CURCHIN
NAVIGATOR
WINTER 2011

WHAT COMES AFTER THE GREAT RECESSION?

RECAP OF THE DISCUSSION LED BY RUTGERS UNIVERSITY ECONOMIST, JOSEPH J. SENECA, PH.D.

By Roy Kvalo, CPA/ABV/CFF/CVA

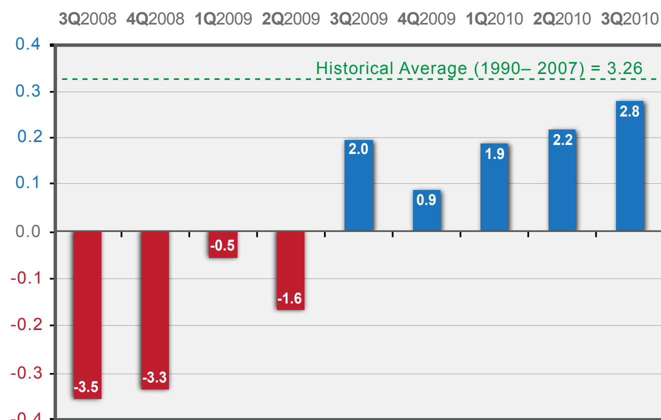
On November 30, 2010, Curchin had the pleasure of hosting Joseph J. Seneca, Ph.D., Professor at Rutgers University, Edward J. Bloustein School of Planning and Public Policy, for a discussion on the current economy titled "What Comes After the Great Recession?". In attendance were Curchin clients, business associates, partners and staff. With a confident and pleasant demeanor, Doctor Seneca expertly dissected various U.S. and New Jersey economic data for the group. He demonstrated where we have been through this difficult recession while at the same time he optimistically provided clues for what we may expect in the near future. While the presentation was given with the most up to date data available at the time, we must keep in mind "that additional data are being released that affect the various charts so they do not remain current for long."

The Professor's presentation began with a demonstration of the percent change in real gross domestic production (GDP: U.S.) which appeared to reflect an upward trend through the 2009 calendar year ending with an annual adjusted rate of five percent. While this trend reversed somewhat through the second quarter of 2010, it began again to climb in the third quarter of 2010 ending at an annual adjusted rate of two and one half percent. Interestingly, the U.S. private-sector employment change followed a very similar pattern, with the employment gain at April 2010 hitting a peak of 241,000 then dropping significantly in May but ending at 159,000 for October 2010.

Dr. Seneca discussed the post-recession employment recovery of the current recession compared to previous recessions. The current post-recession employment recovery at 34 months, has not yet recovered to zero while the employment recovery related to the recessions of 1982 and 1991 were back to zero in 28 and 32 months, respectively. The recession of 2001 required 47 months to come back to zero however, and at 34 months, the current recession is at approximately negative five and one half percent while the 2001 recession at 34 months was less than negative two percent. Clearly, the current recession has been deeper with regard to employment and GDP recoveries than the other modern recessions. Dr. Seneca stressed his deep concern over the implications of the current employment data.

We learned that household liabilities as a percent of After-tax Income had climbed from a level under one hundred percent in 2001 to a peak of approximately one hundred thirty-five percent in 2008, but dropping to approximately one hundred twenty-five percent in the second quarter of 2010.

Real consumer spending as a percentage change which has a historical average from 1990 to 2007 of three and one quarter percent, increased from the third quarter of 2008 where it was measured at a negative three and one half percent to a positive two point eight percent for the third quarter of 2010. It is interesting that from 2005 through 2010 personal saving as a percent of disposable income has actually increased from below two percent to nearly seven percent.



▸ *Source: U.S. Bureau of Economic Analysis. National Economic Accounts.*

Dr. Seneca introduced us to Standard and Poor's, Case Shiller 20-City Composite Home Price Index. These indices are the leading measures for the U.S. residential housing market, tracking changes in the value of residential real estate nationally, as well as in 20 metropolitan regions. With a base value of 100 as of January 2000, this index climbed to 206.52 in 2006 and then dropped to 141.2 in 2009. As of August 2010, the index had climbed modestly to 146.99. The U.S. Census Bureau reported homeownership rates of sixty-four percent in 1994 and by 2004, the percentage of homeownership had reached sixty-nine percent. In the third quarter of 2010, however, homeownership was down to sixty-seven percent.

The economy of New Jersey was discussed next by Dr. Seneca. The New Jersey monthly private-sector employment change from January 2008 through January 2009 was negative with total employment loss of 245,500 jobs. Of these, 37.7 percent were manufacturing and construction related while 62.3 percent were services related. By comparison, in the recession ending in 1992, New Jersey lost 265,100 jobs of which 87.7 percent were manufacturing and construction related and only 12.3 percent were services related. In the first ten months of 2009 New Jersey lost 111,000 jobs while in the first ten months of 2010 we gained 1,500 jobs.

Clearly we still have some ground to make up in this economy, but we are at the very least heading in the right direction. The key to a successful economic recovery for New Jersey will of course be directly related to our ability to provide employment opportunities.

For further information, please do not hesitate to contact **Roy Kvalo** at *rkvalo@curchin.com* or 732-747-0500.

Proposed Standard Changes Lease Accounting

By Robert Fouratt, CPA

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) published an exposure draft in August 2010 that, if implemented, would supersede current accounting principles and have a significant impact on the financial reporting for any business involved in leasing transactions whether they are the lessee or the lessor.

This new standard would eliminate the concept of an operating lease. The proposal would apply to all leases except for: short-term leases as defined by the proposed new standard, leases of intangible assets, biological assets and leases for exploration or use of natural resources. Critics of the current accounting practices are concerned that many leases are structured as operating leases to avoid capitalization of an asset and the related liability; such arrangements do not properly reflect the economic impact of the lease transaction.

Under the proposed standard, lessees would recognize a "right-of use asset" for the present value of future lease payments and an offsetting liability. The asset would be amortized over either the lease term or the useful life of the asset (whichever is shorter). Lease payments would be applied to the liability and interest expense based upon the interest rate used in determining the present value at the lease's inception. The present value of the lease is to be determined using the longest possible term considered more likely than not to occur. In other words, the present value would take into consideration factors such as the effects of options to extend, contingent rentals, termination costs, and residual value guarantees.

When the new standard becomes effective, it will be applied to any currently outstanding leases based upon the remaining terms of the lease. Therefore, the remainder of any outstanding operating leases would be capitalized under this standard. These changes could have a significant impact on balance sheets, reporting of income, current asset ratios, ability to meet debt covenants, net worth ratios, and other important financial data.

We expect the standard to become final during the second quarter of 2011 and to become effective in 2013. Anyone who issues GAAP financial statements should be prepared for the potential impact on their financial reporting. For more information, contact **Robert Fouratt** at *bfouratt@curchin.com* or any of The Curchin Group's professionals at 732-747-0500.

FEATURED EMPLOYEE **LAURA TARNOW**

Laura Tarnow began her career in accounting when she graduated from the College of New Jersey with her B.S. in Accountancy. She has been with Curchin for 11 years. What she loves about The Curchin Group is the close, friendly atmosphere that over the years has offered a wealth of experience and opportunity for growth -- and her career is indeed growing!

Since starting her career with Curchin as a Staff Accountant, she has progressed to Senior Accountant, then Supervisor. This past fall, she was promoted to Manager in the Audit Department. Laura is currently working to complete her certification in Quickbooks Pro. When not busy cultivating her career, Laura enjoys cooking, baking and gardening.

"What I love most about my job," Laura says, "is that the rules and regulations are always changing. There is always something new to learn."

Curchin Launches Family Business Advisory Practice

The Curchin Group is proud to announce the launch of our Family Business Advisory Practice. In most aspects, family businesses are not unlike regular businesses. Operational and regulatory aspects of family and non-family owned businesses are similar. They differ in the area of family dynamics. Business, estate, succession and financial planning in a family business must consider the wishes of not only the founders of a business, but also those of future generations. Oftentimes, there are conflicts or differences of opinion within families. Curchin not only can help with the operational and regulatory aspects of a business, our family business specialists can help you attain your desired results and goals within the dynamic family environment. Curchin will work in conjunction with select behavioral, managerial and legal consultants, as necessary, to facilitate the needs of your family. Keep in mind this concept is not only limited to family businesses. It also applies to family wealth accumulation.

This year Lynn Conover, CPA and Kimberly Melski, CPA joined the Family Firm Institute (FFI), an organization based in Boston, MA which is comprised of a diverse network of professionals who are extremely knowledgeable in family business advising.

In October, Lynn and Kim attended the FFI Annual Conference in Chicago, IL. At the conference they learned about how family advisors must work as a team, retirement concerns of senior family members, financing alternatives, and the "Perfect Storm" of family businesses, among other topics. Lynn Conover is currently working toward her Family Business Advisor Certification which is expected to be completed and presented at the FFI Annual Conference in October 2011 in Boston, MA.

The core group of Curchin's Family Business Advisory Practice consists of Lynn A. Conover, CPA; Roy Kvalo, CPA/ABV/CFF, CVA; and Kimberly C. Melski, CPA.

Among the services that Curchin can provide to family business/wealth centers are:

- Family meeting facilitation
- Succession planning
- Estate planning
- Business management and regulatory compliance
- Business valuation

To learn more about our family business advisory practice, please contact **Lynn A. Conover, CPA** at *lconover@curchin*.com or 732-747-0500.

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Celebrating over 50 years in Monmouth County, New Jersey, The Curchin Group helps small to mid-sized businesses and individuals reach their financial goals through providing a broad range of Assurance; Tax; Financial Planning; and Business Advisory Services. The firm is dedicated to giving solid financial advice, sustaining long-term relationships with its clients and employees and giving back to the surrounding community. For more information about Curchin, please contact Bob Fouratt at 732.747.0500 or bfouratt@curchin.com

From left to right: Lynn Conover; Dave Ferullo; Peter Pfister; Bob Fouratt; Carolyn Kvalo.

The Curchin Group LLC

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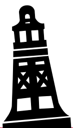

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