



Bank Control Quarterly

“Through understanding, your bank can better control its financial performance.....”

Nichols, Cauley & Associates, LLC
Certified Public Accountants
www.BankAudit.net

1st Quarter 2006

New Partners Announced

The Partners and Team of Nichols, Cauley & Associates, LLC take pleasure in announcing the addition of five new Partners. As of January 1, 2006 the following people became Partners in our Firm:

Homer N. Childs

Todd D. Giddens

Phyllis J. Greenhalgh

David L. Musser

Teresa P. Treadwell

Welcome to Lake Oconee



With the New Year, Greenhalgh & Treadwell, P.C. became part of Nichols, Cauley & Associates, LLC. The office is located at 1020 Park Drive Greensboro, Georgia. The firm of Greenhalgh and Treadwell, P.C., Certified Public Accountants has been serving the Greensboro and Lake Oconee area for more than 15 years.



The team and clients from Greenhalgh & Treadwell, P.C. will be a welcomed addition to our firm. An expansion into this area of Georgia has been a goal of Nichols Cauley's for several years and we believe the search and wait for the right fit has been worth it.

BSA Requirements for Providing Banking Services to Money Services Businesses

James Moore—Dublin



Financial Institutions that provide services to money services businesses (MSBs) can remain in compliance with Bank Secrecy Act (BSA) by meeting minimum due diligence expectations. The Financial Crimes Enforcement Network (FinCEN) and Federal Banking Agencies expect banking organizations to apply the requirements of the BSA on a risk-assessed basis.

Under the existing Bank Secrecy Act regulations, money services businesses include five distinct types of financial service providers and the U.S. Postal Service: (1) currency dealers or exchangers; (2) check cashers; (3) issu-

ers of traveler's checks, money orders, or stored value; and (5) money transmitters. For the first four categories a business that does not engage in money service transactions above \$1,000 for any person on any day in one or more transactions may not be considered a money services business.

The minimum requirements of the Bank Secrecy Act for opening and maintaining accounts for money services are: (1) Apply the banking organization's Customer Identification Program; (2) Confirm FinCEN registration, if required; (3) Confirm compliance with state or local licensing requirements, if applicable; (4) Confirm agent status, if applicable; and (5) Conduct a basic Bank Secrecy Act/

(Continued on page 2)

BSA Requirements (Continued from page 1)

Anti-Money Laundering risk assessment to determine the level of risk associated with the account and whether further due diligence is necessary. Money services businesses that are not required to register with FinCEN or exempt any state requirements should demonstrate that it is not subject to such requirements.

Several key indicators can be used when conducting a risk assessment on money service businesses. Financial institutions should look for potentially high risk indicators such as

an MSB that (1) allows customers to conduct higher-amount transactions with moderate to high frequency; (2) offers multiple types of money services products; (3) is a check casher that cashes any third-party check or cashes checks for commercial businesses; (4) is a money transmitter that specializes in cross-border transactions; or (5) is a new business without an established operating history.

For more information on money servicing businesses and additional procedures that can be performed on higher risk money services businesses visit:

<http://www.fincen.gov/fincenadv04262005.pdf>

Those Stock Options are Going to Affect the Bank's Net Income by HOW MUCH???

Tim Veal, CPA, CFP® - Dublin



This one question is what everybody is asking or should be asking that has employee stock options.

If a Bank is using stock options to compensate employees they must determine and report the fair value of the option as compensation costs. This fair value calculation is a very complicated because for most of these options the fair value is not readily available. The Bank must then utilize option pricing models

based on established principles of financial economic theory and reflects all substantive characteristics of the options. This criteria can be established by utilizing the Black-Sholes-Merton model or lattice models.

Does this sound complicated? It is!!

Call our team of Certified Valuation Analysts can help you with this valuation today.

Understand Your Risk and Manage It

Robbie Eidson—Atlanta



As an organization establishes its business objectives it must also determine the risks related to those objectives, and then manage the identified risks. Risk is typically considered through determining the likelihood an event will happen and the positive or negative consequences of such an occurrence. Risk comes in many varieties, and may be addressed in several manners.

Types of risk include business risk, reputation risk, environmental risk, planning and budgeting risk, and technology risk. Business risk is the likelihood of market conditions arising which will have adverse, or positive, implications on the business's success. Businesses which rely on the local community and "word-of-mouth" marketing are especially concerned with reputation risk. Environmental risk may be considered as it relates to the physical (biological) environment, or it may expanded to encompass elements of regulatory, compliance, market, and legal risk. Planning and budgeting risk relates to the potential inaccuracies in strategic plans and budgets, and the misguided decisions based upon those documents. The risk a purchased hardware or soft-

ware item will not operate as intended is an example of technology risk.

Once these risks have been identified, they must be addressed. This may be done through risk avoidance, risk transfer, risk mitigation, or risk acceptance. The avoidance of risk is performed by choosing not to perform an activity which would have a related risk. Risk transfer involves the use of a third party, typically an insurer, to transfer a portion or all of the risk. When an organization chooses to mitigate its risk related to an objective, it uses internal controls to decrease the risk's likelihood and impact. If the risk associated with an activity is acceptable, or the impact is deemed to be minimal to the organization, it may simply choose to accept the risk.

The preceding was derived from the presentation entitled "Understand Your Risk and Manage It," as prepared for the Community Bankers Association of Georgia by Nichols, Cauley & Associates, LLC. This presentation provides attendees with an understanding of objectives, risk, controls, and risk assessment (ORCA), along with an in depth discussion of the risk assessment and management processes. To review upcoming events and classes offered by the Community Bankers Association, please visit www.cbaofga.com.

2006 New Tax Index Amounts
Dave Musser, CPA - Atlanta



A new tax year brings about a slew of tax changes to many indexed tax limitations and deductions. Some of the changes are to amounts that have not changed in years, such as the gift tax exclusion while others, like the standard business mileage rate, change frequently. Listed below are selected amounts that are effective as of January 1, 2006.

Business mileage rate	44.5 cents
Medical and moving mileage rate	8.0 cents
Charitable mileage rate	14.0 cents
Maximum Defined Contribution	\$ 44,000
Maximum Defined Contribution with Qualified Elective Deferral - age 50 or older	\$ 49,000
Maximum 401(k) deferral – younger than age 50	\$ 15,000
Maximum 401(k) deferral – age 50 or older	\$ 20,000
Maximum SIMPLE deferral – younger than age 50 (unchanged)	\$ 10,000
Maximum SIMPLE deferral – age 50 or older	\$ 12,500
Maximum limit for traditional and Roth IRA's (unchanged)	\$ 4,000
Maximum limit for traditional and Roth IRA's – age 50 or older	\$ 5,000
FICA wage base limit	\$ 94,200
Annual exclusion for gifts	\$ 12,000
Value of unified credit for estate tax purposes	\$ 2,000,000

All in the Family

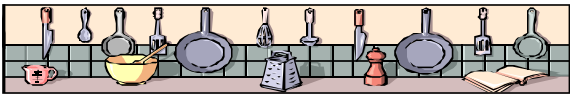


- Sarah Catherine was born Nov. 16, 2005 to the proud parents of Eddie and Jennifer Kramer, Dublin. She weighed 7 lbs 11 oz. and 20 inches long. She has a head full of brown hair.
- Chris & Sarah Baggett, Dublin, celebrated their 7th Anniversary January 1st.
- Payton Alexandra was born on Jan. 5 to the proud parents of Eric and Leigh-Ann Danley, Atlanta. She was born at 9:04 pm and weighed 6 lbs 7 oz.
- James Moore, Lewis Sheffield, Bernice Reaves, and Erin Bearden have all gotten engaged.

**Team Member Anniversaries
For 1st Quarter**

Cal Brantley	18	Gena Edwards	6
Lenn Hall	16	Cheryl Minor	3
Chris Milton	11	Eric Danley	2
Linda Williamson	11	Alicia Thomas	2
Phyllis Whitehurst	9	Mona Salter	2
Joel Reed	6	Olivia Monroe	2
Caroline Jernigan	6	Alaina Crow	2
Frances Hodges	6	Kyla Thomas	1
James Taylor	6	James Moore	1
Jyoti Dama	6	Ric Honsa	1

Cooking Corner



Easy Banana Pudding

By: Leslie Giddens

- | | |
|-----------------------|--|
| 3 bananas | 3 c. milk |
| 8 or 12 oz. cool whip | Vanilla Wafers |
| 8 oz. Sour Cream | 2 small boxes Instant
Vanilla Pudding |

Combine pudding mix, milk & sour cream and beat about 2 min. or until thickened. Fold in whipped topping. Line bottom of sides of dish with vanilla wafers. Slice 1 banana and layer over the wafers. Spoon a third of the pudding mixture on top. Add a layer of wafers, then bananas, then pudding and repeat. Chill. Makes 12 servings.

* Low fat ingredients can be used.

Good News for Banks Over \$500 Million

The FDIC has increase the asset-size threshold for financial institutions from \$500 million to \$1 billion for internal control assessments by management and external auditors. This increase comes from an amendment of Part 363 of the FDIC's Regulations and is effective December 28, 2005.

In addition, the amendment requires only a majority, rather than all of the members of the audit committee to be outside directors independent of management.



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Certified Government Auditing Professionals

Customers Will Be Required to Have Another Level of Authentication to Access Their Internet Banking Accounts

Tim Veal, CPA, CFP® - Dublin



Authentication in an Internet Banking Environment, issued by the Federal Financial Institutions Examination Council (FFIEC), mandates that U.S. Financial Institutions, by the end of 2006, offer products and services over the Internet which use multifactor authentication, layered security, or other controls to protect transactions involving customer information, or the transfer of funds to outside parties.

This enhanced security is designed to reduce the risk of identity theft, improve safe-guards of customer information, and reduce fraud.

Don't Let Spreadsheet Errors Get Out of Control

Tim Veal, CPA, CFP® - Dublin



Some Bank's utilize spreadsheets a little; some utilize spreadsheets a lot. Some Bank's utilize them as tools to aid in the reconciliation process and even others utilize them to calculate the largest estimate on the Bank's balance sheet, the Allowance for Loan Losses. What ever your use, determine the level of risk spreadsheets pose and the controls needed to mitigate those risk. The Bank has credit risk it does not need spreadsheet risk.