

BUSINESSES & INDIVIDUALS

POSSIBILITIES



inside

Recession Response—How Are You Operating?

As the nation continues to face a downturn in the economy, both businesses and individuals are facing difficult decisions. In this article, Eide Bailly's professionals share their recommendations for weathering these turbulent times.

POSSIBILITIES: *What advice would you give clients about operating during a recession?*

Mr. Kendall: First of all, it's not just about a recession—these are unprecedented times. In a very short period of time, we've experienced something that no one has had first hand experience in dealing with before—a collapse in the global financial system. Business owners and executives need to go back to the basic tenets: manage cash flow, retain your best people, retain your best customers, eliminate waste and guard your energy.

Mr. Ramstad: Cash flow is crucial in these economic times. Analyze your cash requirements for a rolling 12 months. Ask yourself, how much cash will you need, when will you need it and

where will you get it? Form a clear direction and strategy for your company and keep the severity of the economic conditions in mind. Do not remain static; recognize that changes will need to be made in these uncertain times.

POSSIBILITIES: *Cash flow is critical. What measures can a company take to maximize cash flow?*

Mr. Kendall: Negotiate reductions with vendors and suppliers, take a fresh look at your monthly operations and determine where waste can be eliminated. Reduce spending to lessen your cash-flow needs. Keep a close eye on your accounts receivable—watch for new patterns of slow payments and follow up immediately. Also, manage your accounts payable more closely.

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PANELISTS:



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EideBaillySM

CPAs & BUSINESS ADVISORS

Expansion Provides Additional Opportunities

OVERVIEW

Eide Bailly continues to look for expansion opportunities in new and existing markets. This past fall, the Firm welcomed three accounting practices into Eide Bailly.



All three firms share a similar culture and service philosophy with Eide Bailly. We believe this is essential in successfully combining practices.

This past fall, three new firms joined forces with Eide Bailly: Colorado-based Gordon, Hughes & Banks, LLP; Tulsa-based Magee Rausch & Shelton LLP; and Boise-based Keller, Young & Grover, LLP. “The addition of three practices to our Firm fits with our growth strategy,” Jerry Topp, managing partner/CEO of Eide Bailly said. “More importantly, all three firms share a similar culture and service philosophy with Eide Bailly. We believe this is essential in successfully combining practices.”

Gordon, Hughes & Banks (GHB) adds six Colorado offices in Boulder, Denver, Frisco, Golden, Grand Junction and Vail with 82 staff members and 15 partners, effective November 1. James Lyons, managing partner of GHB, is serving as the Partner-in-Charge of Eide Bailly’s Colorado practice. Other partners who joined Eide Bailly are Penelope Banks, James Boak, Sheryl Brake, Brian Callahan, Dave DeZutter, Bob Drury, Thomas Froehle, Kim Higgins, Rex Hughes, Peggy Jennings, Celia Johnson, Richard Kendall, Lloyd Sweet and Eric Budreau.

“Our expansion into Colorado gives us the opportunity to expand some of our largest practice areas, including health care, financial institutions and insurance, into a new market,” Jerry said. “We look forward to sharing our extensive knowledge and experience in these areas with clients in the state of Colorado.”

Keller, Young & Grover (KYG) added three partners and five staff members to the Boise office, effective October 31. KYG partners who joined Eide Bailly are Julie Hawkins, Bill Keller and Jim Young.

“By joining forces with Eide Bailly, KYG is able to share more talents with clients to meet their business needs. In addition to the core services offered, clients will benefit from assistance in specialized areas, like cost segregation studies,

business valuations and technology services, as well as additional tax and audit resources,” Jerry said.

Magee Rausch & Shelton (MRS) joined the firm on November 1. We welcome Tim Roberts, Dan Cunningham and Tom Ritchie as partners, as well as 25 staff members.

“Our growth plan for Oklahoma included expansion in both Oklahoma City and Tulsa,” Jerry explained. “Last summer, Murrell, Hall, McIntosh (MHM) joined our Firm, expanding our Oklahoma City and Norman presence. Like MHM, Magee Rausch & Shelton is a great fit with our culture and service philosophy.”

“With each of our expansions, Eide Bailly continues to emphasize local service with national resources, focusing on personal client relationships,” Jerry said. “This reputation for excellent service makes us the Firm of choice for more than 39,000 clients across the nation, and we are pleased to provide our clients with additional knowledge and resources that comes with our growth.”

Please join us in welcoming Gordon, Hughes & Banks; Magee Rausch & Shelton; and Keller, Young & Grover to Eide Bailly. ■

RESOURCES

To view a complete news release, please visit www.eidebailly.com/news



Jerry Topp, CPA
Managing Partner/CEO
Eide Bailly LLP

Congratulations to Our Newest Eide Bailly Partners

On May 1, 2009, Eide Bailly accepted 16 staff members into its partnership, marking the largest group of partner promotions in the Firm's history. This brings the total number of partners to 167. Join us in congratulating:

Aaron Ness | Bismarck, North Dakota

Scot Phillips | Boise, Idaho

Bobby Lawrence | Boise, Idaho

Chad Flanagan | Fargo, North Dakota

Lisa Giese | Fargo, North Dakota

Brad Kelley (principal) | Fargo, North Dakota

Kirk Lindemann | Fargo, North Dakota

Dean Portner | Mankato, Minnesota

James Ford | Minneapolis, Minnesota

Kim Hunwardsen | Minneapolis, Minnesota

Paul Sirek | Minneapolis, Minnesota

Greg Jones | Oklahoma City, Oklahoma

Steve Troutman | Oklahoma City, Oklahoma

Josh Hayes | Phoenix, Arizona

John Magnuson | Sioux Falls, South Dakota

Julie Kafka | Sioux Falls, South Dakota

To view the complete news release, visit our website at www.eidebailly.com/news

We Say Goodbye ...

Please join us in expressing best wishes to Eide Bailly's recently retired partners:

Bob Brostrom | Fargo, North Dakota

After more than 30 years in public accounting, Bob hopes to do more volunteer work, particularly with his church.

Will Wright | Fargo, North Dakota

Will's retirement plans include a mix of activities, including building a lake home. He looks forward to spending more time at the lake and with family and friends. Will also plans to be involved with various volunteer activities.

Craig Swanson | Minneapolis, Minnesota

After more than 35 years, Craig plans on spending time at his cabin in northern Minnesota, which includes completing remodeling projects in the cabin and on the lot. He also plans to spend time golfing, fishing and developing other hobbies.

John Wolf | Mankato, Minnesota

John's retirement plans include some travel, as well as time to work on his golf game. He will also get much more involved in his woodworking shop and spend time with family.

Penny Banks | Frisco, Colorado

In retirement, Penny plans to travel, learn to ski the bumps, participate in fund raiser bicycle tours and visit family and friends.

Charles Gray | Oklahoma City, Oklahoma

This upcoming fall, Charles will attend graduate school with the ultimate goal of teaching accounting at the college level. He also plans to spend time with his family and ride his bicycle as much as possible.



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Mr. Ramstad: Check with your lenders on the status of your credit lines and make sure you are in compliance with their terms. It doesn't hurt to look into alternative types of financing. Also, review your product or service lines to identify the most profitable items and determine how to leverage them for future growth and profit.

POSSIBILITIES: *How can companies manage costs, while retaining staff?*

Mr. Kendall: It's about retaining and developing the right staff. Focus on efficiency—low performance cannot be tolerated. Develop a way to engage your top performers. Take advantage of this time to update talent and engage existing staff. Don't freeze hiring and development—there are a lot of opportunities during these times!

Mr. Ramstad: Be honest with your staff about your company's financial situation. Open your books and show your staff exactly how and where money is spent. Then, draw on the knowledge and talents of the entire staff to form task forces to look at ways to increase revenues and cut costs. It's important to recognize staff for their contributions and to have open and frequent communication.

POSSIBILITIES: *What and how should businesses be communicating with their customers or clients?*

Mr. Kendall: It's important to talk openly and regularly with your customers. Beat your competitors on the customer service front. If you don't already have 100% of your best client's business, ask for more business. Don't become your customers' bank—closely moni-

tor accounts receivable. The severity of this recession indicates there is a high risk that some companies will be out of business in the next two or three quarters. Don't be afraid to dig deeper than ever before in understanding the financial strength of new customers; these are not normal times.

Mr. Ramstad: Communicate your plan and vision for the future with your clients. Constantly update forecasts and communicate changes to your clients and staff. Calm their fears about how these challenging economic times will affect your clients and staff by addressing these issues directly—speculation and gossip are counterproductive.

POSSIBILITIES: *What issues are you hearing from individuals? What are their biggest concerns?*

Mr. Christopherson: At this time, losing money is a big concern. The uncertainty of the market has people wondering when and if they'll be able to retire. These times are considered unprecedented, yet we have to look to history.

Ms. Hall: People are wondering if the market will recover and want to know how long it will take. We have to remember, throughout history we've had bad markets and they ultimately turn around. We can look at a lot of data through history; we don't know when or how quickly the market will recover, but we are confident that it will. Remember, there are also opportunities in the stock market.

POSSIBILITIES: *What advice would you give someone who's seen a drop in their 401(k) or 529?*

Mr. Christopherson: Now is a great time to review your goals, risk tolerance, timeline and investment allocation. We'd recommend continuing to put money into retirement plans on a systematic basis. If your retirement goal is a number of years out, this is a good opportunity to bring down the average cost. Give yourself the opportunity to recover and maintain faith in the system



In the upcoming months, the economy simply won't have any flexibility to tolerate poor performance and inefficiency.

Ms. Hall: There's a misconception with a down market—people believe they should invest differently. However, there are tried and true principles; always be diversified and follow cash and debt management techniques. Don't change because of a poor market. Markets are volatile. If someone is in a well diversified portfolio that's appropriate for their age, retirement goals and risk tolerance, there's no reason to change strategies.

POSSIBILITIES: *How does the recession affect retirement planning? If someone is planning to retire soon, what areas would you be concerned about?*

Mr. Christopherson: When planning to retire, you need to review your income needs and distribution strategy for retirement. If someone is living primarily off of social security or a pension, they may not be impacted as much as someone dependent on a 401(k) plan or a savings that may have lost significant value. Those who are supplementing a significant percentage of their income with retirement savings (from a 401k, IRA, etc.) should definitely review their accounts and spending to see if they're still on track.

Ms. Hall: Retirement is probably the biggest decision people make in their lifetime. Cash flow projections need to be run to determine if it makes sense to retire—this is even more critical when the economy is bad. Retirees might not have the opportunity to reenter the job market if they have not planned properly. When considering retirement, there are several items to consider, including inflation and medical insurance premiums. This is truly the time you need professional advice to make informed decisions. If you're thinking of retiring in the next 1-2 years, I would definitely recommend working with a financial planner.

POSSIBILITIES: *People are anxious about their investments and investing ... what general advice would you give?*

Mr. Christopherson: Anxiety is understandable. What you're feeling is normal. However, don't make investment decisions based on emotions—this is when mistakes are made. Talk with your advisors and seek sound analysis to consider risks and opportunities in order to make informed decisions.

Ms. Hall: I would recommend that people follow sound money practices. Have 6-12 months of living expenses set away for emergencies. Make sure your investment portfolio is properly diversified. Understand the level of risk you are able to withstand. Despite the seriousness of the current economic situation, we do have to keep in perspective that markets rise and fall.

Our current economy presents unique challenges to businesses and individuals in which focused planning and strategy are necessary to weather the economic times.

For more information on dealing with the economic downturn, please visit our website at www.eidebailly.com. ■

The opinions expressed are those of our panelists. Contact your advisor to discuss your specific situation.

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There's a misconception with a down market—people believe they should invest differently. However, there are tried and true principles; always be diversified and follow cash and debt management techniques.



Economic Downturn Poses Increased Fraud Risks

OVERVIEW

The downturn in our economy is causing a noticeable increase of fraud. This article reviews fraud risks and offers suggestions to minimize your company's risk.

The housing market continues to dwindle, millions of people are losing their jobs and worst of all, Starbucks is downsizing. The United States economy is in a noticeable decline, causing the majority of citizens, as well as businesses, to count their nickels and dimes. Some would guess that a weak economy would mean an overall reduction in business fraud risk. Unfortunately, that is not the case.

The Fraud Triangle, a tool used by fraud examiners to detect the possibility of fraud, states that occupational fraud contains three components: opportunity, rationalization and pressure. First, the employee must have authorization or access to processes that will give him/her the opportunity to commit a fraud scheme. Second, the employee must rationalize their behavior. Lastly, the employee must feel pressure to commit the fraud. An economy in a recession can put many businesses and employees under pressure. When the economy declines, businesses tend to lose revenue; which creates more pressure to meet quarterly and yearly goals.

Management is not the only group affected by economic woes. Many employees become victims of downsizing or decreased compensation, which can increase financial pressures at home. These individuals may also begin to rationalize fraud as a way to replace their lost income.

A reduced workforce and compensation can result in less internal controls, which may cause businesses to find it harder to segregate incompatible duties with fewer employees. And, the effectiveness of current controls may suffer due to lower employee morale. When taking all of these factors into consideration, it appears the U.S. economy's decline is a direct factor in increased business fraud.

Some businesses may also experience higher consumer fraud risk. For example, the amount of fraudulent insurance claims in the United Kingdom has increased 70% over the last three years. With the United States' declining economy, we can expect a similar outcome.

What can businesses do to protect themselves during these challenging times? How can they

counter the inherent fraud risks that come with a dwindling economy? Here are a few helpful hints:

Fraud Awareness Training—Make sure your employee handbook/policies and procedures manual has a “Fraud Awareness” section. This section should specifically outline what constitutes fraud in the workplace and explain the consequences of committing fraud. It is important that your company informs its employees of fraud using training sessions or meetings.

Fraud Hotline—Implementing a fraud hotline service within a business is one of the easiest ways to prevent and detect fraud. According to the Association of Certified Fraud Examiners, the majority of all fraud cases in 2007 were uncovered because of a tip from an employee, vendor or customer. Giving employees an anonymous, worry-free way to report suspicious activity can greatly reduce a business's fraud risk.

Insurance—After uncovering fraud, one of the first questions our division asks a client is if they have employee dishonesty coverage within their insurance policy. Depending on the policy, this kind of coverage protects a business from losses and fees incurred due to fraud by employees. In most cases, the business will have to provide the insurance company with evidence of “intent” by the employee.

Remember, the best deterrent for committing fraud is the fear of getting caught. During an economic decline, owners and managers must take a proactive approach toward fraud to help mitigate the increased risks involved. ■

RESOURCES

www.acfe.com



Brett A. Johnson, CPA, CFE
Senior Associate
Eide Bailly LLP



Background Checks

With the high unemployment rate, resume fraud is on the rise. Deception on resumes commonly entails falsifying education and stretching dates to cover employment gaps. Our current economic climate is also resulting in more credit issues, well in excess of the norm. Repeated poor credit situations can be an indicator of an issue that should be considered further—especially if the individual would have access to financial data, records or funds.

Implementing a company policy to conduct background checks on all new hires will reduce risk. Background checks can range from positions with no fiduciary responsibilities to upper level management. Conducting a thorough background check will provide you with information to protect your company.

Are SFAS 159 and the Fair Value Option Right for You?

SFAS 159 allows a company to elect fair value accounting in place of the traditional historical cost basis accounting for certain financial assets and liabilities not currently covered by other standards. The direct purpose of SFAS 159 is to reduce volatility in earnings, to expand applicability and to simplify the accounting for derivatives under hedge accounting rules. Additionally, this standard helps to move U.S. accounting towards more universal fair value measurement and increased conformity with international accounting standards.

SFAS applies to all entities, including non-profit organizations. Entities may elect fair value on an instrument-by-instrument basis, and not necessarily for an entire account. However, election can only be made when the financial instrument is acquired, and such election for an instrument is irrevocable for its life once made. Since changes in fair value must be included in earnings, the purpose of this restriction is to prevent adoption just to achieve a certain accounting result.

Lastly, disclosure is significantly expanded to insure financial transparency. SFAS 159 disclosure is largely in addition to disclosure already required by SFAS 157.

Issues regarding use of SFAS 159 are both practical and theoretical. From a practical standpoint, election may complicate the maintenance of sub-ledgers for financial instruments by introducing different methods of accounting for similar classes of instruments. From a theoretical standpoint, election could reduce the financial statement comparability with other companies and accounting consistency between periods for the same company.

Finally, accounting for non-trading assets and liabilities, and for which inputs not observable, retain the same challenges and complexity introduced by SFAS 157. ■

OVERVIEW

Financial Accounting Standard No. (SFAS) 159, The Fair Value Option for Financial Assets and Financial Liabilities (as amended), was effective simultaneously with its cousin, SFAS 157, Fair Value Measurement. Unfortunately, SFAS 157 has received most of the attention due to the recent economic, insurance and bank industry crises. This article provides an overview of this relatively new accounting standard.



James Boak, CPA
Partner
Eide Bailly LLP

Updates

New QuickBooks and Quicken Policies

To continue providing the highest quality of service and technical support to our clients, Eide Bailly is enacting a new QuickBooks software policy. Beginning July 1, 2009, your service provider will only have the ability to provide QuickBooks data to you using version 2007 or newer. In subsequent years, the Firm will continue to support the most current version of QuickBooks, plus the prior two versions, for a total of three years or three versions. The change will take effect July 1 each year, following the release of the most current version. Eide Bailly is also discontinuing its use of Quicken software. Beginning July 1, 2009, your service provider will no longer provide data back to you using Quicken. Please contact your service provider with any questions. To purchase QuickBooks, please visit <http://quickbooks.intuit.com> ■

Section 179 & Bonus Depreciation

The American Recovery and Reinvestment Act of 2009 extends certain valuable benefits of the Economic Stimulus Act of 2008. The 2009 Act, which was signed by the President on February 17, 2009, extended the increased Section 179 expensing election and the 50% bonus depreciation deduction through 2009.

- **Section 179 Deduction** – During 2008, Congress temporarily increased the amount a small business could write off for capital expenditures to \$250,000 (previously \$125,000) with the phase-out threshold of \$800,000 (previously \$500,000). This provision has been extended for qualifying expenditures made in 2009, and applies to both new and used qualifying assets.
- **Bonus Depreciation** – During 2008, Congress temporarily allowed businesses, which placed into service eligible assets, to immediately expense 50% of the cost (i.e., “bonus depreciation”) and recover the remainder over the usual depreciation periods. This provision has been extended for eligible assets placed into service during 2009. Eligible assets must be purchased “new” by your business.

These provisions provide you with an opportunity to accelerate deductions related to depreciable property, which would normally be recovered over several years. ■

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FORWARDING SERVICE REQUESTED

Primary Residence \$500,000 Gain Exclusion Changes

Watch for these recent changes in the primary residence \$500,000 gain exclusion.

A substantial gain of up to \$500,000 from the sale of a primary residence, held for at least two out of five years rule, has been sheltered from federal (and most state's) taxation for the past 10 years. This pro-taxpayer rule has been utilized by a broad cross section of taxpayers. However, beginning January 2009, the rules changed again. The July 2008 tax legislation amended the pre-2009 rules.

After January 1, 2009, taxpayers will no longer be able to concurrently own multiple residences; reside in property #1 as a primary residence for two years, sell residence #1, then reside in residence #2 and expect to obtain the maximum capital gains tax exemption of up to \$500,000 on both prior and subsequent residences.

In other words, the gain on the second residence would not be excluded to the extent of the gain attributable to the period of time residence #2 was a secondary home. Effective January 1,

2009, gain on the sale of a principal residence attributed to periods of "nonqualified use or the non-principal residency period" will not be excludable from taxable income.

It is important to note the periods of non-qualified use prior to December 31, 2008, are not considered in the computation of gain attributable to non-qualified use. You may also benefit from the separate favorable rules for taxpayers who sell a primary residence due to unforeseen circumstances or employment changes if applicable to your circumstances.

When is a residence your primary home? The IRS Regulations define "occupancy" using eight factors. Your Eide Bailly representative can help you evaluate these factors. ■



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