Sure it doesn’t make sense…but we’ve all been guilty of bowling in the dark. When you bowl in the dark, two critical things occur (or more aptly don’t occur):

1. You have no idea how successful you are.
2. You have no idea how to improve your results.

So maybe you haven’t literally bowled in the dark, but if you run a business, you may find that you also have no idea how successful you are and you may also have no idea of how to improve your results.

The answer isn’t quite as simple as turning on the lights, but it’s almost as obvious. In Michael Gerber’s book, “The E-Myth”, he points out that most business owners need to spend more time working on their business rather than in their business. One critical management tool to “turn on the lights” is financial statement analysis.

The most basic form of financial statement analysis is examining comparative information. Comparative analysis can be either horizontal or vertical. Horizontal analysis, or trend analysis, simply compares data from period to period. For example, sales for the prior year compared to sales for the current year. To assist with this analysis, it can be helpful to state subsequent years as a percentage of a base-year amount. If sales for the prior (base-year) year were $1,000,000 and sales for the current year are $950,000, then the current year performance is 95% of the prior year performance. This can also be calculated as a percentage change of -5% from year 1 to year 2. The obvious benefit of horizontal analysis is that trends, whether positive or negative, are easily identified…particularly if you look at three or more years.

Critical management tools for your business include using horizontal and vertical analysis on financial statements to measure success and improve results.

Vertical analysis, also referred to as common-size analysis, is accomplished by stating all items on the financials as a percentage of a base figure. On the income statement, the base figure is Gross Sales. So every other item on the income statement is reported as a percent of sales. If your sales were $1,000,000 and your gross payroll was $600,000, then gross payroll would be 60% of the gross sales. The benefit of vertical analysis is that the major or significant components of your business are very easily identified. The vertical analysis figures can also be reviewed from a trend analysis standpoint. This can assist the business owner in knowing what areas need to be better managed.

With financial statement analysis and other tools, you can bowl with the lights on and know how you’ve done and what should be done differently.
By Tommy Greer

We’ve all heard the overused phrase that we have to get “the right people on the bus,” and I truly believe that. But, once you get them on the bus, what next? If the bus never pulls out of the parking lot it doesn’t matter who’s on it.

To be successful after finding the right people you have to invest heavily, time and money, in two critical areas or you will surely fail. These two areas are Training and Technology. This is true for us both personally and corporately.

Look at your business and examine how much you are investing in these two critical areas. Monitor the money and time spent here and like every other area ask yourself two questions:

Am I investing enough?

Am I getting top value or growth from how I’m investing?

Many times, because we are “busy”, we approach our training and technology based on whether we have any time available or money left over. This is a reactive approach and will not fund a strategic program aimed at growing the business. We must be more proactive and intentional in these two areas. For example: During the recession, training is a great use of extra possible down time, resulting in better skilled workers who will put businesses in a better position once the economic downturn ends. Ask questions about where you currently are:

Do I still just have one monitor on every desk?

Are we still putting more files in a file room instead of on our server?

This is a goal we should all have for ourselves individually also. Whether you are 21 or 51 you need to have a personal plan in place to make sure you continue to invest in these two areas. Do not leave these career defining areas solely up to your employer. You must invest in yourself if you are to succeed.

Training and Technology are investments that will have a payoff. Unfortunately, it can be difficult to measure and hard to see immediate results. Over the long term, though, it is very easy to see the results of those who do this wisely.

So again, while we all may be on the bus, the bus is on the interstate and things are moving fast. Remember, if you’re standing still you are falling behind and if you’re already behind you have to move faster to keep up!
With the spring season upon us, it is time to start thinking about those wonderful family vacations that we all look forward to. However, for those of you who own vacation homes and rent them out for part of the year, the thought of vacation time can pose an entirely different set of ideas concerning taxes.

Tax reporting on a rental property used personally by the taxpayer depends on how many days the property is used for rental purposes as opposed to personal purposes. Property is considered to be a vacation home with both rental and personal use if the personal use of the property exceeds the greater of 14 days or 10% of total rental days and total rental use exceeds 14 days. The property’s designation for tax purposes can change yearly, depending on how the property is used during the year.

If property used as a residence is rented more than 14 days, deductions (other than interest, taxes, and casualty losses) are limited to the amount of the income from the property. A set of ordering rules applies in determining allowable deductions and the passive loss limitations are not applicable. Rental income and expenses from vacation homes are reported on Schedule E. Rental expenses are deductible in the following order:

- **#1 Qualified residential interest, taxes, casualty losses, and rental expenses not attributable to operating or maintaining the dwelling.**
- **#2 Operating expenses (including nonqualified residential interest), except depreciation.**
- **#3 Depreciation and other basis adjustments.**

When applying these ordering rules, the expenses in the second and third categories cannot produce a taxable loss. Thus, if the deductible interest and taxes completely offset the rental income, the operating expenses and depreciation are not deductible. Any expenses limited under this net income rule are eligible for carryforward to future years, with the expenses remaining subject to the net income limitation.

When determining the number of days a dwelling unit is used for personal purposes, a taxpayer must consider several rules in addition to actual days of personal use. Personal use includes days the residence is used or rented to anyone at less than fair rental value. Personal use by other owners of the property (or members of their family) is attributed to the taxpayer. Rental to a family member is considered personal use unless the taxpayer can show that (a) a fair market value rent was received and (b) the dwelling was used as the family member’s principal residence. Lastly, the days a taxpayer spends repairing and maintaining property on a substantially full-time basis are not counted as days of personal use.

This article simply lays the basic ground rules for the tax treatment of a vacation home. Since your situation may be different than that of someone else, please consult your BCS tax advisor for the proper treatment of your vacation property.

Electronic Payments

Effective June 25, 2009 the threshold was lowered for required electronic filing and payment for sales and use tax purposes from $2,500 to $1,000. The return must be filed electronically and payment must be made electronically if the taxpayer’s average monthly sales and use tax liability exceeds $1,000. The average liability is determined by dividing the amount of tax due during the past consecutive 12 months by the number of returns actually filed. This section also clarifies that quarterly franchise and excise tax estimated payments must be remitted electronically if the payment exceeds $2,500. The threshold for required electronic payment of the franchise and excise tax return is $10,000.

Why Should I Complete a Tax Organizer?

Providing accurate tax preparation service to our clients is important to BCS staff. An excellent tax organizing tool was mailed to you early in January. The Tax Organizer is designed to assist you and your tax preparer in gathering the necessary information to accurately prepare your return.

Answering the questions in the front of the Tax Organizer could alert your tax preparer to issues that may affect your tax return. If you use the organizer only as a tool to guide you in obtaining tax source documents, answering the questions is time well spent.

If you did not receive an organizer, you may request one by calling the office at 282-4511 (JC), 638-8516 (GV), or 246-1725 (KP).
On February 5th, BCS employees showed their support for the fight against heart disease by wearing red to work for National Wear Red Day sponsored by the American Heart Association. Heart disease is the No. 1 killer of women today. While some people have sudden shortness of breath and chest discomfort, some women can present other symptoms not normally associated with a stroke or heart attack. Thanks to the participation of millions of people across the country, the GO RED and RED DRESS symbols now stand for the ability all women have to improve their heart health and live stronger, longer lives. For more information on the reason to wear red, please visit: WWW.GOREDFORWOMEN.ORG.

**Personal Financial Planning Spotlight**

**DO I NEED AN UMBRELLA POLICY?**

**What is an Umbrella policy?** An umbrella policy is an insurance policy that provides added liability protection to your homeowners, car and/or boat insurance.

**By James Motte**

**Why would you need an Umbrella policy?** Umbrella policies cover claims that you (including dependents and pets) may have caused. An umbrella policy helps insures you against catastrophic claims and lawsuits not covered under your base policy.

**What is the minimum amount of liability coverage I will need to be eligible for an umbrella policy?**
- Auto - $250,000
- Home Owners - $300,000
- Boat Insurance (small) - $100,000

The above are general estimates. You will need to check with your insurance company for details. Furthermore, many insurance companies will require you to purchase both your auto and home owners policy through them in order to buy an umbrella policy.

**How much protection do you need?** The rule of thumb is that you have a policy in place for one million dollars or your net worth to the nearest million dollars, whichever is larger. For example, if you have a net worth of $500,000 you should consider having a $1,000,000 umbrella policy. If your next worth is $1,500,000 you should consider having a $2,000,000 umbrella policy.

**How much do they cost?** Most umbrella policies should cost about $150 to $300 a year for the first million dollars of coverage and even less a year for each additional million dollars of coverage. These policies are fairly inexpensive due to the higher deductible that is covered by your base policy.

**Does an umbrella policy cover claims not covered by your base home and auto liability insurance?** Yes, it covers the following that are not generally included in the base policies:
- Rental property
- Higher legal defense costs
- Slander

**Do you need an umbrella policy?** If you own a home and your assets are more than your liability limits for your auto and home, or if you are just starting out and are a high income earner then you should consider purchasing an umbrella policy.
What Level of Assurance Do You Need?

Comparing an Audit, Review & Compilation

By Bobby Potter

Most external users of financial statements (regulatory agencies, banks, absentee owners, etc.) would hesitate to place a great deal of reliance upon those statements unless there has been some degree of independent examination performed. This examination generally comes in the form of an audit, review or compilation. These three services are collectively known as “assurance services”. In essence, the accountant “assures” the external users that the statements have been prepared and presented in accordance with Generally Accepted Accounting Principles (GAAP). Each of the assurance services mentioned are primarily differentiated by the level of assurance that the service provides.

Audit

An audit provides the greatest level of assurance. The audit provides reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. This level of assurance is based on the auditor’s opinion that the financial statements present fairly the entity’s financial position and results of operations. The auditor’s opinion is based on the results of test work performed including inspection of accounting records; observation of inventories, fixed assets and other assets; confirmation of cash and debt balances; and the examination of supporting source documents (such as invoices, cancelled checks, contracts, etc.). An audit also requires that the auditor obtain an understanding of the organization’s internal controls and an assessment of the risk that the organization’s internal controls will fail to prevent or detect the existence of a material misstatement of the financial statements.

Review

A review provides only limited assurance because the accountant performing the review will primarily rely on inquiry of the organization’s personnel and analytical procedures performed on the information provided by the organization. Generally, the accountant’s procedures would escalate beyond this level of examination only if the initial information provided by the organization appears to be questionable. As such, examination of accounting records is usually minimal. A review does not require that the accountant obtain an understanding of internal controls nor assess control risk. A review provides only limited assurance that there are no material modifications that should be made to the financial statements or the disclosures.

Compilation

A compilation is the most basic level of service provided in respect to financial statements. This service is little more than the preparation and/or reading of the financial statements in order to determine whether there are any obvious departures from GAAP. Inquiry of the organization’s personnel is generally the only procedure performed and only if the initial information provided by the organization appears to be questionable. This service provides no assurance that the financial statements have been fairly presented in accordance with GAAP.

If you are unsure of the level of service that your organization requires, or if you have any other questions regarding our assurance services, please do not hesitate to contact our office.

Audit Alert

On January 14, 2010 the Department of Labor (DOL) issued guidance relating to the timeliness of participant contributions to pension or welfare plans with fewer than 100 participants at the beginning of the Plan year. In accordance with these new regulations, plan sponsors will be considered to be in compliance with the general rule which states that contributions withheld from participants must be remitted on the earliest date on which such contributions can be reasonably segregated from the employer’s general assets when they are deposited into the Plan no later than the 7th business day following the day on which such amounts would have been payable to the participant in cash. While this 7 day rule is currently only effective for “small plans,” large plans are encouraged to review their remittance procedures and look for ways to streamline their processes so that participant contributions are remitted to Plan assets as soon as possible.
During the month of December, BCS held a food drive for the Second Harvest Food Bank of Northeast Tennessee. We collected over 130 pounds of non-perishable food items.

The Second Harvest Food Bank of Northeast Tennessee is a non-profit organization that supplies food and grocery products to non-profit agencies that provide services to the needy, ill and elderly in an eight-county region of Northeast Tennessee. Approximately 200 agencies distributed food to an average of 31,000 people each month during 2009.

For more information on how you can help provide food for those in need, please visit Second Harvest Food Bank’s website at: www.netfoodbank.org.

Someone once said “Do not fear the winds of adversity. Remember: A kite rises against the wind rather than with it”. For the small business owner, it is times of economic hardship that bring about more creativity and efficiency and causes us to look for ways to keep the cash flowing. It also causes questions to be asked about what tools are available to help accomplish these objectives.

There are several tools available that help to measure the performance of the business. These are the financial statements, which consist of three parts. The first, the balance sheet, gives a “snapshot” view at a point in time and shows the equity available in the business. The second, the income statement, covers a period of time and shows how the business is doing during that time by deducting expenses from revenues. This is a valuable tool in that you can quickly see expenses that are higher than necessary in relation to the revenue it is producing.

Last but by no means least, the cash flow statement, often considered the most important by business owners. This statement is a simple means of predicting your future cash flow so you can predict your needs before the need for cash arises. It should be updated on a consistent and timely basis and used as a tool to plan and monitor the business.

And although there are areas where cutting back is necessary, marketing and advertising should not be one of these, since the customer is truly the only asset in the business that will insure a long and prosperous future.

Finally, a very important cash flow technique is to shorten the cash cycle. This can be accomplished by offering incentives to customers to pay for your goods and services as soon as possible, such as discounts for paying cash or for early payments of their accounts. Paying your own bills to take advantage of discounts is also an effective cash management tool.

Remember, history has shown that for every downturn in the economy, there is always an upturn. Make the most of the tools and resources that will see you through to the next upturn.

**Summary of tools and tips to keep cash flowing during tough economic times:**

Use financial statements (balance sheet, income statement, and cash flow statement) to identify areas of your business that require attention; don’t use money collected for taxes to pay bills, don’t cut back on marketing and advertising, and take advantage of early bill payment discounts.

**FLYING HIGH IN 2010**

**MEASURING THE PERFORMANCE OF YOUR BUSINESS WITH FINANCIAL STATEMENTS AND OTHER TIPS**

**By Beth Lillycrop**
The Computer Guys

Infection by Social Networking

Why Facebook and Myspace are not as safe as you might think...

Once in awhile a friend or family member will call me up to let me know they think they have a virus on their computer. The phrase that I continually hear is, “All I ever do is Facebook/Myspace, and check e-mail.” Then, after I spend some time clearing up any infections they might have, they become infected again within a matter of days or weeks. At that point I’m asked, “Could I have gotten something from going to my Facebook/Myspace page?”, and the answer to that is “YES”.

Tips from the Computer Guy on how to protect your computer:

Install good antivirus, antimalware, and antispyware programs on your computer & be cautious about what links you click on within social networking sites.

At this point you could be asking the question, “What is the best way for me to protect myself when I’m on Facebook/Myspace?” The first step is to make sure that you have a good antivirus (Norton, AVG, McAfee), antimalware, and antispyware program installed on your computer and that the programs are downloading updates daily. The second is to be a little more cautious as to what links you click on within any social networking site. I’m not saying that you shouldn’t click on anything that a friend or family member posts, but if it seems a little shady to you then I would advise not to click the link. I wish that I could guarantee that if you followed those two steps then your computer wouldn’t become infected, but I think that if you can follow those two steps then it can drastically reduce the chances of your computer becoming infected with a virus.

Nick Crowe named to UT All-Decade Team

Our very own Audit Department’s NICK CROWE was selected to the University of Tennessee’s All-Decade Baseball Team! Following an online fan vote, the University of Tennessee announced the first and second All-Decade Baseball Teams at the 18th Annual Leadoff Banquet. The two teams include a total of 30 players, including 19 that played in the College World Series and 12 that claimed All-American honors during their time at Rocky Top.

Nick is a Johnson City native. He attended Science Hill High School where he was a three-time All-State Selection and a member of the 1998 State Championship Team. He was a member of Team USA’s silver medal winning team in the 2001 Pan-American Games. He was a member of the UT team from 2002-2004 where he played all infield positions including catcher in his career. He is among the top of several statistical categories in UT history. He was also named Academic All-SEC from 2002-2004 and an Academic All-American in 2003.

Congratulations Nick!
Please welcome Audrey Capps to our BCS Family. Audrey will be working at the front desk as an Admin Assistant in JC. She graduated from ETSU in December 2009 with a BBA in Marketing and was on the Dean’s List. Audrey enjoys reading, traveling and being outdoors. She was married to Kevin Capps January 9.

Congratulations to Rachel Squibb on her promotion to Audit Manager! Rachel joined BCS in February 1999 as an intern while attending college at ETSU. She started full time in the Audit Department after graduating in 2001 and successfully passed her CPA exam in 2003. Rachel works in the Johnson City office.

Please welcome Andy Williams to our BCS Family. Andy is working as an intern in our Tax Department in the Kingsport Office. He is an Accounting and Finance Student at ETSU and plans to graduate in December 2010. Andy is on the Dean’s List. He attends New Haven Church in Greeneville.

Congratulations to Chuck Randolph on his promotion to Tax Manager! Chuck graduated from ETSU in 1991 and passed the CPA Exam in 1995. He began working for BCS in 2005. He has expertise in corporate, partnership and individual taxation and all areas of small business administration and works in our JC office.

Jake Hutchison and Kim Ramsey were married on Saturday, December 19, 2009. Jake is a member of our Tax Department and works in the Johnson City office.

Congratulations to the newlyweds!