



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Rea REPORT

VOL 10 | ISSUE 1 | WINTER

- RED FLAG RULES | 2
- GReaT IDEAS | 2
- EMPLOYEE HIGHLIGHTS | 3
- WHAT'S HAPPENING IN INDUSTRY | 4
- SERIES 2010: EXPLORING THE UNKNOWN | 4
- CLIENT FOCUS: KENT CASERTA, DDS | 6
- TAX PROVISIONS: GOING, GOING...GONE | 7

PRESIDENT'S REPORT

This issue of *The Rea Report* offers several tips to help your business ride the wave of economic recovery. Although we don't know when that will happen, there are things you can do now to better position your business for when it does.

Take, for example, meeting your customers' expectations. A co-worker recently shared his personal experience with missed expectations. His office orders lunches from a local business, and usually the meals are great. However, his latest salad was made with lettuce a day or two past its prime. Picture brown tips and slightly slimy. Not very appetizing.

Do you serve brown lettuce to your customers? While you don't do it intentionally, chances are it has happened. And when it does, how do you respond?

In our case, we called the business, which is not something we'd typically do. The manager apologized profusely, offered a new salad or full credit on another one, without hesitation. Is that how your business handles complaints? Hopefully, it is.

But what about the bigger issue – your customers who don't complain? One poor performance sticks with them and taints your relationship. You really can swallow and digest brown lettuce, but can your customers swallow and digest poor service? Not for long!

Set the bar high and wow your customers with outstanding service. They'll keep dining with you for a long time.

Leevan B. Beall



WHAT DOES the FUTURE HOLD?

LET THE LESSONS OF 2009 PREPARE YOU FOR 2010

The Miracle on the Hudson. The Swine Flu outbreak. The miraculous rescue of Jaycee Dugard and the shocking death of Michael Jackson.

This past year was full of ups and downs, successes and failures. But the news that affected us most was the continuing recession – and a whiff of an upturn.

In 2009, we saw it all. Companies got kicked down, stood back up and kept fighting. Business owners got creative and maintained their edge. And sadly, long-term clients closed their doors forever.

Through it all, we learned right along with you. And here's the advice we found ourselves giving time and again:

KEEP IN TOUCH

"Relationships are more important than ever," said Dave McCarthy, CPA, CSEP, shareholder. "Ask your customers how you're doing and if you're meeting their changing needs."

And if you have tough news to deliver to employees – layoffs, decreased or eliminated bonuses or a salary freeze – start the conversation as soon as you can.

"Communicate with your bank to keep in good standing," said Rea CEO Lee Beall, CPA. "If you don't have a strong relationship, or don't deliver on your promises, you could be in trouble. Don't put off a conversation with your banker – or vendors, for that matter – if you can't make a payment. By being open and frank, you may be able to work out other arrangements."

BE RESPONSIBLE

Focus on profitable growth. Understand your product/service mix and the related margins. "You may not want to take on a lot of debt to grow," said Chad Bice, CPA, principal. "A lot of people think that, in order to grow, they have to borrow, but it's smarter to work with what you have."

CONTINUED ON BACK COVER

REDUCE YOUR 2009 TAX LIABILITY.

You have until April 15 to make a contribution to your IRA and still claim the deduction on your 2009 return. The contribution limit is \$5,000, or \$6,000 for those over age 50. Phase-outs exist for Roth contributions, and not all traditional IRA contributions are deductible. If you have self-employment income, you have until the due date, including extensions, to make a contribution to your SEP IRA and deduct it on your personal return.

MONITOR WORKER'S COMPENSATION COSTS.

Be certain your employee and business classifications are properly recorded with the Bureau of Workers' Compensation. Improper classifications lead to under- and overpayments. The BWC conducts regular audits to find under-classified employees or certain payments not reported on 1099s that are subject to workers compensation. Audits are a good way to ensure you are paying your fair share, but you must be proactive in reviewing and challenging your classifications. If you have been overpaying, the BWC will issue a credit and possibly a refund.

INSURE YOUR BUSINESS AGAINST THE UNEXPECTED.

If your business had to temporarily close due to a tornado, flood or fire, what impact would the loss of income have on your finances? Business interruption insurance will reimburse you for the net profits you lose until the time you're able to reopen your doors. Talk to your insurance advisor to determine what type of plan will best protect your earnings if you're faced with an unexpected closure.

RED FLAG RULES REQUIRE PREPARATION

WHO MUST COMPLY

The FTC will soon begin enforcing the rule for entities that regularly extend, renew or continue credit.

"Your business doesn't qualify by its line of business, but rather, your activities," said Tiffany Clark, JD, tax specialist.

By the FTC's definition, creditors can include banks, credit unions, mortgage and finance companies, vehicle dealers, utility companies, municipal utility districts and telecommunications companies. However, accounting firms, law firms, not-for-profit and government agencies that regularly defer payment of goods and services are also considered creditors, as are doctors, dentists and hospitals.

Other entities that defer payment for goods or services must also follow the Red Flag rules. "You do not become a creditor simply by accepting credit cards as a form of payment," said Clark.

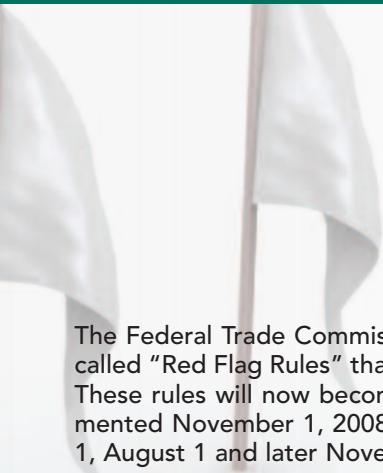
Once you have established that your entity is subject to the rules, you need a program for "covered accounts." The accounts covered by the rules include most accounts used for personal, family or household purposes that involve multiple payments or transactions.

"These include credit card accounts, mortgage loans, automobile loans, cell phone and utility accounts, employer-provided individual retirement accounts and checking and savings accounts," she said.

ESTABLISHING POLICIES

Develop a written policy to identify the red flags that are relevant to your business. An attorney knowledgeable on Red Flag regulations can help you create this document. Many state and national business associations have established industry-specific sample Red Flag policies.

▶ THOSE PROVIDING SERVICES ON CREDIT MUST COMPLY BY JUNE 1



The Federal Trade Commission (FTC) has announced a delay in enforcement of the so-called "Red Flag Rules" that require businesses to implement anti-identity theft policies. These rules will now become effective June 1, 2010. Originally scheduled to be implemented November 1, 2008, the latest deadline follows three earlier extensions to May 1, August 1 and later November 1, 2009.

Initially issued by the FTC through the Fair and Accurate Credit Act of 2003, Red Flag Rules require businesses that extend credit to consumers to develop a written policy that identifies warning signs and suspicious activities (the red flags) of possible identity theft and tactics to address and prevent it.

"Your policy should reflect procedures to detect red flags in your day-to-day operations, like how you will use identity verification and authentication with customers in various scenarios such as in-person, by phone, mail and Internet," said Clark. "Also, explain how you will treat new accounts versus existing accounts in the red flag identification process."

► The FTC identifies 26 possible red flags that can be identified in a written theft-identity program. The following are the most common:

- An application that appears to have been forged, altered or destroyed and reassembled.
- A consumer report that includes a fraud alert, credit freeze or address discrepancy.
- A change-of-address notice that is followed closely by a request for a new credit card, bank card or cell phone.
- A Social Security number supplied by an applicant that is the same as that submitted by another person opening an account.
- An address or telephone number supplied by an applicant that is the same or similar to those submitted by an unusually large number of other persons.
- Notification of the financial institution or creditor that a customer is not receiving account statements.

Establish policies and procedures that outline how you will respond to red flags to prevent or mitigate identity theft. Finally,

Implementation of a Red Flags policy doesn't have to be expensive, but does need to become an integral part of your business operation plan if you provide services on credit.

Learn more about Red Flag rules at www.ftc.gov/opa/2009/10/redflags.shtml.

include how you plan to revise your program as technology is upgraded and identity thieves change their tactics over time.

ADMINISTERING YOUR RED FLAG POLICIES

Your Red Flag policies must be approved by the company's management (board of directors, or lacking one, a senior executive) and should designate someone responsible for development, oversight and implementation of the policy.

"A report is required at least annually to the board of directors or senior executive that discusses the effectiveness of the policy," said Clark. "It should also explain events that occurred involving identity theft and how the company responded, and make recommendations for any necessary changes."

CONSEQUENCES FOR NONCOMPLIANCE

What if you don't comply with the new rules? You could be penalized in three ways. The FTC can enact penalties up to \$3,500 for each violation of the rule. In addition, states can impose up to \$1,000 per violation plus attorney fees.

"Customers can also file civil suits to recover actual damages sustained due to a violation. The rules not only open the door to damages to a company's reputation, but also class action law suits, which could result in massive damages," Clark said.



EMPLOYEE HIGHLIGHTS

Tiffany Clark (Lima) passed the bar exam and was sworn in by the Ohio Supreme Court.

Rea's marketing department won a Silver Quill award of excellence and the "Best of Division" award in the communications management division from the International Association of Business Communicators.

Philita Wentworth (Zanesville) and Robbie McCarter (Wooster) passed the CPA exam.

John Wronkovich (New Philadelphia) was appointed to the KSU Executive MBA Alumni Advisory Board for a three-year term.

Bruce Bernard (Dublin) retired from public accounting in October to pursue other interests.

Michelle McCue (Mentor) was selected as a 2009/2010 Professional Woman of the Year by the National Association of Professional Women.

Chad Gorfido joined the firm, working in Rea's Medina office as part of the government team.

SERVICE MILESTONES

5 YEARS

Jami Miles (Pension, New Philadelphia)
Matt Ganz (Dublin)

10 YEARS

Trista Acker (Dublin)

TAKE A GLIMPSE

WHAT'S HAPPENING IN INDUSTRY

Industry profiles from First Research, Inc. were used to compile this information.

Here are some interesting trends that are happening in various industries. How do these affect **your** organization?

CONSTRUCTION

Overall demand for construction is expected to remain flat in 2010. Potential opportunities exist for building contractors as a result of the delayed impact of stimulus funding, according to Ken Simonson, economist for the Associated General Contractors of America. These opportunities will likely be driven through consumer and stimulus projects such as retail, higher education and hospitals.

MANUFACTURING

U.S. manufacturing activity demonstrated signs of improvement in the third quarter of 2009, according to the Institute for Supply Management. Nearly 75 percent of manufacturing industries reported month over month growth in production and new orders. Wood products, transportation equipment, appliances and components, and fabricated metal products were among the industries reporting gains.

MEDICAL

Physicians are using electronic devices, including handhelds and high-speed Internet access, at a much higher rate than consumers because they are affordable and offer quick and organized access to information. But doctors have been slow to embrace institutional technology like electronic medical records and e-prescribing because of cost and limited gains in individual efficiency.

DENTAL

With unemployment rising and patients losing dental insurance, dentists are ramping up their marketing efforts. Many are taking advantage of the current low ad rates for media like radio and print and relying more on e-mail and phone reminders to encourage patients to make regular appointments.

NOT-FOR-PROFITS

Falling charitable donations have forced many not-for-profit organizations to reduce programs, lay off workers, and in some instances, shut down. The Giving USA Foundation reported that donations to human services organizations dropped nearly 13 percent in 2008 and remained low through 2009 despite an increased demand for services due to high poverty.

EXPLORING

By Robert E. Mapes, CPA
(shareholder, Wooster office), and
Dustin Hostetler (Lean Six Sigma
Master Black Belt, Wooster office)



Preparing for an ECONOMIC REBOUND

This is the first of a four-part series designed to help you prepare for the upturn in the economy, which some economists believe will take place this year.

THE UNKNOWN

An economic rebound is coming...sooner or later. Are you ready for it? Your competition is ready, and you should be too. But instead of doing what you've always done, why not explore new ground?

First, you need to set your goals. Maybe you want to increase sales or develop a succession plan. Or perhaps you struggle with efficiency or operations as a whole. Whatever the case, think about where you are and where you want to be – and find new ways to get there.

NEW WAYS OF THINKING

If you always do what you've always done, you'll always get what you've always gotten. You need to be open to new possibilities and see things through a new lens in order to truly break through to that next level in your business. Now's the perfect opportunity to do it.

Ask yourself:

- | What is the toughest thing I'm facing today?
- | What am I worried about?
- | What is next on my plate?
- | What hurts? How should I treat it?
- | What isn't selling? Am I trying to sell too much?

Think about your answers and see where a good brainstorming session takes you. Don't get caught in the status quo. While it is comfortable and safe, it's not the most effective way to stay ahead of your competition in the years to come.

Try talking about recent changes, challenges and ideas with an outsider – a friend, business peer or trusted advisor. Someone who isn't involved in the day-to-day operations of your business will have a fresh perspective and can help you see the forest through the trees. Be prepared to unearth some issues that you might not have been aware of. Be open to suggestions and constructive criticism.

Sit down and think – really think – about your strengths and weaknesses. Are there strengths that you're not maximizing? Are there weaknesses that are holding you back? Do you work too much in the business instead of on it? By thoroughly examining your current operations and business model, you may discover new opportunities that seemed impossible to find in the past.

NEW WAYS TO ADD AND COMMUNICATE VALUE

Let's say two companies sell widgets. The widgets cost the same, look the same and essentially do the same thing. How does Company A win sales from Company B?

By being different. Maybe Company A offers a warranty or guarantee, free installation or a frequent buyer program. Whatever the case, remember that being different is better than being better. Find a way to set yourself apart and you'll see results.

Try to sell an experience instead of a product or service. You don't buy a car – you buy all of the features the car has. You buy



the experience you had during the test-drive. Some dealerships now offer overnight test-drives because the experience of waking up and seeing that shiny new car in the garage is proven to boost sales.

Get to know your customers and find out what they want to experience when they do business with you. Your extra steps will stick in their memories and keep them coming back.

But value doesn't mean anything if you don't communicate it. Think of new ways to tell your customers about all the benefits of doing business with you. Maybe you want to start a newsletter or blog that is full of tips. Or hold workshops or seminars to help them use your product. No matter how well you service your customers, you can always do more. Think about their needs – especially the ones that aren't being met – and how you can fit in as the solution.

NEW WAYS TO GET BUSINESS

First, you've got to understand what you're selling and who you're selling it to. Even if you've been in business for half a century, there are still things to learn. Customer needs and values change continuously, and so should your response to those needs.

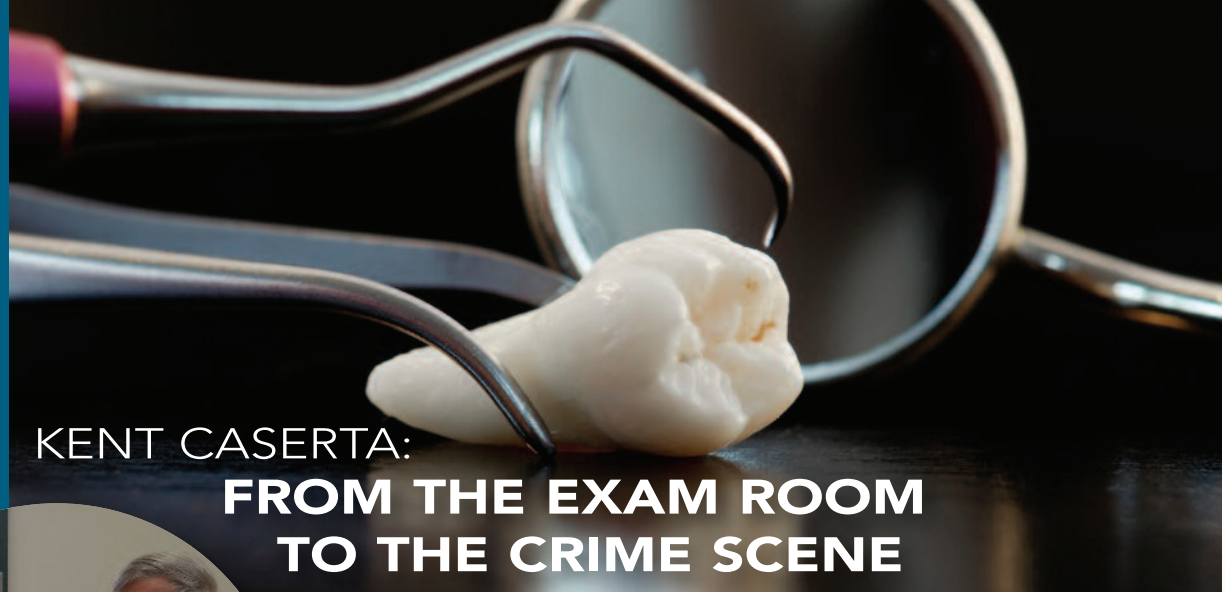
Start by doing research on the following:

- | **Thought leaders.** Association leaders, speakers, writers and editors who know your customer base. They can tell you what they know about your target.
- | **Other providers and competitors.** Other companies that provide goods and services to your customers. They sell to your target, too, and understand their needs and issues and the best ways to get in front of them.
- | **Likely buyers.** This includes both prospective and current customers. They are your target and can give you valuable insight about what they want from you.

By talking to people in these groups, you will learn volumes about who you are selling to, and even come up with new ways to get business.

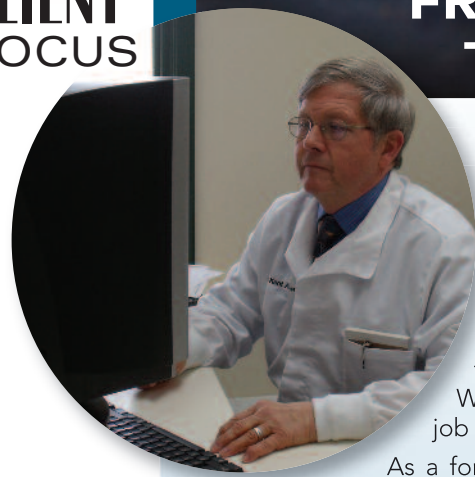
You might even want to join or form a peer group for businesses like yours. Spending time with like-minded individuals who know the industry and how to succeed in business is sure to give you fresh ideas that produce results.

As our economy starts to rebound, you've got to innovate to stay ahead of the curve. Open your mind, take a risk and try new things.



KENT CASERTA: FROM THE EXAM ROOM TO THE CRIME SCENE

FAMILY DENTISTRY IS HIS BUSINESS,
FORENSICS IS HIS PASSION



Dr. Kent Caserta, DDS, has operated a successful family dental practice for the past 32 years in Willoughby, but it's his second job that may intrigue you.

As a forensic dentist, Caserta has helped identify victims of the 9/11 terrorist attacks, bodies from Hurricane Katrina and remains found in the Cleveland home of accused murderer Anthony Sowell.

Working with the Department of Mortuary Operational Response Team (DMORT), Caserta helps identify the bodies of people who have died in a disaster or crime. He also analyzes bite marks to identify assailants and helps the DNA lab extract DNA from teeth.

"It's really gratifying to be able to help families find closure and grieve for their loved ones instead of wondering what happened to them," said Caserta. "I think many times about how incredible it is that someone can do such terrible things to innocent people. But I have to remove my emotions from the situation to do my job."

Caserta was introduced to forensic dentistry through the late Dr. Carl Murtz, a dentist considered one of the founding fathers in the field. In 1999, Caserta took a dental forensics certification course at the Armed Forces Institute of Pathology and then joined DMORT to put his training into practice.

DMORT sets up a triage unit that includes trace, pathology, fingerprinting, X-ray, dental specialists and even funeral embalmers. The dental group uses X-rays and charts, looking for fillings, crowns, root canals or unique features of roots or bones of victims. Records are obtained from missing persons' families, who are also asked to list surgeries, scars, broken bones, tattoos or other unique features.

Caserta's first assignment followed the 9/11 attacks in New York City.

"We worked 12-hour shifts for two weeks and never knew what the night would bring," he said.

"Unfortunately, due to the way the buildings collapsed, most of the recovery was not whole bodies, so it was much tougher to identify the victims."

Then in 2005, Caserta was called to Hurricane Katrina.

"We worked primarily with caskets in Gulfport, Mississippi," he said. Due to the sandy soil in the area, the graves are in above-ground mausoleums, which were swept away in the flood waters of Katrina.

"Local records were destroyed in the flood and many bodies that were buried more than 50 years ago were next to impossible to identify," Caserta said.

Most recently, Caserta helped the Cuyahoga County Coroner's Office identify the 11 victims found in the home of accused Cleveland serial killer Anthony Sowell. The bodies were badly decomposed and most victims did not have dental records, so investigators used DNA from their teeth to identify them.

"It really hit home that the dark side of humanity is everywhere. I felt a little distance while working on other cases, but this happened here in Cleveland where I live," said Caserta. "I don't care what these women did or how they lived; no one deserves to die like they did."

Caserta said his forensic experience has changed his view of life. "It makes me realize how valuable my family is and how fragile life is," he said. "I'm aware that when I say goodbye and leave for work in the morning, there's that chance I might not come home. It makes me want to resolve those minor disagreements and make time when I'm too busy to do something with my family."

IT'S REALLY
GRATIFYING TO
BE ABLE TO
HELP FAMILIES
FIND CLOSURE
AND GRIEVE
FOR THEIR
LOVED ONES
INSTEAD OF
WONDERING
WHAT HAPPENED
TO THEM.

GOING, GOING...GONE

MANY TAX PROVISIONS WILL EXPIRE AT THE END OF THE YEAR

By Tiffany Clark, JD
(tax specialist, Lima office)

All good things must come to an end, right? Well, there are some popular tax provisions that will end on December 31, 2010, unless Congress takes action to keep them – and in most instances that scenario isn't very likely. The good news is that you can reduce your 2010 tax liability if you plan accordingly.

From education credits to mortgage insurance premium deductions, the following highlights some of the expiring provisions:

Capital gains. Rates will increase from 15 to 20 percent. Dividends will no longer be taxed at the favorable capital gain rate, but will instead be taxed as ordinary income, the top bracket of which is 35 percent.

Child tax credit. The floor of the refundable portion of the child tax credit reverts back to \$8,500. In addition, the credit decreases from \$1,000 to \$500.

American Opportunity Tax Credit. Formerly known as the Hope Credit, this credit reverts back to being claimed only on the first two years of qualified education expenses. And it applies to 100 percent of the first \$1,200 in expenses and 50 percent of the next \$1,200. Books and other supplies like computers and Internet access are no longer qualifying expenses. Along those same lines, computer technology and equipment are no longer qualified higher education expenses for 529 accounts.

Energy credit. The credit currently available for qualified energy efficient improvements will also expire. Currently, a credit of 30 percent of the cost, up to a maximum of \$1,500 for 2009 and 2010, is available for these types of expenditures. Improvements that qualify include: insulation; exterior doors; exterior windows; metal or asphalt roofs; natural gas, propane and oil furnaces; natural gas, propane and oil hot water boilers; and main air circulating fans.

Making Work Pay Credit. On April 1, 2009, payroll withholding tables were adjusted for this credit which was enacted by American Recovery and Reinvestment Act of 2009 (ARRA). In both 2009 and 2010, the provision provides a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns. The tax credit is calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with modified adjusted gross income in excess of \$75,000 or \$150,000 for married couples filing jointly. The amount of the credit will be computed on the employee's 2009 income tax return. Those who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 tax return.

Work Opportunity Tax Credit. While this credit is not new, the ARRA added two additional targeted groups to the credit: unemployed veterans and disconnected youth. These groups no longer qualify after December 31, 2009.

Volunteer firefighter provision. At the end of this year, volunteer firefighters and emergency medical responders will no longer be able to exclude benefits provided to them from their income.

Mortgage insurance premiums. Before December 31, 2010, any premiums for mortgage insurance are deductible as interest. After this date, this is no longer allowable.

Section 179 expensing. The limits revert back to \$25,000 and the amount eligible goes back to \$200,000. Recently levels have been \$250,000 and \$800,000.

Tax planning is an important task, but if you are thinking about taking advantage of any of the credits above, it's even more important that you plan for them well in advance. And prepare yourself for any tax savings you currently receive that will soon disappear.



REA & ASSOCIATES
www.reacpa.com

REA STRATEGIC SOLUTIONS
www.reasolutions.com

INVESTMENT PARTNERS
www.invp.com

LEAN CPA
www.leancpa.net

REA OFFICES:

Cambridge
740.432.5658

Cleveland
(MENTOR)
440.266.0077

Coshocton
740.622.8783

Millersburg
330.674.6055

Columbus
(DUBLIN)
614.889.8725

New Philadelphia
330.339.6651

Lima
419.331.1040

Wooster
330.264.0791

Marietta
740.373.7423

Zanesville
740.454.3198

Medina
330.722.8222

THE
Rea
REPORT

THE REA REPORT is published quarterly by Rea & Associates, Inc., New Philadelphia, Ohio. Articles published are of a general information nature, intended to acquaint readers with current developments. Readers should not rely on the information herein without obtaining professional advice. For more information and more complete consideration of specific matters, readers are invited to contact us at 1.877.473.2272.

If you no longer wish to receive *The Rea Report*, please call 1.877.473.2272 or e-mail rea.news@reacpa.com and ask to be removed from the distribution list.

Pursuant to Circular 230 promulgated by the Internal Revenue Service, if this newsletter contains advice concerning any federal tax issue or submission, please be advised that it is not intended or written to be used, and that it cannot be used, for the purpose of avoiding federal tax penalties unless otherwise expressly indicated.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

419 West High Ave., P.O. Box 1020
New Philadelphia, OH 44663-5120

Presorted Standard
U.S. Postage
PAID
Canton, OH
Permit No. 1005

CONTINUED FROM COVER



WHAT DOES the FUTURE HOLD?

"Look for ways to cut expenses, too," said Beall. "We asked our employees to help find savings opportunities. In the end, they came up with a lot of great ideas and they felt like they were part of the solution."

You should also be responsible when hiring new employees. Even if things are looking up, you might find yourself overstaffed if your business takes a turn.

"Consider hiring full-time temps instead of employees to help keep and protect your staff," said Bice."

"Don't hire into a growth curve under the assumption that the growth will continue," added Beall. "Wait for validation that the growth is real."

If you are considering adding to your workforce, assess your efficiency first. If your employees have excess capacity or aren't operating efficiently, look for a solution.

"Make sure everyone is pulling their weight," said McCarthy. "You don't have to work harder in order to do more with less people. Create more effective employees by adding efficiencies across the board."

PLAN AHEAD

Whether it's now or 20 years down the road, planned or sudden, be ready to exit your business. And start planning for it today.

"The recession was the last straw for a lot of people, and many will exit in the coming years. There will be stiff competition for businesses to be sold, so you need to make sure you are set up for success from the start," said Tim McDaniel, CPA/ABV, ASA, CBA, shareholder.

And since the value of many businesses decreased in this economy, an updated buy/sell agreement is essential.

"Make sure the valuation provision is based upon a true annual valuation instead of being formula-driven," said McDaniel. "Formulas don't capture all the factors surrounding value and any quick changes and can lead to values significantly different from the actual value."

You should strive to be ready for anything 2010 brings. Develop a strong business and strategic plan, understand your business environment and make well-educated decisions. And have some fun along the way.

UNDERSTAND
YOUR BUSINESS
ENVIRONMENT
AND MAKE
WELL-EDUCATED
DECISIONS.
AND HAVE
SOME FUN
ALONG THE WAY.