastic box or accordion files will do. Next, designate an area in your home for old or "dead" files — those you need to keep but aren't likely to access on a regular basis. The third component of a well organized recordkeeping system is a safe deposit box. Use it to store any documents that are costly or difficult to replace.

Securing Your Business Financing

Choosing the Right Source of Funding

Whether you're starting a business or expanding your present company, adequate capital is essential. Luckily, in the current economic environment, many sources of funding may be more favorable than turning to the traditional bank. In fact, the right sources of funding could make the difference between success and failure for your company.

Key Sources of Business Funding

Banks/Credit Unions — Local financial institutions are a major source of small business financing. If you need a short-term loan, a single-purpose loan for machinery or equipment, or a seasonal line of credit, your local bank may prove to be the best source. Of course the current economic environment has changed banking relationships, so leave yourself plenty of lead time.

Customer/Supplier Financing — Customers can often be sympathetic about your need to maintain good cash flow. In some cases they may be willing to pay up front for part or all of the services or products you supply. Or, they may respond to discounts for early cash payments that will free up cash for operating your business.

Factoring or Accounts Receivable Financing — A company with cashflow problems can turn uncollected invoices into immediate funding by assigning its accounts receivable to a factor, or agent. Factoring usually involves high interest or a deep discount for which the factor assumes all risks involved with collecting payment.

Working Capital Financing — This type of funding works like a line of credit that's tied to your company's receivables and/or the dollar value of your inventory. For example, you might request that your lender provide a 70% advance on qualified receivables or advance 50% of the value of your inventory.

Economic Development Programs — Many federal, state and local governments offer small businesses loan and incentive programs. The funding is typically administered through banks, business development districts and the Small Business Administration. Often, special consideration is given to ethnic groups, women, veterans and companies located in designated urban and rural locations. Funding through these special programs often requires a great deal of documentation, and may also require tangible assets, primarily real estate or equipment, as collateral.

Private Investors — "Angels" or venture capital investors typically take an equity stake in your company (usually preferred equity security) in exchange for funding. While this is a loan you won't have to repay, it's certainly not a free ride. You'll have to give up a portion of your equity, and some investors may insist on providing business direction as well as financing.

Stock Sale — Selling stock in your company generally requires compliance with federal and state securities laws and calls for the assistance of financial and legal professionals. That makes this type of funding an expensive undertaking. Initial Public Offerings are sales of stock that take private companies public. A Private Placement is a similar but less complex transaction that transfers stock to pre-selected equity investors. In both cases, stockholders typically exercise control over your company in direct proportion to the number of shares they own.

It Pays to be Prepared

The critical element in receiving approval for funding is whether or not your company qualifies as a "good risk." Most lenders consider cash flow more important than profitability. When you apply for funding, you must be fully prepared to have your business undergo intense scrutiny. The groundwork you do in advance should uncover any issues that you'll need to address during the funding process. You'll dramatically increase your chances of securing funding if you have a well-prepared business plan that supports your need for financing. You should also be able to confidently answer the following questions:

• *Why do I need funding? How will the capital help my business?* Most lenders require that capital be requested for a specific purpose.
• *How much do I need to borrow? How urgent is the need — and is it short- or long-term?* You can obtain the best terms when you anticipate a shortfall or growth opportunity instead of looking for money while you're under pressure.
• *Do I have a realistic plan to generate funds to repay the debt?* To approve a financing request, the funding source must have comfort that it will be repaid.
• *How strong is my management team?* This is perhaps the most critical element that money sources consider in approving funding. Good preparation will benefit your business, simplify the funding process and enhance your ability to successfully secure funding.

How a CPA Can Help

A CPA often has established relationships with financial sources and may know which ones would be most receptive to working with your company. In addition, a CPA can help you prepare a business plan and effectively present the information. Perhaps most important, because CPAs know how a company can be profitably managed and positioned for growth, they can help you evaluate your funding options, including multiple-source financing. Working closely with your CPA could help you secure the type of financing that will contribute to your company's future growth.

Assemble Your Business Information and Financial Data

Whether you decide to go with debt or equity financing, there is a universal factor involved in being approved. Your business must be perceived as a good risk. It is extremely important that you be fully prepared for intense scrutiny of every aspect of your company. In addition to a solid business plan, you should be prepared to provide pertinent business information and financial data including:

• Summary of the average amount of funds on deposit
• A list of investments, fixed assets and other assets, with detailed or supplementary schedules, giving market or appraisal value where appropriate
• A list of major vendors, customers and competitors
• The aging of receivables, with details regarding any concentration among a few customers
• The details of notes receivable and the risks of collection
• Inventories with details on price stability, aging and turnover
• A statement of your liabilities and reserves with appropriate explanations
• A comparison of your operating and balance sheet ratios to industry averages
• A cash-flow analysis of your actual past experience and projections of future income, expenses and cash flow
• Relevant financial data including sales forecasts, profit and loss statements, cash-flow projections and balance sheets
• Miscellaneous documents that flesh out other important details of your operation, including copies of contracts, franchise agreements and tax returns.

Fundamentals of an Effective Business Plan

A well-prepared business plan that defines your business and identifies your goals is an essential part of any request for financing. Additionally, a plan that details your financial history and future marketing plans can help you make good business decisions — and help potential funders make a decision in your favor. Here's what the plan should include:

1. Executive Summary
2. Description of Company
3. Description of Product or Service
4. Market Analysis
5. Ownership Structure
6. Management Team (including membership in any professional or trade organizations)
7. Financial Advisers (including CPA, attorney, etc.)
8. Description of Business Model
9. Summary of Business Operations
10. Financial Statements

Do the Right Thing

• Always be totally honest about your financial situation.
• Don't try to hide or diminish past credit problems or current operating difficulties.
• Be prepared to discuss business problems and steps to prevent them in the future.
• Set reasonable projections with detailed plans for achieving goals. This will illustrate the level of thought you've given to making your business successful.
• Be forthcoming. Candor will go a long way in demonstrating your resolve to succeed and the profit potential of your business.

Help for Small Businesses

*The AICPA has joined the U.S. Small Business Administration (SBA), an independent agency of the federal government dedicated to helping Americans start, build and grow their small businesses. Be sure to ask your CPA about the SBA, and visit **www.sba.gov** to access tools, resources and services including information on SBA loan programs.*

As you make your way through the funding process, keep in mind that your CPA, as your professional business adviser, can be an important ally in evaluating all the available options and helping you choose the one that best meets your needs.

For more information on any of the articles you've read here, contact us at 505-265-6604 or visit our website at www.burtcpa.com.

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