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We provide seamless communication between CPAs and CFPs, securing your financial future with comprehensive, financial services.

SERVICES INCLUDE:

- Accounting & Auditing
- Tax Planning
- Tax Reporting
- Estate Planning
- Investment Management
- Retirement Planning
- Business Consulting
- System Design

BUSINESS ADVISOR

A Semi-Annual Review of Business Developments from NRSmith and Associates, PS

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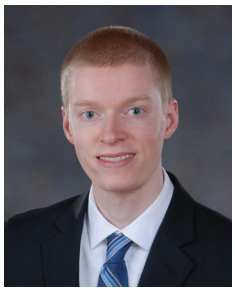
INTRODUCING JOHNATHAN VELEZ, CPA, MACC



Johnathan grew up in Olympia, Washington and has lived in the area most of his life. He graduated summa cum laude from Saint Martin's University, achieving a degree in Accounting with a minor in Business Administration. He completed graduate studies at the University of Washington where he obtained a Master of Accounting (MAcc) in 2015 and became a Certified Public Accountant in May 2016.

During his time at Saint Martin's University, Johnathan received the Excellence in Business Award, which is the highest honor in the School of Business. Johnathan is also a member of the international honor society, Beta Gamma Sigma, by virtue of finishing among the top 20% of his graduating class at the University of Washington.

Johnathan first joined NRSmith and Associates in 2014 as an intern. He exceeded expectations in the taxation area and returned as a full time member of the team in June 2015. His strong academic foundation has helped him apply his skills in other areas of the firm such as audit and tax. These skills are integrated into our financial planning team to assist the client with effective planning. This holistic approach provides maximum benefit to our clients on a fee only basis.

When he is not working, Johnathan enjoys spending time outdoors hiking, jogging, and biking.

INCREASE IN EXPENSE LIMIT FOR EQUIPMENT

Are you aware that the IRS expense limit for small business capital assets has increased from $500 to a whopping $2,500? This policy went into effect as of January 1, 2016.

Prior to this change, businesses had to capitalize and depreciate all assets that cost over $500. This put a large administrative burden on small businesses to keep track of depreciation over the life of the asset and to determine whether an asset should be capitalized. Repairs and maintenance costs remain fully deductible.

Being able to completely expense an item costing no more than $2,500 will greatly reduce a business's current tax bill and administrative burden. For example, if equipment costing $2,000 with a 5 year life is purchased, the entire $2,000 can be taken as a tax deduction in the year of acquisition. Prior to this new regulation, businesses would only be afforded a $400 tax deduction each year for depreciation assuming straight-line depreciation is used. When multiple assets under $2,500 are added during the year, the available tax deduction can really add up.

Businesses are still free to capitalize and depreciate assets below this new $2,500 limit if they so choose. Some companies may prefer to have more assets listed on their fixed assets schedule instead of expensing out small dollar items.

If you are unsure of how this change can benefit your small business, NRSmith and Associates will be happy to sit down with you and discuss it.

John Velez

SO YOU THINK SOMEONE MIGHT BE STEALING FROM YOU . . .

In the past NRSmith and Associates has had clients that initiate fraud investigations based on one burning question: "Where are my profits?" You work hard, know your expenses and what margin of profit you should be realizing, but the bottom line just isn't improving.

So what can you do when you think someone is stealing from you?

Hiring a fraud investigator to complete an initial review under the pretext of completing an internal control review is a good first step. An auditor can review documented processes, interview employees, and access information that could reveal fraudulent activity. An initial review should be able to determine if there is a likelihood of fraud. When you see an outsider's unbiased take, it makes it easier to pursue a more thorough investigation.

Why do business owners hesitate to initiate an investigation? Many times they are worried about hurt feelings. They want to believe they know their employees well, and that their trust is reciprocated. When in doubt, remember fraud is not always about a disgruntled employee or a negatively motivated manager. Three factors contribute to fraud:

- **PRESSURE**, such as a sudden financial crisis, is often an incentive for a loyal, long-term, dedicated employee to commit fraud. They believe they have to steal to overcome their current crisis, and once the crisis has passed, they will stop their illegal activity. This rarely occurs; if they are not caught the first time they steal, they usually will continue until they are caught.
- **OPPORTUNITY** is presented when there is a lack of internal controls or the ability to override existing controls presents itself. Controls can be simple, things like having the bank statements mailed to your home instead of to the office, or more complex, like reviewing every invoice with the printed check, ready for your signature, before signing and mailing the bills. Make sure you don't provide unnecessary opportunity.
- **RATIONALIZATION** is how a long-term, otherwise loyal, employee is able to come to work each day, and continue to commit fraud. One rationalization is that they are only taking from you "temporarily" and that they will repay you as soon as they can. Sometimes they believe they are owed the extra money, usually due to a perceived injustice or slight.

Points to remember about fraud:

- Once someone starts committing fraud, they rarely stop until caught - the average fraud goes on for 18 months before being detected
- Most fraud is uncovered due to an anonymous tip
- Financial Audits may not always detect fraud – forensic fraud audits and financial audits have very different objectives
- Specific and enforced internal controls are the best method for detecting and/or deterring fraud, and finally
- Fraud is personal to you, but is simply an opportunity to the thief

Cheryl Meyer

Have you visited our website lately? Here are some of the blogs recently posted:

- Who pays the individual income tax?
- What is a fiduciary?
- Selecting a financial advisor
- The four letter word in investing – Risk!
- Social Security changes
- Medicare premiums and other costs for 2016
- Fraud on the rise
- Identity Theft and the Olympia School District Data Breach

www.nrsmith.com

QuickBooks Corner

Do you have the following Internal Controls set up for QuickBooks use?

- Password protect QuickBooks and assign only one administrator
- Routinely review Add/Delete transaction report and voided checks
- Have one person enter cash/checks received in QuickBooks and a different person complete the bank deposit
- Have the bank and credit card statements mailed to your home (not the business address) and reconcile the statements yourself OR at least review the statements for reasonableness
- DON'T use Debit Cards – transactions are not reported as fully as checks and credit cards
- Separate entering invoices and being able to print checks

NORM KNOWS - MILLENNIALS

Millennials are different. This cohort, born between 1980 and 1999, numbers 87 million according to the U.S. census. They make up the nation's largest generation, surpassing even baby boomers. In the workplace they are entering management level positions, and business owners and managers who grew up in a different era, don't always understand the mindset of a generation that never experienced life without personal computers and hand held devices. This can lead to organizational frustration between the generations.

As a baby boomer myself, I know from personal experience that trying to apply my work and business values to millennial aged employees and clients doesn't always work. Here are some of the differences I have found based on my personal experience.

- They are better educated than previous generations, yet they are not always financially literate. One in three millennials reports occasional bank overdrafts on their accounts. One in five say they have taken hardship withdrawals from their retirement account.
- They are less likely to measure personal success through asset accumulation. Many enter their professional lives with student debt and are more concerned with it than with purchasing an asset like a home. Personal debt can be overwhelming, especially when coupled with a lack of financial literacy and cash flow management skills.
- They are tech savvy and rely upon the internet for research. While this can result in "headache becomes brain tumor" scenarios, it can also be useful when tech or other issues are solved internally when someone Googles the answer.
- The relationship to employment has changed. The new workplace objective is work to live not live to work.
- They are less likely to be employer dependent; more inclined to change employers. They value personal independence. The traditional route of working for an employer and sticking with them doesn't make sense anymore.
- As a generation used to instant gratification, the concept of long-term results projections is often a foreign one.

To have success dealing with millennials means you need to consider these differences. They still want to get a good job, start a business, make a living, reduce their tax bill, get married, buy a home and educate their children. They just want to do these things using their own values applied on their own time line.

Norm Smith

THE FUTURE TAKES A PLAN

Creating and implementing a succession and continuity plan will help maintain the value of your business. The plan helps ensure that no matter when or how a transition comes, the business can be successful. In the end, the business built by the owner will be able to continue …. as planned.

Succession and continuation planning is the most important concept in any business. There are many reasons why a plan is needed; retirement, death of an owner, owner disagreements, divorce, bankruptcy, or disability of a key stakeholder are some.

The value of your business is more than the assets shown on the balance sheet. There are many intangibles that add value. The experience the business has gained can be an asset, especially in industries like construction where a history of successful projects is evaluated on proposals. The customer base or client list is a huge asset for service providers. Processes and procedures that make a business more effective or unique to a particular market are invaluable. Employees that provide quality and create higher profitability are another intangible asset. Without a plan, these valuable assets may be lost.

To help maintain intangible assets, the following steps should be used in the development of your business' succession and continuity plan:

- Analyze the strengths and weaknesses of the business. Determine how to minimize the exposure caused by the weaknesses. Design how to use the strengths as a foundation to support the changes because the strengths are the characteristics that provide value to the business.
- Identify the key positions needed in a transition and determine who can fill them. The selection does not have to be an employee of the business; however, implementation may be easier if the individual is familiar with the day-to-day operation of the business.
- Create a training program. The individual or individuals selected in the previous step need to know how to manage the business if there is a change.
- Specify how the transition is to occur and verify that the designed plan can be implemented. Implementation may require giving someone a power of attorney, assigning an executor, or modifying the by-laws of the business to define procedures in the event of divorce, bankruptcy, or disagreements.

If you need help creating a Succession and Continuation Plan for your business, feel free to contact NRSmith and Associates.

Daniel Mortensen