

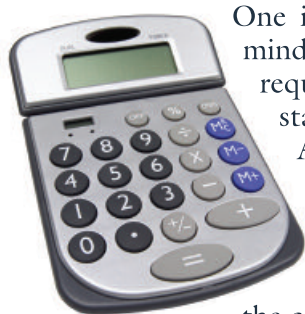
Understanding attest services

Common options vary in scope, procedures and cost

Generally, a CPA has three options for evaluating your financial statements: compilation, review or audit. The three evaluations, commonly known as “attest services,” differ in the scope, procedures and cost. Let’s look at precisely how they differ.

Compilation

In a compilation engagement, which entails compiling financial statements for a client, the CPA firm expresses no opinion and gives no assurances about the statements whatsoever. As long as everything seems in order, the CPA’s work is finished. No inquiries of management and no further analytical procedures are required.



One important thing to keep in mind is that compilations don’t require the company’s financial statements to use Generally Accepted Accounting Principles (GAAP). For instance, the financial statements can be prepared on the income tax basis or using the cash basis of accounting (that is, only reflecting transactions in which cash has been received or paid, thus not reflecting accounts receivable or accounts payable).

On the plus side, because a compilation engagement generally requires the least amount of work by the CPA firm, it’s the least expensive service.

Review

A review requires the CPA, who must be independent, to analyze financial statements and make inquiries of company management. A review’s scope is more than a compilation’s but less than an audit’s (see right), as it

doesn’t require third-party verification, physical inspections of assets, or a study and evaluation of internal controls.

Nevertheless, CPAs express some assurance that they “are not aware of any material modifications” for the financial statements to conform with GAAP. Reviewed financial statements need to include all required GAAP statements and disclosures, whereas compiled financial statements can have any departures from GAAP that management elects to omit.

In addition to GAAP accounting and disclosures, a review engagement can be a good middle ground, giving you a more thorough analysis without the additional expense and internal staff work necessitated by an audit.

Audit

An audit provides the highest level of assurance that a company’s financial statements conform with GAAP. And an audit opinion expresses positive assurance that the financial statements contain no material misstatements.

Of course, some of the better known public company frauds highlight that an audit’s purpose is to provide reasonable — but not absolute — assurance that financial statements are free of material misstatements. Because a detailed examination of every transaction isn’t required, a

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risk always exists that material misstatements may go undetected.

Attest services don't negate company's responsibility

Keep in mind — particularly in this era of intense accounting scrutiny and Sarbanes-Oxley — that financial statements (including the balance sheet, income statement, statement of cash flows and footnotes) ultimately are the responsibility of the company and its management.

The purpose of an accountant's report is to clearly describe the level of assurance the CPA is providing, and it must accompany any financial information on which it's reporting. Company counsel, shareholders, banks and other interested parties must understand which type of engagement was performed to scrutinize the company's financial information and systems.

Fortunately, several important audit-testing areas mitigate this danger. First, the CPA must review and test the company's accounting and internal control systems for the reliability of its transaction reporting.

Also, audit testing of account balances requires verification by third parties (such as customers and banks) and physical inspection. Physical inspections may also come into play to view the company's physical inventory and, in some cases, major additions to its fixed assets.

Last, audit testing of account balances and financial statement disclosures, beyond third-party verification, may involve detailed examination of the company's original source documents and computer records.

An important decision

For business owners, choosing which level of attest services to have performed is an important one. There are times when a compilation may suit your needs just fine but, at some point, a more comprehensive evaluation will likely be called for. ■

4 ways to give to charity

If charitable giving is on your to-do list, you have a wide variety of options to consider. Two are the charitable trusts — CLTs and CRTs — discussed on page 3. Below are four other ways to give to charity — each just a little bit more complex than the one before:

1. Outright gifts. Gifts of cash, property or other assets to public charities are generally deductible as long as your itemized deductions exceed the standard deduction and your donations don't exceed adjusted gross income (AGI) limits. While you have no control over how your contribution is used, you bear no administrative costs.

Donating appreciated property you've held more than one year can be more beneficial than making cash donations: You may be able to take a charitable deduction equal to its current fair market value. Plus you'll avoid paying tax on the long-term capital gain you'd incur if you sold the property. For instance, instead of giving cash, donate appreciated publicly traded securities. But deductions for gifts of appreciated assets are subject to tighter AGI limits than cash contributions. Contributions disallowed due to the AGI limit can be carried forward for up to five years.

2. Donor-advised funds (DAFs). These vehicles give you a simple way to have some control over your funds without having to set up your own

foundation or supporting organization. You can create a DAF in your name to be held by an organization that administers the funds and makes the grants. DAFs are more flexible than supporting organizations because they're designed to broadly benefit a variety of charities instead of just one or two, and they are less costly to set up than private foundations.

3. Supporting organizations. If you want more but not necessarily full and direct control over how your funds are used — without the headache of administering your own foundation — consider creating a supporting organization to ally with your favorite nonprofits. The supported charities typically handle tax-filing and administration costs. You can deduct contributions up to a higher percentage of your AGI than generally allowed for private foundations. Plus, there are no restrictions on the percentage of a business that the organization (usually a trust or corporation) holds and no tax on investment earnings.

4. Private foundations. This is the vehicle of choice if you want to make significant contributions, such as \$1 million or more annually, or have full control over how funds are used. Because it is funded and controlled by you, a private foundation must file income tax returns each year and pay a 1% or 2% excise tax on net investment income. It also must bear administrative costs. ■



The terminology of trusts:

A brief glossary of common acronyms

When you work with a financial professional to create an estate plan, you're likely to encounter an alphabet soup of unfamiliar terms relating to the planning and structuring of trusts. Many of these acronyms may seem meaningless, but gaining an understanding of the language of trusts will help you better communicate your estate planning goals. Here's a brief glossary of some of the more common terms you'll likely hear:

CLT. A charitable lead trust is established for a set term to benefit a charity and family members. The charity receives set distributions during the term and, at term's end, the balance typically passes to the heirs.

CRT. A charitable remainder trust is created for a term not to exceed 20 years or for the recipient's lifetime. The donor, or a noncharity beneficiary, receives annual distributions during the term, with the balance passing to charity at term's end. A charitable remainder trust is the reverse of a charitable lead trust.

GRAT. With a grantor retained annuity trust, the grantor contributes cash or an asset and receives a predetermined annual payment back from the trust for a certain term or until his or her death, and what is left at the end goes to a beneficiary.

GST trust. A generation-skipping transfer tax-exempt trust is an irrevocable trust designed typically to provide income for the life of a child, while ultimately preserving assets for future generations while preventing the assets from being taxed to the child's estate.

Many of the acronyms related to trusts may seem meaningless, but gaining an understanding of such language will help you better communicate your estate planning goals.

ILIT. The irrevocable life insurance trust owns, and is the beneficiary of, life insurance on the grantor or on both the grantor and the grantor's spouse. Proceeds are generally designed to be excluded for estate tax purposes from the grantor's and spouse's gross estates.

QDOT. With a qualified domestic trust, transfers for a noncitizen spouse's benefit can qualify for the estate tax marital deduction.



QPRT. With the qualified personal residence trust, a principal residence or vacation home is transferred into a trust for a term and the beneficiaries will own the home at the end of the trust's term. This removes the appreciating remainder interest from the transferor's estate for estate tax purposes if he or she survives the term of the trust, while the taxable gift is reduced because its enjoyment is delayed. During the trust term, the transferor can continue to reside in the home rent-free.

QSST. The qualified subchapter S trust is a nongrantor trust designed to qualify as an S corporation shareholder. Individuals and certain trusts are the most common permissible S corporation shareholders.

QTIP trust. The qualified terminable interest property trust qualifies for the gift or estate tax marital deduction. The spouse receives all trust income each year, and the principal goes to children or other beneficiaries after the spouse's death, with the surviving spouse having only limited power to change this result. ■

BBR Client Profile

Community Foundation for Monterey County

The Community Foundation for Monterey County is the largest grant-making foundation of any kind between San Jose and Santa Barbara, with \$144 million in total assets and a staff of 23 in Monterey and Salinas.



Founded in 1945 as the “Monterey Foundation” to preserve historic buildings in downtown Monterey, the Foundation has been professionally staffed since 1981 and now

awards nearly \$8 million annually to nearly 300 different charities throughout the Central Coast.

The Foundation also offers a year-round series of workshops for staff and board members of nonprofits, administers the Poder Popular program for farmworker health and community development in the Salinas Valley, awards grants and technical assistance to neighborhood groups, presents annual teaching awards on the Monterey Peninsula, and manages the



multiyear Communities Advancing the Arts initiative funded by the James Irvine Foundation.



Several years ago, the Foundation launched the five-year Literacy Campaign to improve the level of adult literacy (especially among parents of young children) in Monterey County. Over \$2.1 million has been awarded to a variety of literacy service providers, with the long-term goal of creating a sustainable local network of literacy programs.

The Foundation is governed by a 19-member Board of Directors representing a broad spectrum of leadership in finance, health, education, law, agribusiness, hospitality, public relations, the environment, and the arts. The Foundation’s President/CEO, Todd Lueders, refers to the Foundation as a “catalytic convener” to reflect its role as a neutral source of expertise and financial support to address community needs. For further information about the Foundation, call 831-375-9712 or visit their Web site at www.cfmco.org. ■

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