September 1, 2002

COMMENTS - SEPTEMBER, 2002

ACCOUNTING AND AUDITING

The AICPA has issued Statement on Standard for Attest Engagements (SSAE) No. 11, *"Attest Documentation."* The Statement amends SSAE No. 10 and reflect concepts and terminology used in Statement on Auditing Standards No. 96 which provides general guidance on the nature and extent of documentation necessary to support an auditor's report and also provides retention guidelines. SSAE No. 10 is effective for attest engagements when the subject matter or assertion is as of, or for a period ending on or after December 15, 2002. These Statements are particularly relevant in light of the Enron matter.

Despite the adverse publicity about significant audit failures by major CPA firms, small business owners continue to have high regard for the expertise and integrity of the independent CPA according to a just completed survey by Nationwide Financial, a distributor of retirement planning products. It found that 52% of small business owners chose their accountant over other financial professionals to deal with business financial matters. In contrast, the percentages of others professionals chosen with respect to business financial matters were:

• Bankers	12%
• Attorneys	8%
• Chartered or Certified Financial Planners	7%
• Miscellaneous	21%

These results were corroborated by Towers Group, a public relations firm, and by Opinion Research Corporation which found that, despite the Enron debacle, individuals gave accounting firms high grades for honesty and integrity.

ADMINISTRATION, SYSTEMS AND EDP

The slow economy has hit the transportation industry particularly hard, and it is not uncommon for larger companies to renegotiate shipping costs by as much as 35%. This can be done by:

- Seeking discounts based on favorable shipping patterns - primarily suburban shipments which are more efficient to handle or level shipping volumes all year.

- Obtaining discounts based on your payment pattern - good credit rating, timely payments or electronic withdrawal rather than payment by check.

If your firm is small and your shipping volume is limited, you might also want to review your firm's transportation costs with less than truckload shippers. Many of the LTL carriers are offering discounts, enhanced service (on-line tracking, etc.) and special express or overnight shipments. In the present environment it certainly makes sense to contact a number of competing carriers to determine whether your shipping costs are in line and whether you might be able to negotiate lower prices.

The events of September 11th have had a profound impact on management of large as well as small businesses. According to a survey by Booz Allen Hamilton, a management consulting firm, managers are:

- Reviewing adequacy of disaster recovery plans.
- Reviewing insurance for adequacy of coverage.
- Reevaluating travel policies.
- Replacing meetings with video conferencing.
- Enhancing employee background checks.
- Modifying travel guidelines to limit number of staff on a single flight.
- Contracting for alternative office space to be used in an emergency.

The list is far from complete. We think, in the light of the terror attack and the potential for further terrorism, it is incumbent for all levels of management to review their practices, policies and procedures for protecting their personnel and safeguarding the viability of their organization.

FEDERAL REGULATIONS

- Postal rate increases went into effect on June 30th and impact both individual and business mailers. Examples of principal changes are:

	New	Old
First class letter - (1st ounce)	$.37	$.34
Post card	$.23	$.21
Priority mail (1 lb.)	$3.85	$3.50
Express Mail (½ lb., next day/2nd day)	$13.65	$12.45
Certified mail	$2.30	$2.10
Priority mail delivery confirmation	$.45	$.40
Insurance up to $50	$2.30	$2.10
Return receipt	$1.75	$1.50
Post office box (group 6/size 1 semi-annual fee)	$12.00	$10.00

The changes can have a significant impact on the cost of doing business. Accordingly, we recommend current mailing practices be evaluated, U.S. Postal Service rates be compared with private mail services and modifications be made in current mailing practices and procedures to offset the rate increases as much as possible.

INSURANCE

- The disastrous performance of many stocks in 401(k) plan accounts has generated increasing demand for liability protection among companies with a fiduciary responsibility for pension plans. In general, the insurance covers losses resulting from a breach of fiduciary duty and other claims under the Employee Retirement Income Security Act (ERISA) for both qualified and non-qualified retirement plans. Like directors and officers liability insurance, fiduciary liability insurance covers both the company sponsoring the retirement plan and the fiduciaries associated with the plan. Premiums for this type of insurance have been moderate because claims payments have been limited. But this could all change very quickly if significant pay-outs result from the Enron litigation and from other highly publicized bankruptcies.

- According to a recent General Electric survey, about 75% of respondents indicated they had no idea about the cost of long-term care insurance and most of these over-estimated its cost by about 300%. Furthermore, only 7% of the survey participants had a long-term care policy. Accordingly, we thought it would be useful to clarify certain aspects of this type of coverage.

  1 - Long-term care insurance should be viewed as supplemental insurance. Thus, if you are concerned about being able to pay for nursing home care, which may range anywhere from $25,000 to $100,000 per year depending on where one resides, consider your social security benefits, pension income and investment income and only obtain sufficient insurance to make up the gap.

  2 - The average nursing home stay is only 2 ½ years. Accordingly, to save on premiums either purchase a policy which will not provide more than 5 years' coverage or obtain a policy which will begin payments only after 1 year has elapsed.

  3 - Recognize you may be eligible for tax breaks designed to help you purchase long-term care insurance. For example, depending one's age, those who get a tax qualified policy can deduct a portion of the premium costs as a medical expense, to the extent it exceeds 7.5% of adjusted gross income. This year the deduction ranges from $240 at age 40 to $2,990 at age 71 or older. Also, in 2002, self-employed people, partners and S corporations can deduct 70% of the cost from gross income and deduct the balance as a medical expense. Next year, the deduction from gross income rises to 100% of the cost.

  We would also like to make you aware under the Long-Term Care Security Act, passed in July 2002, the government will begin offering an "approved" long-term care insurance policy developed jointly by John Hancock and Met Life to retirees from the civil and uniformed services and the Tennessee Valley Authority, as well as to their spouses and adult children. Among the features of this insurance will be: (1) guaranteed renewable coverage; (2) competitive pricing (20% lower than for comparable private policies); (3) automatic upgrades when insurers offer coverage enhancements; (4) daily or weekly benefits; (5) three year, five year or lifetime coverage; (6) inflation protection and (7) portability if one leaves government employment or in the event of a divorce. The government hopes this program will induce private employers to offer comparable long-term care insurance products to their employees.

LABOR RELATIONS

401(k) plans continue to be a key benefit for attracting and retaining employees, according to a recent survey by a major accounting firm. However, the kinds of benefits being offered and the choice of offerings continue to evolve. Thus, for example:

- More plans now provide employees with the option to check balances, modify deferral percentages, transfer funds, etc. via the Internet.

- The number of investment options keep increasing and are averaging 12.9 compared to 9.6 just one year earlier.

- Mutual funds are the primary investment option at 90% of the plans.

Incidentally, 85% of workers indicated the 401(k) plan was an effective recruiting tool and 77% thought it was also significant in worker retention.

PENSION AND ESTATE PLANNING

Many people are not aware of it, but the Tax Relief Act of 2001 established a new financial incentive for small businesses to adopt retirement plans. Effective with 2002, a non-refundable tax credit is available for small businesses which adopt a new qualified defined benefit or defined contribution plan (including a 401(k) plan), a SIMPLE plan or an SEP. The credit is equal to one-half the start up costs incurred to create or maintain the new plan with the amount limited to $500 in any tax year. The credit may be claimed for qualified expenses incurred in each of the three years beginning with the tax year in which the plan becomes effective. (Expenses offset by the credit may not be claimed as a deduction for the year.) An eligible small business is defined as an employer with no more than 100 employees who received at least $5,000 of compensation from the employer in the preceding year. Furthermore, the employer's plan must cover at least one employee who is not a highly compensated employee. The credit is only available for new plans established after December 31, 2001, and is allowed as part of the general business credit for the tax year in which the plan become effective.

Generally people are advised to wait until age 70 ½ and then to take only minimum distributions from a traditional IRA, to maximize the amount of the funds which can continue to grow on a tax-deferred basis. But there are situations where this is an incorrect strategy. For example:

- If you are planning to make significant charitable contributions it may be advisable to take a larger IRA distribution. This will increase your adjusted gross income, possibly enabling you to take a larger deduction for the donation, which, in turn will offset the added income from the larger IRA distribution.

- If you are in a low tax-bracket because most of your money is in a rollover IRA account and you have little other income, distributions should probably begin at age 59 ½, the age at which the distributions are no longer subject to an early distribution penalty. This strategy provides you with needed income and is also recommended because your low tax bracket provides very little tax benefit from deferral of the distribution.

We hope we have succeeded in showing you cookie cutter solutions are not appropriate in all situations relating to retirement planning and it is important to have a lasting relationship with a professional advisor who thinks independently about your circumstances and devises a tailor-made plan.

PERSONAL FINANCIAL PLANNING

The new tax law included a "Saver's Credit" to help low and middle income people offset the cost of the first $2,000 they contribute to an IRA, 401(k) or similar plan, and, in effect, have the government match the individual's contribution on top of the exclusion or deduction provided by their contribution to the retirement plan. The maximum credit is $1,000 for a single person or $2,000 for a couple filing a joint return, and the credit can be as much as 50% of the taxpayer's contribution depending on the taxpayer's adjusted gross income. The credit is limited to singles with adjusted gross income under $25,000, heads of household with adjusted gross income of less than $37,500 and couples with adjusted gross income under $50,000.

The IRS is cautioning taxpayers who make car donations to a charitable organizations and intend to deduct the "Blue Book" value of their car that the deduction cannot exceed what the car is worth. Therefore, you can deduct the fair market value of the car, but not necessarily the price quoted in a used car price guide. Check the classified ads in the newspaper for a similar vehicle to obtain an estimate of the amount you may deduct. Also, make sure, if the deduction exceeds $250, you get a receipt from the charity. If the amount exceeds $500, you need to include a Form 8283 with your tax return, and, if the amount exceeds $5,000, an appraisal from a qualified appraiser is required. The IRS is monitoring both charitable organizations which accept car donations and taxpayers claiming deductions to determine the deductions taken are appropriate.

TAXATION

Failure to make timely payments of estimated taxes can result in stiff IRS penalties. This creates a particular problem for people who have recently retired and who are uncertain about the amount of retirement income they expect. One way to avoid a

problem is to let the IRS withhold tax from social security benefit payments to cover estimated tax requirements. Social security recipients can elect 7%, 10%, 15% or 27% withholding of the monthly benefit by filing a Form W-4V with their local social security office. At year-end the Social Security Administration sends a Form 1099 to the taxpayer, indicating the amount withheld. Unfortunately, many older taxpayers are unaware of the withholding option because it's not publicized by the Social Security Administration.

The IRS is warning taxpayers not to fall for any one of a number of scams claiming to be legitimate tax avoidance benefits. They include:

- Special tax refunds for African-Americans
- Non-withholding of Federal income or employment taxes
- Payment of income taxes to obtain a purported prize
- Social security refund scams
- Dependent sharing to qualify for the earned income credit
- Visits of so-called tax collectors to taxpayers' homes
- Sham trusts
- Creation of phony home businesses
- Claiming the disabled access credit for pay phones.

If you are exposed to any of these fraudulent deals, the IRS urges you to call (800) 829-0433.