

# Client Tell

*Blackburn, Childers, and Steagall, PLC*  
Certified Public Accountants and Consultants

Volume XVII No. 3 Fall 2011

Blackburn, Childers & Steagall, PLC Quarterly Newsletter

## Andy Clark - Top Accounting Student in State!



Congratulations to Audit Department member Andy Clark! He just received the 2011 Paul L. Royston Award. This recognizes the top accounting student in the state of Tennessee. He has received his bachelor's degrees in accounting and finance, and he is in the Master's of Accountancy program at ETSU.

## Welcome Kevin Ewers, CPA

Kevin Ewers comes to BCS with a Bachelor of Science degree in Accounting from Clemson University, and 30 years of experience in public accounting. He has been involved in tax planning and tax preparation for individuals and businesses, business startup consultation, business succession planning, estate planning, and estate tax preparation. He resides in Kingsport with his wife Sabra, and sons, Garrett and Mason, and attends Sullivan Baptist Church, where he has taught Sunday School and been involved with missions. He is a co-founder and director of Education Technologies Foundation, a non-profit entity whose mission is to assist in world-wide education, particularly in poverty-stricken countries. He is a member of the Foundation Board of The Southern Baptist Theological Seminary, where he currently serves on the Estate Planning Committee. Kevin is a member of the Tennessee Society of CPAs and the American Institute of CPAs.





# Benchmarking for Success

## Tommy Greer

Do you ever wonder how you stack up compared to others? Of course you do, we all do.

You might also be interested to know most all successful organizations do too, and they actually do something about it. This is called Benchmarking.

Benchmarking is the process of comparing your results, products and/or processes to best practices of competitors and others in your industry. It can sometimes even be of benefit to look at other industries. You may think you are doing really well, but until you measure yourself to a standard, you have no idea. Most of the early work in the area of benchmarking was done in manufacturing, but now benchmarking is a management tool that is being applied almost everywhere to continually learn and improve.

In benchmarking you examine where you currently are, thus providing a great advantage or starting point in developing goals and strategies for where you should/want to be to be the best. This allows you to focus time, energy and resources to facilitate improved performance and provide the best return on investment. Benchmarking is closely linked to business excellence.

---

### **Common Financial Benchmarking Areas**

#### ***Profitability***

Year-end income before taxes/Total Income

Year-end income before taxes/Equity

#### ***Efficiency***

Gross margin, SG&A as a % of sales, EBITDA as a % of sales

Days of Inventory, Receivables and Payables

#### ***Solvency***

Current Ratio, Debt to Equity, PPE to Equity, Debt Coverage Ratio, Interest expense as a % of sales

Benchmarking in your business involves five key steps:

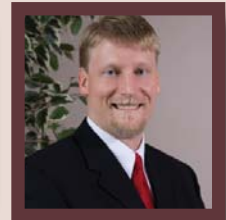
1. What Measures/Processes are important to your success – if you're not sure about this, then get busy studying your industry to see what key factors drive success, the more specific and comparable the better (external)
2. Measure these factors/Evaluate the Processes (internal)
3. Compare these key factors to Best Practices/Standards (external)
4. Develop & Implement Strategies to close performance gaps (internal)
5. Remeasure and repeat process on reoccurring basis (internal)

Benchmarking encourages you to look for better and unique ideas that can help improve your business. To me, this means continually improving to assure high quality as efficiently possible. In these economic times, I would recommend we all get started Benchmarking ASAP.

The term *benchmarking* was first used by cobblers to measure people's feet for shoes. They would place someone's foot on a "bench" and mark it out to make the pattern for the shoes.

# Plan Your Exit

*Travis McMurray*



Without exception, every owner leaves his or her business. Whether they meet their objectives or not depends on the specific exit planning actions taken before they leave. Exit planning helps business owners set, sort through, and achieve their exit objectives. It enables owners to leave their companies when they want, to the successors they want, and with the amount of cash they need.

For most owners, their business constitutes the majority of their personal wealth. Most have worked tirelessly for years with the goal of selling their business for retirement or leaving it to family for generational continuity. To accomplish either of these goals, it is crucial the business owner does not wait until they are ready to exit to start the exit planning process. To execute a successful exit plan that meets an owner's objectives while minimizing taxes and maximizing business value, it is necessary to start the exit planning process a number of years in advance. Most business owners are too busy working in the business or may be overwhelmed by the process and unsure of how to begin.

In order to successfully exit, it's important to work through the following:

- What is your timeline for exiting the business?
- Do you have key personnel that can manage/run the business in your absence?
- Are there family members who are both capable and interested in managing the business?

- Are there interested/potential buyers for the business?
- Do you know the value of the business?
- Does your absence from the business greatly affect the value of the business?
- Are you willing to work for a new owner during a period of transition?
- What are the value drivers for your business?
- How can you add value/protect the value of your business?
- What is the tax effect of selling the business?
- Do you have a contingency plan?

These are complicated questions which require adequate planning and consideration. To navigate these issues, it is important to have a comprehensive approach which includes the appropriate advisors. Unfortunately, a business owner is typically too busy to consider these issues and often the situation is one in which the business is sold out of necessity whether it be due to health reasons or financial constraints. If the process begins a few years before the actual transfer, the likelihood of meeting the owner's objectives improves greatly. A detailed timeline and implementation schedule will guide the process and assist you in meeting your objectives. If you need assistance navigating this process, please contact our office.

## Client Feature

# Diversified Power International

Diversified Power International, LLC in Piney Flats designs and manufactures battery chargers for a wide array of products from golf cars to solar panels to medical equipment.

Tony Trigiani and Jerry Fagan founded the company in 1997 and started out working out of a garage. A few years later they partnered with Clyde Arnold and moved their operations to the current location in Piney Flats. In 2008, Mr. Trigiani bought his partners out and is now the sole owner of DPI. The company has expanded rapidly over the last year and plans to employ around 60 individuals by year end.

“My partner and I started this company because we wanted to provide for ourselves, and we didn’t want our futures to be dependent on a Fortune 500 company. We also want that for our employees,” said Mr. Trigiani.

DPI is working hard towards vertical integration. By the end of the year, their capacity will be doubled, through increased capacities in machining and the ability to manufacture circuit boards and the creation of new jobs.

Mr. Trigiani is very excited about being able to manufacture circuit boards that they designed in-house. Previously, this had to be outsourced. “They don’t have the kind of quality control in Asian countries like we do here,” he

said.

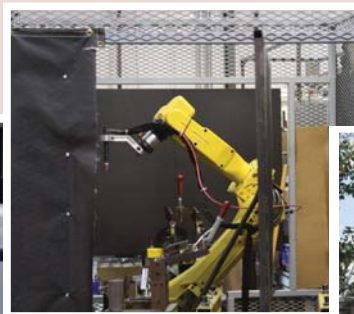
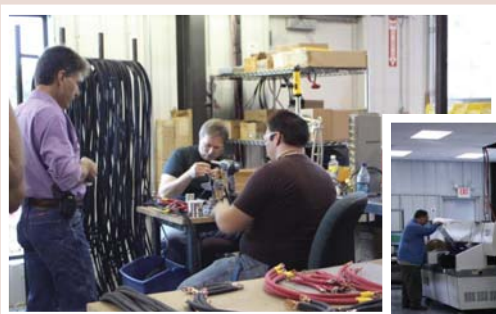
“We want this to be a cradle-to-the-grave operation, that’s what we are working towards. From design and engineering to the final finished product, we want the whole product to be made here.”

DPI serves many diverse markets, among them: material handling chargers, power systems, retail, golf cars, lawn care, military, food service, solar systems, medical power, automotive, and elevator electronics. They have many new products under design and are always open to new opportunities.

They are also developing new technology for use in renewable energy, mainly solar panels, but also geothermal and wind energy.

DPI is unique compared to their competitors because of their superiority in programming the best mathematical algorithm for an application. Their mission statement is to “Design and manufacture the highest quality, truly intelligent power solutions and energy management systems using digital processing algorithms.”

To learn more about Diversified Power International and to view their available products, please visit them on the web at [www.DPIpower.com](http://www.DPIpower.com).



# Controls for Service Organizations

Rachel Squibb



Due to an increased focus on internal control by regulators, boards of directors and others charged with governance, an increased demand for attestation reports on controls over subject matter other than financial reporting has resulted. In response to this demand, the AICPA has developed the Service Organization Control (SOC) reporting framework. The framework is designed to help service organizations, their customers and CPAs understand the types of examination reports a CPA can issue related to service organization controls (formerly referred to as SAS 70 reports). The SOC (commonly pronounced “sock”) framework includes three reporting options.

**Outsourcing** - Many companies function more efficiently and profitably by outsourcing tasks or entire functions to other organizations (service organizations) that have the personnel, expertise, equipment or technology to accomplish these tasks. As part of these services, a service organization will often collect, process, transmit, store, organize, maintain and dispose of information for its customers. Examples of service organizations include cloud computing

providers, payroll processors, information security service providers and information service providers. Although a company outsources tasks to a service organization, company management retains responsibility for the outsourced tasks, and the manner in which they are performed.

**Choosing the Right SOC Report** - A company’s management can evaluate the quality of operations of their service organization by requesting the service organization provide a SOC report. The table below is a summary of the three different types of SOC reports.

If you have further questions about SOC reports or to discuss a potential need for a SOC audit, please contact our Audit Department. The BCS Audit Department would be happy to provide further information on this new type of reporting and is well-positioned to meet our clients’ needs.

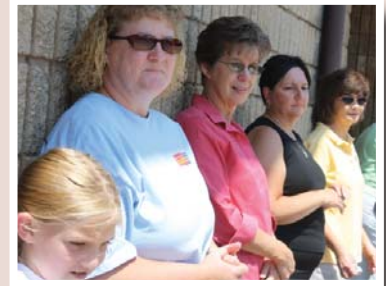
Source: “Expanding Service Organization Controls Reporting.” *Journal of Accountancy* July 2011

	Users	Concern	Detail Required
<b>SOC 1</b>	User entities (specifically, controller's office, Sarbanes-Oxley compliance office) and their financial statement auditors	Effect of service organization's control on user organization's financial statement assertions	Required detail on the system, controls, test performed by the service auditor and results of those tests
<b>SOC 2</b>	User entities (for example, security, compliance, vendor management), regulators, business partners, others with sufficient knowledge to appropriately use the report	Effectiveness of controls at the service organization related to security, availability, processing integrity, confidentiality, and/or privacy	Require detail on the system, controls, tests performed by the service auditor and results to those tests
<b>SOC 3</b>	Any users with a need for confidence in the service organization's controls	Effectiveness of controls at the service organization related to security, availability, processing integrity, confidentiality, and/or privacy	Require very limited information (that is, the boundaries of the system and the achievement of the applicable Trust Services criteria for security, availability, processing integrity, confidentiality, and/or privacy)

# 50 Weeks of Giving Update



Be sure to check the blog for more information on all of our exciting projects at [www.BCScpa.com](http://www.BCScpa.com) and click on the 50 Weeks of Giving icon.



# Educational Savings Planning

*Brandy Stykes*



As students head back to school, we encourage you to consider your plans for higher education costs. While most families rely on scholarships, loans, and grants to help pay for college educations, those amounts could be mitigated by planning for the future now. There are two educational savings options that provide both an opportunity to plan ahead and a tax advantage: Section 529 plans and Coverdell savings accounts.

## **Section 529 Plans**

States and some schools offer 529 plans, or qualified tuition programs, that allow individuals to prepay or contribute to higher education expenses, which include colleges, universities, vocational schools, and other post-secondary education. There is no annual contribution limit for 529 plans, and allowable lifetime contributions vary by plan. Contributions are not limited by adjusted gross income (AGI). While 529 contributions are not deductible on federal tax returns, some states do offer a deduction for contributions. Principal distributions and earnings from both state 529 plans and private college 529 plans are entirely tax-free if used for qualified higher education expenses.

Section 529 plans come in two forms: pre-paid tuition plans and college savings plans. Pre-paid tuition plans, most of which are sponsored by states and have residency requirements, allow individuals to purchase units or credits for tuition at the state's public schools.

If a student chooses not to attend school in that state, the funds can be transferred to other schools. Many states guarantee investments that they sponsor. College savings plans, on the other hand, consist of an account set up for a student. The saver selects investment options, and the college savings plans then invests on the saver's behalf. While investments are not guaranteed, withdrawals for college savings plans can be used at any college.

## **Coverdell Education Savings Accounts**

Coverdell education savings accounts, or education IRAs, allow individuals to save for education from kindergarten to the post-secondary level. One can contribute up to \$2,000 each year per beneficiary until the beneficiary turns eighteen. The age limit does not apply to beneficiaries with special needs. Excess contributions are subject to an excise tax, and the contributions are not deductible by the donor. Married couples with a modified AGI in excess of \$220,000 and single individuals with a modified AGI in excess of \$110,000 cannot contribute to Coverdell accounts.

Coverdell distributions are not taxable to the beneficiary as long as they are used for qualified education expenses, and earnings accumulate tax-free. Parents can transfer unused account balances to younger siblings or first cousins, which lengthens the tax-free growth period.



# Medicare 2012 : The Times, They Are A-Changin’ Nick Clay & Tyler Mackie

Bob Dylan may have had it right on the title of his album released just one year before the Medicare program was introduced as an addition to the Social Security System.

Change seems to be the only thing consistent about Medicare in recent history and this year is no different. For individuals on Medicare or enrolling in the next few months, you will notice a few changes in the Annual Election Period (AEP), as well as changes to out-of-pocket copays, Part B Premium and deductibles on Medicare Parts: A, B, and D.

In the past, the Annual Election Period (also known as the Annual Coordinated Election Period) has always been from November 15th through December 31st. Starting in 2011 for the 2012 Plan year, the Annual Election Period (AEP) will begin on October 15, 2011 and end on December 7, 2011.

During this time anyone on Medicare can enroll, dis-enroll, or change Medicare Advantage coverage or Medicare Prescription coverage without penalty or health questions asked. However this does not apply to Traditional “Medigap” Supplements. Traditional plans always require health questions to be answered unless in Initial Enrollment at age 65 or during a Special Election Period (SEP).

Also new in 2012 is an increase in the premium for Part B of Medicare, the part that pays the majority of doctors’ services and durable medical equipment. This year Medi-

care recipients will pay \$115.40 increased from \$110.50 in 2011 and \$96.40 in 2010. This increase cost could virtually erase the Cost of Living Adjustment (COLA) increase in Social Security payments for 2012.

Proposed Changes to Part D of Medicare in 2012:

- **Initial Deductible:**  
will be increased by \$10 to \$320 in 2012
- **Initial Coverage Limit:**  
will increase from \$2,840 in 2011 to \$2,930 in 2012
- **Out-of-Pocket Threshold:**  
will increase from \$4,550 to \$4,700 in 2012
- **Coverage Gap (donut hole):**  
begins once you reach your Medicare Part D plan’s initial coverage limit (\$2,930 in 2012) and ends when you spend a total of \$4,700 in 2012.
- **In 2012,** Part D enrollees will continue to receive a 50% discount on the total cost of their brand-name drugs while in the donut hole. The full retail cost of the drugs will still apply to getting out of the donut hole even though 50% was paid for by the pharmaceutical manufacturers. Enrollees will pay a maximum of 86% co-pay on generic drugs while in the coverage gap.

**“Change is inevitable-  
except from a vending machine.”  
-Robert C. Gallagher**

Change is not always something to be feared, nor does it always affect us negatively. It is important to embrace change as a part of life and to evaluate your options every year to see how these changes personally effect your situation. For questions or guidance, please feel free to reach out to one of our advisors. It is our goal to be an objective voice to help you best evaluate your plan and navigate these changes.

# Personal Lines



**Correne Mann** is the new administrative assistant for BCS Wealth Management. She comes to us from North Carolina with nine years of experience in administrative duties. Correne is actively involved in Grace Fellowship Church, where her husband Stephen is the Worship Arts pastor.

Arts pastor.



**Matthew Stanley** is a new audit intern. He graduated with his Bachelor's and Master's degrees in Accounting from ETSU, where he also played tennis. Matt is a native of Kingsport and now lives in Johnson City.



**Steven Stull** is a new intern in the Tax Department. He is a senior at UT Knoxville and plans to graduate in May 2012. He has received several Honors and Awards as well as being on the Dean's List. He currently serves

as the Parliamentarian Officer for the Kappa Alpha Order. While at home in Johnson City, he attends Central Baptist Church, and attends Calvary Baptist in Knoxville.

**Steven Blackburn** is BCS Wealth Management's new agent to sell life and health insurance. Steven and his wife, Allison, just welcomed their first child, Jeffery Finn. They attend Redeemer Community Church where Steven is a small group leader and a member of the preaching team.



**Tyler Williams** is a new intern in the Audit Department. He will graduate with his Accounting degree from ETSU in December 2011. He is currently on the Dean's list and a student member of the AICPA. Tyler is from Elizabethton and attends Watauga Valley Freewill Baptist Church where he serves as a director of the sound system.



**Josh Sorah** is a new intern in the Audit Department, and he will graduate with his Accounting degree from ETSU in May 2012. He is a Beta Alpha Psi Member, TSCPA Member and volunteers with the Baptist Collegiate Ministries at ETSU. Josh lives in Elizabethton and attends Calvary Baptist Church where he serves as a worship leader.





# TN Business Tax

*Gina Lemons*

During a Tennessee Business Tax Seminar this summer, several important topics were discussed. The state will begin enforcing penalties on non-compliance of filing and payments in the coming year. These topics merit a reminder to all BCS clients. Please call the office if you need more detailed information.

## **Business Tax**

Generally any person in business for profit with gross receipts of \$3,000 must have a business license for each place of business.

2011: Business tax filers that owe \$1,000 or more for any location must pay their business tax electronically.

2012: With two years of business tax filings under way, the TDOR will start enforcing penalties for late electronic filing as of January 1, 2012. Filing penalty is \$500 per return and payment penalty is 5% of amount due.

The local county/city officials still issue the initial business licenses for the one-time fee of \$15.

Final business tax return and payment must be made within 15 days of close of business. New owner is liable for unpaid taxes, so they should request a clearance certificate from the TDOR indicating business taxes have been paid.

There is no such thing as a \$0 business tax return. Each business must pay at least \$22 minimum each year.

Contractors can deduct amounts paid to subcontractor if the sub has a business/contractor's license which is maintained on file. They must submit the sub's info on Sch B, including the sub's name, address, license number and amount paid.

## **Franchise and Excise Tax**

Businesses must submit estimated payment of \$2,500 or more electronically.

## **Sales & Use Tax**

Out-of-purchases of tangible property are subject to Use Tax. If the seller is charging TN sales tax, the seller is responsible for all of the TN tax. If the seller does not charge TN sales tax, the consumer is responsible. This should be reported on your company's Sales & Use Tax Return.

Reminder that as of 1/1/08, delivery, shipping and other transportation charges are taxable if items on the invoice are taxable.

Electronic sales "Rule of Thumb" – if the item was taxable in "hard" form; probably taxable in digital form as well.

# Health Care Legislation & Small Business

Seminar on Thursday, October 6, 2011

8:30 am - 12:00 pm

Millennium Centre, Johnson City

To register:

Call: 423.439.5300 or

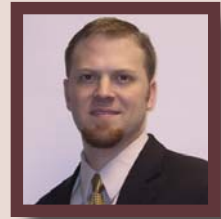
Email: [cbatoutreach@etsu.edu](mailto:cbatoutreach@etsu.edu)

---

Speakers from BCS, Hunter, Smith & Davis and the COO for the US Chamber of Commerce talking about what current health care legislation means for your small business.

# Avoiding Identity Theft Online

*Jonathan Phillippe*



Identity theft is any situation where someone uses your personal information to attempt to impersonate you. Online thieves will use stolen information to open credit accounts, make online purchases and other crimes. Here are some basic tips to follow in protecting yourself and to limit potential exposure of your information.

**1** Use unique passwords for every website. If someone hijacks your Facebook account, you do not want them to have the password to log into your bank account. This will help limit your exposure when a problem does occur. There are various programs such as RoboForm Pro and Sticky Password that will help you manage the passwords for all those websites.

**2** Keep your computer updated and protected. Your computer should be kept up-to-date with the latest updates for your operating system. You will also need current Anti-Virus and Anti-Malware programs that download and update with the latest virus definitions. Many computer infections can be avoided by simply keeping your computer and Anti-Virus software updated.

**3** Secure your wireless network with a password. Many people still choose not to require a password to access their home wireless network. This behavior advertises your vulnerability to everyone in the neighborhood and acts as an invitation to potential thieves. You can find many websites with instructions on how to setup a password for your wireless network if you are unsure how to do so.

**4** Watch out for phishing websites. If you receive unsolicited requests for personal information from email or a website, don't be afraid to confirm the re-

quest is valid. One way to check this is by calling the company's customer service number from your account statement or telephone book. NEVER click any links within any suspicious e-mail, always call the company.

**5** Do not give out too much personal information using social media. If you use your high school mascot or mother's maiden name as your "I forgot my password" question, you shouldn't post it on Facebook, Twitter, etc. Also, I would recommend you never use your "forgotten password" questions immediately for something else.

**6** Google yourself. Check and see what information can be obtained about you easily. This is a good reminder that information you use on the Internet is not private.

**7** Only do online banking at trusted computers. It will not do you good to have your home computer locked down like Fort Knox if you pay your credit card online at the library.

**8** Check your credit profile regularly. There are many ways to get a free copy of your credit report, but many people highly recommend paid services such as LifeLock or ProtectMyID. These services monitor your accounts and if your information is compromised, they react quickly to protect you.

In the end, there is no way to completely protect yourself from identity theft online. Online thieves are always developing new schemes and methods to separate you from your money. With good online habits, you will limit your exposure, and by regular monitoring of your credit or paying for identity theft protection services, you can react quickly if a problem does occur.

 **Blackburn,  
Childers &  
Steagall, PLC**  
*Certified Public Accountants and Consultants*

801 B Sunset Drive  
Johnson City, TN 37604  
423-282-4511



550 Tusculum Blvd.  
Greenville, TN 37745  
423-638-8516



440 East Sullivan Street  
Kingsport, TN 37662  
423-246-1725



[www.BCScpa.com](http://www.BCScpa.com)

 **BCS**  
Wealth Management, LLC

PRSR STD  
U.S. POSTAGE  
PAID  
JOHNSON  
CITY, TN  
PERMIT NO. 26

CHANGE SERVICE REQUESTED

## Habitat for Humanity - Dedication

