WINTER 2009

Quill

NEWSLETTER

During this Holiday Season, we THANK YOU for letting us work with you! Our best wishes to you for a Healthy and Prosperous New Year. We would like to take this opportunity to thank you for your continued patronage and trust in Runyon Kersteen Ouellette.If you know of others that can benefit from our services, we welcome your referrals.

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Editor: Tom Emery

Runyon Kersteen Ouellette

Certified Public Accountants and Business Consultants

Stimulus Surprise - Reminder

By: Tom Emery, Manager

As we discussed in the fall issue of the Quill, and as many of our clients have read in the newspaper recently, the Treasury Department released a report stating that an estimated 15.4 million tax filers may be receiving more of a "Making Work Pay" credit then they are entitled to, due to short-comings in IRS withholding guidelines. The credit should amount to $400 to $800 and has been received in 2009 through a slight reduction in employee paycheck taxes withheld. If the reduction in withholding is too high, taxpayers could end up short when it comes time to filing their tax returns.

Taxpayers most vulnerable to getting less of a refund than expected (or possibly owing money to the IRS with their 2009 return) are two-earner couples, those with dependents with wages, single or married filers who have more than one job at the same time, and filers who receive pension payments or have a job and receive Social Security benefits.

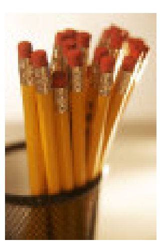
Although it's too late to adjust 2009 withholdings, clients likely to be affected should anticipate the decreased refund or possible liability in their 2010 personal budget and the April 15th obligation.

The good news (according to the report) is that the IRS is likely to waive penalties for filers who have to pay an estimated tax penalty as a result of the "Making Work Pay" credit.

Not-for-Profit Accounting Corner

By: Peter Hall, Manager

Many not-for-profit organizations are currently grappling with several significant changes to certain accounting requirements which were recently announced. Among these are new guidance for the reporting of subsequent events, and changes to the accounting for mergers and acquisitions involving not-for-profits.



Subsequent Events

The FASB has recently issued its Statement No. 165, *Subsequent Events*, which for the first time requires disclosure of the date through which management has performed a review for subsequent events. Though the terminology describing the types of subsequent events which may be identified has changed, the fundamental principles governing the accounting treatment is essentially unchanged. While in practice, the review for subsequent events often fell on the shoulders of auditors, this standard makes it clear that the proper reporting and disclosure of subsequent events is a management function, and stipulates that the date through which the entity must perform such a review may be either the date the reports are issued or the date they were available to be issued.

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Fund Balance Reporting for Governments
By: Hank Farrah, Senior Manager

Just when you thought you had it all figured out, the Governmental Accounting Standards Board (GASB) issued another statement that changes the way information is presented in your financial statements. At the beginning of the decade, GASB 34 made widespread changes in the way that governmental entities presented their financial information. More recently, GASB 45 has changed the way other post-employment benefits (OPEB) are reported, requiring many governments to acquire an actuarial report. Now there is GASB 54, which addresses fund balance reporting and governmental fund type definitions.

The days of reserved, unreserved, designated, and undesignated fund balances are over. GASB 54 breaks fund balance into five categories: nonspendable (which Webster's doesn't recognize as a word!), restricted, committed, assigned, and unassigned. It also clarifies the definitions of the general, special revenue, capital project, debt service, and permanent fund types.

According to the GASB, the objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in the governmental funds.

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, i.e. inventory, or they are legally or contractually required to be maintained intact, i.e. principal portion of permanent funds. *Restricted fund balance* can only be spent for specific purposes stipulated by law through constitutional provisions, external resource providers, or through enabling legislation. *Committed fund balance* can be used only for specific purposes determined by a formal action of the government's highest level of decision making authority, which in most cases would be a City Council, Board of Selectmen, or School Board. *Assigned fund balance* amounts are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. *Unassigned fund balance* is the residual classification of the general fund that includes all spendable amounts not contained in the other classifications. Funds other than the general fund may only report unassigned fund balance if there is a deficit balance resulting from overspending.

Since Statement 54 clarifies fund type definitions, governments will need to evaluate their funds (special revenue, etc.) to ensure that they meet the criteria in the new definitions. Funds that met the criteria for a specific fund type under Statement 34, may not meet the criteria for that same fund type under Statement 54. This may cause governments to reclassify items that were once reported as a special revenue to now be reported within the general fund.

Besides giving us new fund balance classifications and clarifying fund type definitions, Statement 54 also addresses stabilization arrangements. Some governments set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. These stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth for those classifications. A stabilization arrangement would satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed revenue source. If a government budgets to transfer amounts from the general fund to a stabilization fund, those amounts would not meet the criteria to be reported in a separate fund and would be required to be reported within the general fund.

Although GASB 54 makes sweeping changes of fund balance and fund types, governments will have ample time to prepare. The requirements of this Statement are effective for financial statements ending June 30, 2011.

Tax Benefit for 2009 Business Losses

The Worker, Homeownership and Business Assistance Act, signed into law in early November 2009, gives a valuable tax break to businesses that have incurred net operating losses (NOL) in 2009. Under the general rule, a business owner is permitted to carry back a NOL for two years and deduct it against taxable income for those two years. The new November 2009 provision extends the time period and allows business owners to carry back a NOL for three, four and even five years. Given the current credit crunch and the tough economic climate, this new provision creates a valuable tax break for many business owners.

The November law (which is not restricted to small business only) can be layered on top of the February Stimulus Act tax break, which allowed owners of small businesses to carry back their net operating loss for 2008 for three, four or five years (instead of the two-year time frame previously allowed). Unlike the recent November measures, the Stimulus Act benefited only smaller businesses with gross annual receipts of $15 million or less. The act allowed a business owner to carry back a 2008 NOL as many as five years to recover some of the federal income taxes paid in the prior years.

The new November legislation has done away with the $15 million average annual gross receipts cap, and in doing so offers larger enterprises the option of extended NOL carry backs.

If you were one of the smaller businesses that qualified and took advantage of the February Stimulus Act to carry back a 2008 NOL more than two years, you might still be able to take advantage of the new measures. The legislation permits small businesses in this category to do the same thing again for a 2009 NOL.

Taxpayers electing a five-year carryback can use the 2009 NOL to offset up to 50% of taxable income for the fifth tax year preceding the loss year, and 100% of taxable income in the remaining four carryback years.

In addition, the Act suspends the 90% limitation on the use of an NOL deduction for alternative minimum tax purposes.

The option of an additional NOL tax offset can create some confusing options for small business owners. Whether you took advantage of the Stimulus Act earlier or you are considering extended carrybacks for a 2009 NOL for the first time, it is important to discuss your specific situation with your tax professional. You could wait until the due date of your 2009 tax return to make a decision; however, deciding now allows you to plan the most advantageous tax strategy as well as a capital spending plan for 2009 and subsequent years.

Babies Win Fortune

By: Becky Simpson, Staff Accountant

All babies born in 2009 were encouraged to take part in the "Casting Call for Future Faces of Maine," an event held at three area malls within the state. You may question why all these precious faces were in high demand; the answer is to receive a $500 grant to start a NextGen College Investing Plan.

The Harold Alfond College Challenge has been set up to provide every Maine baby born in 2009 and beyond with a free $500 grant towards higher education. It was said to be a dream of Harold Alfond, founder of Dexter Shoe, to give a gift back to Maine by providing every Maine child with a $500 grant to college. The program has no income qualifications or stipulations for future contributions. According to the Finance Authority of Maine (FAME), which runs the NextGen program, if the $500 grant is left untouched for 18 years it will grow to about $2,000, but with a contribution of $50 a month the growth could be as much as $25,000.

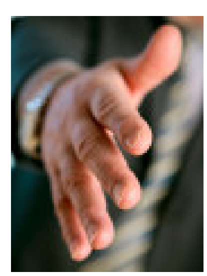
Alfond, who died in November of 2007, always thought that investing in Maine's youth would help to encourage individuals to achieve their dreams, but mainly would help to stimulate the State's economy. About 500 babies were able to make an appearance at the outings in October, which seems to be a great start to the Alfond dream.

If anyone would like more information on the Harold Alfond College Challenge they can call FAME at 1-800-228-3734 or visit 500forbaby.org.

Not-for-Profit Accounting Corner, continued from page 1

NPO Mergers and Acquisitions

In recognition of the inherent differences between mergers and acquisitions involving NPOs and business-type combinations, the FASB has issued its Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions* - including an amendment of FASB Statement No. 142. This standard took effect December 15, 2009, and carries numerous disclosure requirements. Under this standard, mergers between NPOs are accounted for using the "carryover method" which essentially calls for the new, surviving entity to record the book values of the various assets and liabilities previously carried by the merging organization(s). Acquisitions are to be accounted for by recording on the books of the acquiring entity the fair value of identifiable assets and liabilities of the acquired entity as of the acquisition date. Goodwill is only recognized in situations in which the activities of the acquired entity are not expected to be predominantly supported by contributions and investment returns. If the fair value of assets acquired exceeds the value of any liabilities, the acquiring entity recognizes contribution revenue within its statement of activities in the amount of such excess. This standard may well become more and more relevant as NPOs here in Maine strive to collaborate and consolidate in response to the current economic climate.



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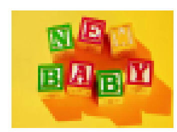
Employee Announcements



Congratulations to Jack Sullivan on his new grandson, Teddy, who arrived this September!

We extend a warm welcome to Ashley Parker, a fulltime student at USM, who joined RKO as an intern in September and also to Chris Gauvin, who will be joining RKO as an assistant accountant in June.

Efficiency Maine

Efficiency Maine is a program of the Maine Public Utilities Commission to promote the more efficient use of electricity and to help Maine individuals and businesses reduce energy costs. The residential program includes appliance rebates of $25 to $75 for qualifying clothes washers, refrigerators and air conditioners. Be sure to obtain a mail-in rebate form from your retailer at purchase.

Business programs include cash incentives and free, independent technical advice. Total incentive levels have been increased from $100,000 to $300,000 per calender year. Cash incentives are provided for "prescriptive incentives" (such as lighting and HVAC equipment) as well as "custom incentives". Please contact "Efficiency Maine" at 1-866-376-2463 for additional information or check their website at efficiencymaine.com.

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