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Public Company Accounting Oversight Board

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Inspection of
Donahue Associates LLC
(Headquartered in Monmouth Beach, New Jersey)

Issued by the

Public Company Accounting Oversight Board

December 16, 2010

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2011-025

Public Company Accounting Oversight Board

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

INSPECTION OF DONAHUE ASSOCIATES LLC

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Donahue Associates LLC[1/] ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Firm has issued audit reports under the name of Donahue Associates, LLC.

2/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

3/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 24, 2009 to August 27, 2009. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Monmouth Beach, New Jersey)
Ownership structure	Limited liability company
Number of partners	1
Number of professional staff[4/]	None
Number of issuer audit clients[5/]	4

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

4/ "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel.

5/ The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

6/ This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[7/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of four issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.[8/] The deficiencies identified in two of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient

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[7/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8/] PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

competent evidential matter to support its opinion on the issuer's financial statements.[9/] Those deficiencies were –

(1) the Firm's failure to identify, or to properly address, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning a gain on the sale of an investment; and

(2) the failure to perform sufficient audit procedures to test revenue.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.[10/]

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality

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[9/] In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

[10/] The Board inspection process did not include review of any additional audit work related to the restatement.

control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[11/]

[11/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

DONAHUE ASSOCIATES, LLC
Certified Public Accountants
27 Beach Road Suite CO5A
Monmouth Beach, NJ 07750
Tel. 732-229-7723

October 15, 2010

Mr. George Diacont
Director
Division or Registrations and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Dear Mr. Diacont,

I am pleased to provide my response to the letter of the Public Company Accounting Oversight Board (PCAOB) dated September 17, 2010 regarding their findings from their inspection process of Donahue Associates LLC. The inspection process is a fundamental component of the PCAOB's mission. This firm's overriding objective is to make certain all aspects of its auditing and quality control processes are of high quality for the continued benefit of the capital markets in which the public participates. The PCAOB's inspection assists me in identifying areas where I can continue to improve my audit performance.

Donahue Associates LLC has the following comments regarding the matters described in Part 1 of the Report.

The matter involves the sale of a joint venture interest by Issuer A. Issuer A's year end was January 31, 2009. The purchase and sale agreement for the joint venture interest was dated January 26, 2009 which provided that the effective date of the sale to be December 31, 2008 to close on March 7, 2009.

I was guided by SEC Staff Financial Codification Topic 13 (and the underlying FASB principles cited therein):

- Revenue should not be recognized until it is realizable and when it is earned
- The staff believes that revenue generally is realizable and earned when all of the following criteria are met:

  1. Persuasive evidence of an arrangement exists.
  2. Delivery has occurred or services have been rendered
  3. The seller's price to the buyer is fixed or determinable
  4. Collection of the price is reasonably assured

I believed that the execution of the sales agreement on January 26, 2009 constituted persuasive evidence of an existing and binding sales transaction in which all the terms of the sale were clearly fixed and there was reasonable assurance of collection based upon the financial resources of the buyer.

With respect to the delivery of the goods or services, although transfer of title to the joint venture interest as per the purchase and sale agreement did not occur until the closing on March 7, 2009, I believed that the transfer of title and monies were more or less perfunctory at January 26, 2009, as the only closing condition at the point of the sale was the circulation of an Information Statement to Issuer A's stockholders, which was entirely within the control of Issuer A.

Please also see Statement of Financial Accounting Concepts No. 5, paragraph 50, which states that revenues are sometimes recognized before sale if readily realizable, and if the sale is more or less effortless or perfunctory activity and uncertainty about the amounts involved is reduced to an acceptable level.

Therefore, at the time of the purchase and sales agreement, there was a high likelihood that the closing would take place following the satisfaction of the Information Statement condition. I also noted in connection with allocating the economic impact of the sale as between Issuer A and the purchaser, Section 8(b) of the purchase and sale agreement provided the effective date of the sale to be December 31, 2008. As a result, I believed that it was the intention of the parties to the purchase and sale agreement to recognize December 31, 2008 as the point of sale, regardless of the stated closing date. In the interest of emphasizing the concept of 'substance over form", a concept which pervades much of accounting literature, I felt it was appropriate to recognize the effects of this transaction in the fiscal year ended January 31, 2009.

Securities and Exchange Commission (SEC) staff disagreed with Issuer A's interpretation of December 31, 2008 as the point of sale and felt that the closing date of March 7, 2009 should have been used. At that time, rather expend resources debating the point of sale with the SEC, Issuer A felt it was in their best interest to "put the matter behind them" and to restate the financial statements as of January 31, 2009 indicating the point of sale of the joint venture interest to be March 7, 2009 as opposed to December 31, 2008.

Donahue Associates LLC strenuously argues that the point of sale of this transaction is December 31, 2008 rather than the closing date of March 7, 2009. I believe my argument is supported by generally accepted accounting principles as per SEC Staff Financial Codification Topic 13 and Statement of Financial Accounting Concepts No. 5. Indeed, the only area of accounting that strongly recommends using the closing date as the point of sale is SFAS 66, Accounting for Sales of Real Estate.

Notwithstanding Issuer A's wish to restate in order to "put the matter behind them", I argued and still argue that the original interpretation of the point of sale of December 31, 2008 is correct under generally accepted accounting principles. I respectively urge the PCAOB to exclude this matter in its Final Report.

I intend for this letter to be included as part of my response to the public portion in the PCAOB Final Report.

I appreciate this opportunity to provide my response to the PCAOB Report and look forward to continuing to work with you on matters of interest to my public company auditing practice. I will be responding to the Board's other findings in Part II of your Report of September 17, 2010 within the next twelve months and will submit for your approval the remedies that my firm will implement that address your findings.

Sincerely,

Brian Donahue

Brian Donahue
Managing Partner
Donahue Associates LLC