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SCHNEIDER DOWNS

INSIGHT ▪ INNOVATION ▪ EXPERIENCE

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KEY TAX DATES

June

15

Individuals. Last day for nonresident alien individuals not subject to withholding to file income tax return for calendar year 2009.

Estimated Tax. Calendar-year corporations must pay second installment of 2010 estimated tax.

July

30

Employers' Taxes. Employers of nonagricultural and nonhousehold employees must file return Form 941 to report income tax withholding and FICA taxes for the second quarter of 2010.

September

15

Estimated Tax. Payment of third installment of 2010 estimated tax by calendar-year corporation.

See Page 5 for additional key dates

Are You Managing Fraud Risk?

by Donald R. Owens, Director, Internal Audit and Risk Advisory Services

Organizations are generally comfortable, and in many cases confident, that their internal control environment would detect fraudulent activities. Although such assumptions may be valid, it is critical that organizations remain vigilant in assessing and reassessing the effectiveness of their internal controls. Similar to a computer hacker's tireless effort to find control weaknesses in computer applications and systems in order to wrongfully access data and/or unleash viruses, a fraudster will go to exhaustive lengths to identify and exploit internal control weaknesses to gain unauthorized access to an organization's assets.

As the recession continues, downsizing, corporate restructuring, performance demands and other challenges remain prevalent in the workplace. These factors heighten the risk of fraud. Additionally, one or a combination of these factors may impair the effectiveness of internal controls, providing a window of opportunity for fraud. Risk factors include duties no longer properly segregated, reduced management oversight practices, slippage in the conduct of reconciliations, etc. Within the walls of organizations, a "perfect storm" for fraud may be taking shape.

The risk multiplier for fraud is further compounded by personal circumstances. A reduction in pay, increase in living expenses, addiction (e.g., gambling, drugs) and a multitude of other personal challenges can be trigger points for fraudulent acts in the workplace. As has been demonstrated time and time again, a disgruntled employee or one experiencing personal challenges may be persuaded to commit fraud if the opportunity to perpetrate the crime is presented and he or she perceives the likelihood of being caught to be minimal.

When assessing the susceptibility to fraud for a given position, the following simplistic formula may be an indicator of where fraud risk resides:

Employee's years of service
X
Number of key responsibilities residing with the employee
X
Organization's complacency level with respect to validating controls and monitoring activities
=
Potential for fraud to be committed

To mitigate fraud risk, an arsenal of activities can be applied, none of which is more effective than performing a fraud risk assessment across the organization. The key to an effective

Continued on Page 4

The American Recovery and Reinvestment Act and Its Effect on Nonprofit Organizations

by Roy M. Lydic, Audit Shareholder

The American Recovery and Reinvestment Act of 2009 (ARRA) and the related audit guidance have significant implications for audits performed under OMB Circular A-133. ARRA requires that taxpayer dollars spent under ARRA be subject to unprecedented accountability. Accordingly, federal awarding agencies and their recipients must respond to new transparency and accountability requirements, whose objectives include the following:

1. The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;

2. Funds are used for authorized purposes, and instances of fraud, waste, error and abuse are mitigated.

The OMB has stated that the single audit process (A-133) will be a key factor in the achievement of these objectives.

Because ARRA expenditures are expected to significantly increase for fiscal years ending December 31, 2009 and beyond, many nonprofit organizations will be experiencing the effects of ARRA on their upcoming audits. Some of the major implications are as follows:

ROY M. LYDIC
SCHNEIDER DOWNS
ASSURANCE ADVISORS
Shareholder

Effect of Expenditures of ARRA Awards on Major Program Determination

Due to the inherent risk associated with these awards, OMB Circular A-133 will require ARRA auditors to consider all programs with expenditures of ARRA awards to be programs of higher risk. This will increase the likelihood that these programs will be audited as major programs. In addition, if a new ARRA *Catalog of Federal Domestic Assistance Number* (CFDA) is added to a "cluster" of programs (generally Research and Development or Student Financial Aid), that program should be considered a ***new*** program. This means that the cluster may no longer qualify as a low-risk program for purposes of determining major programs to be audited, and could significantly affect the scope of the audit.

Schedule of Expenditures of Federal Awards

To maximize the transparency and accountability of ARRA, recipients are required to maintain records that adequately identify the source and application of ARRA funds. This is a requirement regardless of whether or not an organization is required to undergo an audit in accordance with OMB Circular A-133. If, however, such an audit *is* required, the recipient organization is required to separately identify ARRA expenditures on the Schedule of Expenditures of Federal Awards (SEFA) and on the Data Collection Form. This is to be accomplished by including the prefix "ARRA" in identifying the federal program on the SEFA.

Clearly, it is very important that organizations be aware of any expenditure of funds provided by ARRA.

Subrecipient Monitoring

Inadequate monitoring of subrecipients is an area that produces more than its share of findings when audited under OMB Circular A-133. Unfortunately, the provisions of ARRA add additional complexities and responsibilities. The OMB states:

> "Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.
>
> Recipients agree to require their subrecipients to include on their SEFA information to specifically identify ARRA funding similar to the requirements for the recipient SEFA described above. This information is needed to allow the recipient to properly monitor subrecipient expenditures of ARRA funds, as well as for oversight by the Federal awarding agencies, Federal Offices of Inspector General, and the Government Accountability Office."

If your organization is required to undergo

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ARRA *continued from Page 2*

a single audit and you pass ARRA funds through to subrecipients, rest assured that your auditors will test this area very thoroughly. We recommend that the required communications, as well as monitoring activities, be very well documented.

It is readily apparent that organizations receiving ARRA funding may find their audit process to be even more arduous than usual. We have found that organizations that understand their compliance requirements (and take them seriously) have a much greater likelihood of coming through a single audit with minimal findings and issues. We recommend that management take a proactive approach in this process, and review funding contracts and grant agreements thoroughly, paying particular attention to compliance requirements. These requirements and the ramifications of noncompliance are not always conspicuously stated. Be alert for terms such as "agency responsibilities," "monitoring," "reporting," or "audit considerations." Be certain you understand the agreements, and incorporate the compliance requirements into daily operations. In addition, don't hesitate to consult with your auditors when implementing a new grant. Their experience can be very helpful when interpreting and applying complex grant provisions and compliance requirements.

Due to the limited time between the enactment of ARRA, the disbursement of funds, and the imposition of its requirements, the OMB will be continuously posting updates and addenda to its website (www.whitehouse.gov/omb). This is an excellent source of information and guidance.

Estate Tax Changes for 2010

by Melanie M. LaSota, Director of Estate and Trust Tax Services

In 2009, the estate tax exemption was $3.5 million per individual and the maximum tax rate was 45%. This tax affected approximately 1% of all estates; only about 5,500 estates were subject to the tax estate tax in 2009. Without legislative intervention, the estate tax is repealed for 2010, but will return in 2011, when the estate tax exemption will be $1 million per individual and the top tax rate will be 55%.

On December 3, 2009, the House of Representatives passed the Permanent Estate Tax Relief for Families, Farmers, and Small Businesses Bill of 2009 authored by Representative Earl Pomeroy (D-ND). The Pomeroy Bill permanently extends the current exemption for estates up to $3.5 million per individual and $7 million per married couple, and sets a maximum rate of 45% on estates above this threshold. Additionally, this bill would make permanent the Generation-Skipping Transfer (GST) tax allowing a lifetime exemption equal to the current estate tax exemption, which, at enactment, would be $3.5 million.

Although repealing the estate tax sounds pro-taxpayer, it may actually increase the overall tax burden for some estates. The basis of property subject to estate tax is "stepped up" to the fair market value that was used for estate taxes. This means if a person died owning stocks with a basis of $100,000 and a fair market value of $1,000,000, the heirs receiving the stocks would have a $1,000,000 basis in the stocks. If the stocks are later sold for $1,000,000, there is no capital gains tax liability for the beneficiary. However, if these stocks were not subject to the estate tax, the basis of the stocks would not be "stepped up," and the basis in the hands of the beneficiary would remain $100,000. If these stocks were sold for $1,000,000, the beneficiary would be responsible for the built-in capital gains tax on the $900,000 gain.

To alleviate some of the burden of using an inherited basis, estate executors will be permitted to increase the basis of an estate's assets by $1.3 million for assets passed to a nonspouse and by $3.0 million for assets passed to a spouse, for a total of $4.3 million in increased basis in the hands of beneficiaries.

Additionally, the GST tax is set to disappear in 2010 and return in 2011. GST tax ensures that wealth transferred is taxed at each generation. GST is applicable, in addition to gift tax, when a person gives a gift to a "skip person." Generally, a skip person is a family member who is on the same generational level as a grandchild or to any unrelated person 37 ½ years younger than the person giving the gift. Although gift tax will still be incurred at a flat 35% rate, there will be no GST tax incurred on transfers to skip persons in 2010.

Congress has acknowledged that it did not have time to fix the estate tax before the end of the year. Rather, lawmakers plan on revising the tax in early 2010 and passing retroactive provisions. Some legal experts are questioning the constitutionality of a law that so broadly changes tax consequences retroactively. Even after an estate tax law is passed, challenges to its application are likely.

Although the estate tax has been repealed, the gift tax is still effective for taxable gifts made this year; all taxable gifts made in 2010 are subject to a flat 35% tax.

MELANIE M. LaSOTA
SCHNEIDER DOWNS TAX ADVISORS
Director of Estate and Trust Tax Services

Fraud Risk *continued from Page 1*

assessment is to secure management's commitment and participation. Next is to identify types of likely fraud risks within the organization (e.g., fraudulent financial reporting, misappropriation of assets, embezzlement, corruption), and apply a recognized method for assessing both the likelihood of occurrence and potential severity of the identified risks. Once risks have been inventoried and measured, the organization then must determine whether the internal controls in place are sufficient to effectively manage the fraud risks to acceptable levels.

Other considerations include enhancing automated controls to prevent or flag unusual or inappropriate transactions (e.g., duplicate payments, backdating of entries, overrides), designing and generating exception reports, and making use of software such as IDEA or ACL to analyze data for suspicious entries or activities, to name just a few.

To mitigate fraud risk, organizations must remain committed in their fight against fraud, and continuously assess internal controls, to ensure that existing controls are a strong deterrent in this never-ending battle. How storm-resistant is your organization?

DONALD R. OWENS
INTERNAL AUDIT AND RISK ADVISORY SERVICES
Director

Q & A

Schneider Downs Wealth Management Advisors, LP

Question of the Quarter

Q. Roth IRAs - Convert, Don't Convert or *Leverage*?

In the past, many individuals who would have liked to contribute to or convert a Roth IRA were not able to do so because of income limitations. As of January 2010, the IRS's income ceiling for Roth conversions has disappeared. This makes for some interesting questions for investors to answer: Should I convert and pay tax now? Should I convert later and pay the tax then? Or should I leverage the balance within my overall estate plan and create an even-bigger creditor-protected family legacy? Converting a traditional IRA to a Roth IRA won't necessarily be appropriate for everybody, so it is critically important to analyze each individual's specific situation and planning objectives.

So, who is the best candidate for a Roth conversion? First and foremost, the best candidates are those who can afford to pay the tax cost of the conversion from other assets and also meet at least one of the following criteria:

- They don't expect a significant decline in their effective tax rate in retirement;
- They are making the conversion at a relatively young age compared to their targeted retirement age;
- They don't expect or want to spend meaningfully (or at all) from their IRA assets and will push off beginning income from the IRA as long as tax laws allow; or
- Their ultimate goal is to transfer the bulk of their IRA balance at death to named beneficiaries, perhaps even on a restricted access basis.

The key advantage for individuals who decide to convert their traditional IRA is, while they will need to pay ordinary income tax on the converted amount, any withdrawals in excess of the new cost basis will be tax-free as long as the Roth IRA is at least five years old and the account holder is at least 59½ years old. Keep in mind, for conversions in 2010, the taxable amount can either be included in 2010 income, or it can be divided equally between 2011 and 2012.

Whether to convert or not to convert is not a one-time decision; it is an on-going process that should be reviewed periodically as personal circumstances change. Furthermore, if for some reason you are not pleased with the conversion, the IRS does allow for a recharacterization, in essence undoing the conversion, if you follow very specific guidelines. Also, keep in mind that these 2010 changes apply only to Roth IRA conversions, and income limitations might still prevent certain individuals from making new current-year Roth IRA contributions.

Finally, if you truly don't need income from your IRA to support your current lifestyle and are interested in a completely secure methodology of exponentially increasing your financial legacy, there is a third option. With this approach, a systematic withdrawal is taken from the IRA (that also meets the RMD requirements) and is gifted to an Irrevocable Life Insurance Trust (ILIT). The ILIT then uses the gifted amount to purchase an insurance policy that, upon death, not only pays the tax liability of the IRA (thus allowing that asset to pass to beneficiaries intact) but then also leaves a substantial amount of residual dollars within the trust to further address desired legacy wishes. This approach can in essence create a creditor-protected "family bank," which can benefit generations for years to come.

If you have any questions, need more information, or want to explore conversion opportunities, please contact your Schneider Downs representative.

Written by Scott R. Rain, J.D., Schneider Downs Wealth Management Advisors, LP.

SDANNOUNCES

New Hires

Our people are our greatest strength. We welcome our October, November and December new hires:

Shirley A. Cordes
Samantha L. Darroch
Ryan R. Deatrick
Megan O. Duffett
Kevin P. Frischkorn
Shane M. Gastecki
Clayton C. Gialloreto
Kyle J. Hazen
Ashton B. Hice
Matthew J. Jagodrinski
Alicia M. Kelly
Zachary P. Kostorick
Falicia M. Lozier
Brienne J. Mains
David A. Martin
Robert L. Morgan
Angelo V. Naccarato
Mario R. Panucci
Jenna L. Piening
Carley R. Riggin
Stephanie A. Rodriguez
Eytan Rosenthal
Mark A. Sarver
Kevin M. Schneider
Valerie D. Schultz
Gary R. Sliman
Jason S. Smida
Jennifer L. Smith
Kaitlin M. Smith
Katrina Streiner

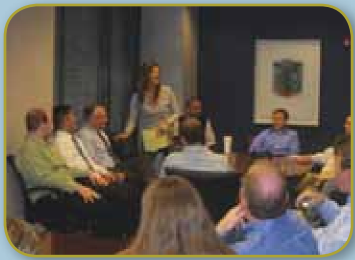
WELCOME

Around Schneider Downs

Busy Season is underway!

The new year always means that another tax season is upon us. Schneider Downs prepares for the season with a variety of special activities for employees, ranging from pancake breakfasts to TGIF team celebrations on Fridays. On February 5, Mike Collins and Tom Harvey from Human Resources once again treated the entire Pittsburgh office to a tailgate cookout, complete with grilled burgers and hot dogs. (This photo was taken mere hours before a major snowstorm dropped more than 20 inches of snow on the region.)

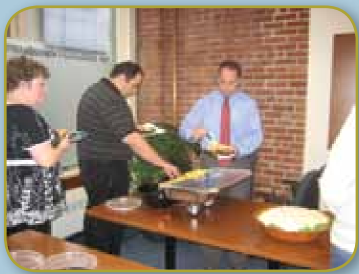
In Columbus, the entire office enjoys weekly TGIF celebrations during busy season, complete with refreshments at the end of each Friday. The office takes advantage of the gatherings to also showcase the activities of individual teams and groups. Each group presents their team members, activities, goals and accomplishments to the rest of the office. This process helps keep the entire office informed – and involved.



Annual United Way Campaign

In the fall of 2009, both offices of Schneider Downs held their annual United Way campaigns. Combined, we raised more than $87,000. Events that were held included a casino night/Texas Hold'em tournament, guest bartender nights, a Thanksgiving pot luck luncheon, 50/50 raffles, online auctions and a Halloween dessert competition. Thank you to all who participated in the campaign!

We had a "full house" for the annual Texas Hold 'Em poker tournament.



Ed Friel and Marty DiGiovine help themselves to some nachos and cheese.

CALENDAR - BENEFIT PLAN DUE DATES

Forms 5500, Annual Return/Report of Employee Benefit Plan.

Year-End	Due Date	With 5558 Extension
8/31	3/31/10	6/15/10
9/30	4/30/10	7/15/10
10/31	5/31/10	8/16/10

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, so as to avoid a 10% employer-imposed excise tax.

Year-End	Due Date
12/31	3/15/10
1/31	4/15/10
2/28	5/17/10

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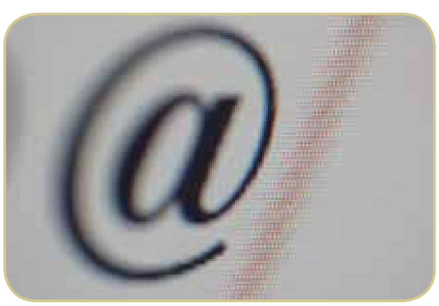

PROFESSIONAL NEWS

Mary D. Richter, Tax Shareholder, presented "FIN 48: A Practical Application for Private Companies" to the Pittsburgh Tax Club in November. She also presented "Transfer Pricing Basics" to The Institute for Internal Auditors in December. Mary also spoke at and participated in a signing ceremony at "Graduate Pittsburgh Summit" with Mayor Luke Ravenstahl and Pittsburgh School Superintendant, Mark Roosevelt.

Mark L. Sullivan, Audit Manager, was named Secretary of the Venture Outdoors Board of Directors. Mark is also a member of the PICPA Image Enhancement Committee.

Mark E. Cobetto, Tax Shareholder, presented a federal tax update to the Tax Executive Institute - Pittsburgh Chapter.

Jay R. Meglich, Audit Shareholder, was elected to serve on the Audit Committee for the Ohio Oil and Gas Association.

Meredith J. Christy, Audit Senior Manager, was elected Chairman of the Board of the Lenape Vocational Technical School.

Richard X. McKenna, Business Advisors Manager, appeared on KDKA's Sunday Business Page on February 14. Rich talked with host Jon Delano about how companies can prepare for business interruptions. The story stemmed from the recent snowstorms.

Henry J. Szymanski, Director, Automotive Services Group, was quoted in the January 27 *Pittsburgh Business Times* article, "Impact of Toyota Recall Not Yet Clear for Pittsburgh Dealers."

Jeffrey A. Wlahofsky, Tax Shareholder, was quoted in two January 29 *Pittsburgh Business Times* articles, "New Penalty for Some Late Filers" and "Car Reimbursements Take a Dive."

John H. Stafford, Technology Shareholder, was featured in the January 15 *Pittsburgh Business Times* article, "Schneider Downs Opens Lines of Communication with Intranet."

Susan M. Kirsch, Tax Shareholder, was appointed as an associate member to the AICPA Exempt Organization Technical Resource Panel. In addition, Sue, along with **Debra A. Ries**, Tax Senior Manager, presented at the Ohio Association of Goodwill Industries conference in September. Sue presented on the new Form 990, and Deb spoke about Unrelated Business Income (UBI).

Melanie M. LaSota, Tax Senior Manager, attended the Pennsylvania Bar Association's Estate Law Institute in December.