GUMBINER SAVETT INC.
ASSURANCE • TAX • BUSINESS ADVICE

October 2016 Client Newsletter

SOLUTIONS + PERSPECTIVE

GS Blog Round-Up

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"Professional Skepticism": A necessary exercise for your auditor

CPA stands for Certified *Public* Accountant. Although the company pays their fees, public company auditors work for the audit committee and the public in general, not management. This "public watchdog" role demands that auditors exercise professional skepticism throughout the audit process.

This role helps explain why auditors want concrete, third-party evidence to verify management's assertions. Here's a closer look at how professional skepticism factors into an audit.

Professional skepticism

All aspects of an audit benefit from professional skepticism. Specifically, the Public Company Accounting Oversight Board (PCAOB) expects auditors to:

- Identify and assess risks of material misstatement,
- Test controls and substantive procedures, and
- Evaluate audit results to form an audit opinion.

These expectations also apply to auditors of *private* companies. The AICPA's Code of Professional Conduct requires CPAs to be independent from their attestation clients. In other words, auditors must 1) act with integrity, and 2) exercise objectivity and professional skepticism.

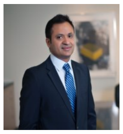
Areas of interest

Professional skepticism is particularly important in examining areas that involve significant management judgment or transactions outside the normal course of business. Examples of such areas include nonrecurring reserves, financing transactions and related-party transactions. In addition, auditors consider the impact of uncorrected misstatements, evaluate the potential for management bias and assess whether financial statements are presented fairly.

Professional skepticism also plays a critical role in an auditor's consideration of fraud. Where the risk of fraud is high, an auditor might modify planned audit procedures to gather more reliable evidence in support of financial statement assertions. For example, an auditor might obtain confirmation from an independent third party, engage a specialist or examine documentation from independent sources to corroborate management representations.

A win-win situation

The purpose of an audit is to provide investors, lenders and other stakeholders with an opinion that management-prepared financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Without professional skepticism, the value of an audit is impaired. So it's in your best interests to understand what professional skepticism means and how to apply it throughout the audit process.



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Is your company ready for ASU 2014-09?

A landmark financial reporting update is replacing about 180 pieces of industry-specific revenue accounting guidance with a single, principles-based approach. In May 2014, the Financial Accounting Standards Board (FASB) unveiled Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. In 2015, the FASB postponed the effective date for the new revenue guidance by one year. Here's why companies that report comparative results can't delay any longer — and how to start the implementation process.

No time to waste

The updated revenue recognition guidance takes effect for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The update permits early adoption, but no earlier than the original effective date of December 15, 2016. Private companies have an extra year to implement the changes.

That may seem like a long time away, but many companies voluntarily provide comparative results. For example, the presentation of two prior years of results isn't required under GAAP, but it helps investors, lenders and other stakeholders assess long-term performance.

Calendar-year public companies that provide two prior years of results will need to collect revenue data under one of the retrospective transition methods for 2016 and 2017 in order to issue comparative statements by 2018. Private companies would have to follow suit a year later.

By Gumbiner Savett Editorial

A new mindset

The primary change under the updated guidance is the requirement to identify separate performance obligations — promises to transfer goods or services — in a contract. A company should treat each promised good or service (or bundle of goods or services) as a performance obligation to the extent it's "distinct," meaning:

1. The customer can benefit from it (either on its own or together with other readily available resources), and
2. It's separately identifiable in the contract.

Then, a company must determine whether these obligations are satisfied over time or at a point in time, and recognize revenue accordingly. The shift to a principles-based approach will require greater judgment on the part of management.

Need assistance complying with the new guidance? Professional auditors can help assess how and when you should report revenue, explain the disclosure requirements, and evaluate the impact on customer relationships and other aspects of your business, including tax planning strategies and debt covenants.

Don't gamble with your taxes

Have you been lucky at the track, or won a nice raffle prize? Did your numbers hit in the lottery? Or maybe you had a really good night at bingo or the casinos in Las Vegas this summer? While congratulations may be in order, we have a bit of bad news. Whether you are a professional gambler or made a casual wager, gambling winnings are taxable and must be reported on your tax return.

Winnings Reported to the IRS

Gaming establishments are required to report certain gambling winnings to the IRS, by filing Form W-2G, if your winnings reach the following levels:

- $1,200 or more from a bingo game or a slot machine.
- $1,500 or more from a keno game.
- $5,000 or more from a poker tournament.
- $600 or more of winnings from other types of gambling.

The W-2G will reflect your winnings and any taxes withheld. When your return is processed, IRS computers will match the income reported on your tax return against that reported by third parties. If there are discrepancies, you will generally be contacted by the IRS.

Winnings from gambling are taxable whether or not you receive a Form W-2G, regardless of the amount of the winnings.

By the GS Tax Department

Casual Winnings

Casual gamblers will report winnings on Form 1040, line 21 (other income). The winnings are ordinary income, taxable at your regular rate. Losses related to casual winnings are tax deductible as long as you itemize. You are not allowed to subtract your total losses from your total winnings and report the net. Instead, casual gambling losses are claimed as an "other miscellaneous deduction" on Schedule A, Itemized Deductions. You may not deduct more than the amount of your winnings. A minor consolation: Gambling losses are not subject to the 2%-of-AGI rule, so the only limitation is the amount of your winnings.

Professional Gamblers

If you are a professional gambler, then you are treated as having a business. The income and related losses are reported on your Form 1040 through Schedule C, Profit or Loss from Business. As with casual gamers, losses cannot exceed winnings. An additional benefit for professional gamblers is that expenses such as travel can be deducted. But be aware that the net winnings from the Schedule C will be subject to self-employment tax ,in addition to your normal tax rate.

Of course, both professional and casual gamblers will need to be able to support losses with items such as receipts, tickets, statements or other records that show both winnings and losses.

Keep Current Internal Controls for your Not-for-Profit

Your nonprofit's internal controls are strong only if they're current. So perform a risk assessment every time you experience major organizational changes, such as significant expansion, or when factors such as the loss of a large grant put new stresses on your not-for-profit. Two functions deserve particular scrutiny:

1. Cash inflows

Receiving funds is an important job that shouldn't be overlooked or under supervised. No one person should ever have sole responsibility for tasks such as opening the mail, recording incoming payments and making bank deposits. Your organizational risk only increases if that staff member also performs financial or accounting functions such as making journal entries, writing checks or performing bank reconciliations.

If your nonprofit has limited accounting staff, consider providing the necessary checks and balances with outside help. This could be from an employee in another department, a trusted board member or an external accounting service.

2. Financial outflows

You also need to maintain policies for financial outlays. This includes requiring dual signatures on checks over a certain amount. In fact, consider lowering your current threshold of expenses or payments that trigger review or a co-signature and performing more random check audits.

Many fraud perpetrators invent vendors and create fake invoices for work that's never performed. Or they may divert payments to legitimate vendors to their personal accounts. Review and approval of journal entries and adjustments is a critical control for all organizations.

Getting outside help

If you're tempted to eliminate outside bookkeeping, accounting or audit help and bring these tasks in-house to save money, consider the bigger picture. In many cases, outsourcing provides you with expertise you might lack and monitoring you need.

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Micro-donations could mean more dollars for your non-profit

There are few better feelings when you work at a non-profit then when your organization receives a large gift. But small donations can be just as critical to your organization's well-being. The latest trend in giving is the micro-donation- through days of giving (such as #GivingTuesday) or crowd-funded online giving sites. If your non-profit isn't already soliciting these types of gifts, it's time to start.

Don't think twice

Micro-donations are gifts small enough that a donor doesn't have to think twice about making them. Many people, citing budget constraints, are reluctant to make a one-time donation of, say, $200. Yet they may not think twice about giving $20 a month via an automatic checking account deduction — even though such donations will add up to more than $200 over a 12-month period. Simply put, micro-donations make giving doable for more people.

Micro-donations are particularly attractive to younger adults who are only able to give small amounts right now. As they become more financially secure, these micro-donors may become macro-donors to charities they have long-term relationships with.

Scale to size

To get micro-donors' attention, include encouraging wording in your fundraising materials — for example, "Every dollar counts" or "No donation is too small." Be sure to thank small donors for their contributions and let them know how you're putting their money to work. Your nonprofit might not consider a $15 or $30 gift significant, but it could be a big deal for the person who makes it on a limited budget.

If the micro-donation is made in cash, provide the donor with a receipt, no matter how small the amount. You don't have to substantiate micro-donations made via check, credit card or payroll deduction, but you should send a letter of acknowledgment anyway. A letter enables you to express your appreciation and encourage future support of your organization.

Clearly convey your message

Micro-donations can provide a significant revenue stream for nonprofits. But you need to make sure your organization's message and its fundraising activities reflect the value of small donations and speaks to the people who make them.

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Defining a not-for-profit's operating reserve

What is an operating reserve? And how much is too little — or too much? Let's take a look.

What it is

An operating reserve is a portion of an organization's net assets that's unrestricted and relatively liquid. But it shouldn't be defined so narrowly that it only includes cash or cash equivalents. (That would make it a working capital reserve created to ease routine cash flow swings.)

An operating reserve generally spans a period of years and usually comes from operations that create a surplus. Receiving unrestricted contributions, generating investment income and budgeting for a surplus are all ways to create unrestricted net assets. And that, in turn, can be considered your operating reserve. In most cases, nonprofit boards are responsible for setting operating reserve policies, including the desired fund amount and circumstances under which it can be drawn down.

How much you need

Generally, if your nonprofit depends heavily on only a few funders or government grants, it should keep a larger reserve. And if personnel costs make up a significant part of your expense budget, your organization could use the cushion that a healthy operating reserve provides. On the other hand, nonprofits with diverse funding, or whose expense budgets are less personnel-intensive, probably need smaller reserves.

For many nonprofits, three to six months of operating expenses is an appropriate reserve. But rather than thinking of this as a benchmark, consider it a safe-harbor range established to cover any emergency. This would enable you to continue operating for a relatively brief transition in operations or funding. Or, in the worst-case scenario, it would allow for an orderly winding down of affairs.

An operating reserve of more than six months of expenses offers greater flexibility. For example, it might provide your organization with funds to pursue a new program initiative, or to leverage debt funding for needed facilities.

Consider all factors

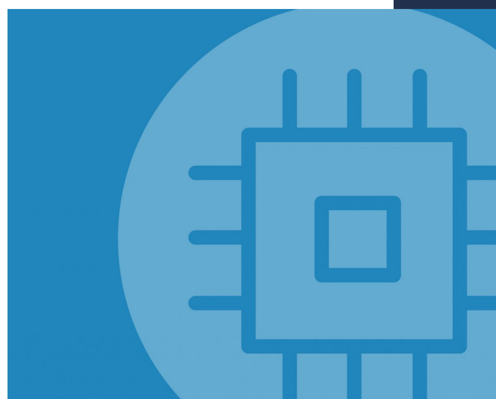
As your nonprofit establishes its operating reserve, consider all factors that impact your organization's finances.

By Gumbiner Savett Editorial

Gumbiner Savett Inc. Launches Updated Website

Gumbiner Savett Inc. announced recently that it has launched a newly revamped version of its website. The website, which is located at the same address of http://gscpa.com, went live on September 30th, 2016.

"The new website is easy to navigate, and provides a more detailed overview of our services and culture, allowing our clients, community partners, and potential employees to learn about all we have to offer and to get a sense of our commitment to the accounting profession" says Managing Director Rick Parent. "We also feel it's important to keep clients and potential clients apprised of the latest accounting trends that affect them and their businesses, so we will continue to maintain a robust blog and articles section."



Gumbiner Savett's website and blog will be updated on a regular basis, with news of accounting and audit updates, corporate milestones, practice area developments, and current job openings. Video content and a refreshed client portal are planned as additions for late summer 2017. Visitors are encouraged to explore the website at http://gscpa.com and sign up for the company newsletter or blog updates.

The website revamp includes clean, visually appealing design; updated and expanded services and sectors pages; a blog of accounting and audit updates, news, and advice authored by Gumbiner Savett Partners and Shareholders; and an overview of GS's employee events and corporate social responsibility initiatives. It was created with the latest technology in mind and is compatible with all mobile devices.

By Gumbiner Savett Editorial

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