



Summer
2009

In The Margins

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Two Thousand Nine Economic Outlook Breakfast

MOVING RHODE ISLAND FORWARD ADDRESSING CRITICAL TAX ISSUES AND THEIR IMPACT ON RHODE ISLAND'S FUTURE



Governor Donald L. Carcieri

Held on Tuesday, June 23, 2009, during the last week of the Rhode Island's fiscal year, Sullivan & Company's eighth annual Economic Outlook Breakfast was attended by more than 130 clients and business colleagues representing corporations, businesses and professional firms across the state. Following welcoming remarks by Managing Principal Timothy J. Sullivan, Raymond F. Murphy, Jr., introduced Governor Donald L. Carcieri and the distinguished panelists, Alfred J. Verrecchia, Chairman of the Board of Directors, Hasbro, Inc., Mark Higgins, Ph.D., Dean of the College of Business Administration, and the Alfred J. Verrecchia-Hasbro, Inc. Leadership Chair in Business at the University of Rhode Island, and Gary S. Sasse, Director of Rhode Island's Department of Administration and Revenue. Director Sasse served as chairman and Mr. Verrecchia and Dr. Higgins as members of the Governor's Tax Policy Workgroup.

Assembled to address critical tax issues and their impact on Rhode Island's future, Governor Carcieri provided an overview and commentary on Rhode Island's \$7.8 billion Fiscal Year 2010 Budget. Lamenting

that the 2010 budget was not a coherent plan, he emphasized that Rhode Island needs to do more to move the state forward. He cited the significant work of the Tax Policy Workgroup established in June 2008 that worked for months and offered proposals aimed at making the state more business friendly and competitive by reducing the business corporation tax rate, restructuring and lowering personal income tax brackets, and significantly increasing the estate tax exemption.

Mr. Verrecchia focused on the critical changes needed in Economic Development, emphasizing that successful economic development must be driven by the private sector in order to make Rhode Island more competitive. He noted the need for Rhode Island businesses to work together to change tax policies and to focus on educating the state's workforce to ensure that Rhode Island really is "Open for Business."

Dr. Higgins focused on Rhode Island's short-term, "quick-fix" answers to long-term problems like the tobacco settlement in 2002, the use of \$226 million in stimulus funds in this year's budget, short changing the development of Quonset, and the critical importance of higher education in economic development.

Dr. Higgins emphasized that the future of Rhode Island hinges on its ability to align economic development and tax policy, supported by a strong higher education system. "It is clear that the lack of long-term economic strategic planning is at the root of many of Rhode Island's problems," he stated.

We have continually robbed Peter to pay Paul and now our current budget is based on using \$226 million in stimulus funds, while making nominal changes in the way we conduct business.

Mark Higgins, Ph.D.

Director Gary S. Sasse, Department of Administration and Revenue, and former executive director of the Rhode Island Public Expenditure Council, focused on the critical need to align economic development, tax policy, and fiscal policy, noting that as of July 1, 2009, the major tax proposals recommended by the Tax Policy Workgroup, would not be enacted. He closed by noting that Rhode Island still has a lot of work to do to address the critical economic challenges it faces.

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More than 130 clients and business colleagues attended the breakfast on June 23, 2009.

FOR HEALTH CARE CLIENTS THE ISSUE IS HOW TO MANAGE BUSINESS IN THE MIDST OF CONSTANT CHANGE



Ann Marie Fillion
CPA, Principal, Director
Health Care Services

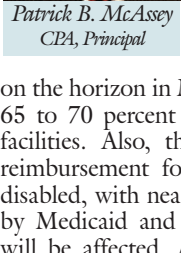
While health care reform continues to take center stage across the country generating debate, health care organizations in Rhode Island have been dealing with a crisis of their own: How to manage business in the midst of constant change. For many, bank financing has become a major issue of concern as due

diligence has increased and the process of securing financing has lengthened. Even for organizations with long-standing relationships with banks, annual requests for additional information are much more in depth. For other organizations, if their financial situation is tenuous, it has been difficult to get a bank to lend. Not-for-profit organizations that raise all or a significant part of their revenue from fundraising are concerned by the downturn in the economy that may reduce their revenue substantially as donors tighten their purse strings. Long-term strategic planning, day-to-day operations, patient care and human resources issues, including staffing and scheduling, raises and bonuses: all have become major operating challenges in a state with an aging population.



Monica A. Motta
CPA, Principal, Director
Health Care Services

Potentially substantial cuts and changes are on the horizon in Medicaid, which affects 65 to 70 percent of patients in nursing facilities. Also, the Global Waiver and reimbursement for the developmentally disabled, with nearly 100 percent funded by Medicaid and other state programs, will be affected. As a result, across the state—nursing facilities, assisted living facilities, adult day care programs, home care providers, and group homes and related programs for the developmentally disabled—health care organizations are increasingly turning to Sullivan & Company for expertise and business advice in weathering the health care storm.



Patrick B. McAssey
CPA, Principal

Of particular concern to these organizations are issues addressed in Rhode Island's Fiscal Year 2010 Budget and the Rhode Island Global Waiver. We are pleased to provide the following updates.

Rhode Island Fiscal Year 2010 Budget

Facing a severe budget deficit for Fiscal Year 2010, initial projections on health care program reductions from the State House were daunting. However, with the signing of the \$7.8 billion budget by Governor Donald L. Carcieri, the budget restores a significant amount of the proposed nursing home reductions from an acuity adjustment, which originally totaled \$7.9 million (state and federal). The final budget restores \$5.3 million of this projected cut. This still results in an acuity-based reimbursement reduction of \$2.6 million (state and federal). The budget does not include a five (5) percent daily rate cut as proposed, and maintains the October COLA. In light of the traditional three-year reryr scheduled on October 1, 2009, reductions to the budget may be made. Public hearings will be held on the acuity adjustment in January 2010, and a final implementation plan is scheduled to be submitted to the Rhode Island House and Senate Finance Committees by December 1, 2009. The budget also restores \$223,380 in savings that the DEA assumed would come from a rate increase of up to \$18 per adult day. The restoration of this funding maintains the current adult day cost. Agencies caring for the developmentally disabled are awaiting word on how the final 2010 budget will be implemented and the affect it will have on their programs. In the meantime, they are operating at the same level of funding (with the exception of the elimination of the provider tax) received in 2009.

Rhode Island Global Waiver

Rhode Island's Global Waiver limits Medicaid spending to approximately \$12.1 billion through 2013. In exchange for capping spending, the state has received authority to change beneficiaries' eligibility for a broad range of services, including institutional care (nursing facilities and facilities for the developmentally disabled) and home and community-based care (assisted living, shared living, nursing services and supported living arrangements, for example). Under the Global Waiver, based on the continuum of care, individuals are evaluated using a revised level of care criteria—preventive, high or highest. The determination for developmentally disabled beneficiaries will be based on MHRH regulations.

We work closely with health care industry trade associations and provide advice and counsel, analysis of information, and assistance to for profit and not-for-profit health care organizations across the state. For specific information, contact Timothy J. Sullivan, Ann Marie Fillion, Monica A. Motta, or Patrick B. McAssey, at 401.272.5600.



FROM THE MANAGING PRINCIPAL

The irony is not lost on any of us. As we celebrate the 40th anniversary of walking on the moon, why can we not figure out how to address the overwhelming economic problems we face in an increasingly global economy? In the midst of the worst economic crisis since the Great Depression of 1929, the country is struggling with staggering unemployment, bankruptcies, home foreclosures, health care reform and a host of other woes. While it now appears that the Recovery Act has generated progress with monthly job losses down, financial markets improved and the economic contraction slowing, it is clear that we continue to need relief, recovery and reinvestment to resolve this multi-faceted crisis.

Here in Rhode Island, the economic situation is acute. As Rhode Island struggles with one of the nation's highest unemployment rates, it is clear that we face major challenges. The time has come for individuals and businesses across the Ocean State to insist that the General Assembly comprehensively address the economic issues we face through long-term strategic planning. For too long as a state we have tried to resolve major issues with short-term, band-aid approaches.

Many of our clients have turned to us, asking the same question, "How do I survive the recession?" Given the extreme volatility of today's economic environment, I encourage you to continue to turn to your trusted business advisors here at Sullivan & Company. We are prepared to put all of our resources, our years of experience, talents, and skills to work for individuals and businesses throughout Rhode Island. At Sullivan & Company, we stand committed to helping our clients weather the economic storm.

As the summer unfolds, I hope you will take the time to relax a bit and enjoy all of Rhode Island's seasonal delights. After all, in spite of the weather, there is no place quite like this state we call home.

Sincerely,
Timothy J. Sullivan
Timothy J. Sullivan
CPA, MST
Managing Principal

SULLIVAN & COMPANY...

By the Numbers

Two thousand nine marks Sullivan & Company's thirty-fourth year in business as one of Rhode Island's and Southeastern New England's premier independent certified public accounting firms. One distinguishing characteristic of our workforce is the firm's excellent record of retaining its strong, professional staff.

In 2009, Sullivan & Company extends hearty congratulations to Nancy L. Henry, CPA, MBA, principal, and to Diane Della Selva, CPA, MST, principal, as they both celebrate 25 years with the firm. Congratulations are also extended to Lolly Iacobo and Jackie Waldon as they celebrate their tenth anniversaries with Sullivan & Company.

According to the AICPA, the American Society of Certified Public Accountants, employers often ask, "How do we keep top performers?" This is crucial now, with the desire for good talent at an all-time high and firms fiercely competing for that limited talent pool. Committed to retaining its valued employees, Sullivan & Company maintains employment practices that are geared to retention.

Employees are given the responsibility and the authority to get things done. They are empowered. Employees are treated with respect and trust because they are the firm's most valuable asset. Employees are provided with knowledge and information. Feedback is given on performance and achievement is recognized. We maintain a workplace environment where people want to work and have fun—leading to high morale. Most important of all, Sullivan & Company is committed to hiring the right people.

Just look at the numbers: At Sullivan & Company, 42 percent of the principals and staff have been with the firm for more than ten years and 69 percent have been with the firm for more than five years. "Retaining top performers is critical to our success," said Managing Principal Timothy J. Sullivan recently. "A strong, talented workforce is the foundation on which we deliver to our clients the highest level of professional service."



CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

Paul J. Cavanagh, CPA, ABV, Awarded Accredited in Business Valuation Designation



*Paul J. Cavanagh
CPA, ABV*

Paul J. Cavanagh, a supervisor at Sullivan & Company, has been awarded the accredited in business valuation designation by the American Institute of Certified Public Accountants. The designation, established in 1996, recognizes CPAs with extensive professional experience in business valuation. Mr. Cavanagh joined Sullivan & Company as a senior accountant in 2005 and is responsible for providing assurance and business advisory services for clients in the real estate, cellular communications and consumer products industries. He has extensive experience with manufacturers, distributors and not-for-profit clients, as well as retirement plans. A graduate of the College of the Holy Cross, Mr. Cavanagh holds a bachelor of science degree in accounting and economics.

Sullivan & Company Intern Program Yields Big Dividends



*Louis J. Simon
CPA*



*Boyd E. Foster
CPA, CFE*

For young, ambitious accounting students at Bryant University, the University of Rhode Island, Roger Williams University and the University of Massachusetts-Dartmouth, Sullivan & Company's Intern Program holds strong opportunities. The Intern Program, initiated in 2008 and managed by Louis J. Simon, and Boyd E. Foster, Jr., is of particular interest

to accounting students throughout Southeastern New England who want to pursue their career goals in Rhode Island. Information about Sullivan & Company's Intern Program is posted on each university's Web site and recruits junior and senior accounting students to apply for an internship by submitting cover letters and their resumé.

"Students looking for internships are ambitious and want to build their resumé by gaining meaningful, hands-on experience," stated Louis J. Simon, CPA. "At Sullivan & Company, interns are treated as if they are first-year staff members. They have specific professional responsibilities. Feedback from our interns has been extremely positive," he continued. "They appreciate the scope of the work they perform and have consistently mentioned in evaluations of the program that the hands-on experience gained at our firm has helped them with their studies. They also learn how to interact in a business environment and to dress properly for the business world."

Feedback from Sullivan & Company's principals has been equally positive. "The Intern Program has been a terrific addition to our recruiting efforts," affirmed Michael L. Hanna, principal. "We have hired one of our interns and two interns are returning to Sullivan & Company this fall for their second year with us. Applications are growing in number, providing the firm with a competitive edge in recruiting the best and brightest students. This is a win-win situation for the students and for the firm."



*Intern Jemini Boyer
will begin her career at
Sullivan & Company
in the fall of 2009.*



On September 19, 2009, TEAM SULLIVAN will be out in full force at Fort Adams in Newport for the Ocean Conservancy's 24th International Coastal Cleanup sponsored by the Audubon Society of Rhode Island.



Audubon Society of Rhode Island

TEAM SULLIVAN IN ACTION

For more than fifteen years, TEAM SULLIVAN, Sullivan & Company's volunteer community service corps, has helped non-profit organizations throughout Rhode Island by contributing their time and talents to supporting community initiatives that enhance the quality of life statewide. From the Nickerson Community Center to the Rhode Island Community Food Bank, the American Cancer Society's walk-a-thon, *Making Strides Against Breast Cancer*, to the Audubon Society of Rhode Island and the Ocean Conservancy's annual International Coastal Cleanup, TEAM SULLIVAN members have been in the action—helping to make a difference in the lives of Rhode Islanders in need as they work to build a better Rhode Island.

On September 19, 2009, TEAM SULLIVAN will be out in full force at Fort Adams in Newport for the Ocean Conservancy's 24th International Coastal Cleanup sponsored by the Audubon Society of Rhode Island. The largest volunteer effort of its kind, in 2008 TEAM SULLIVAN joined nearly 400,000 volunteers worldwide who removed, inventoried and catalogued more than 6.8 million pounds of debris from 6,485 sites in 104 countries and 42 states focused on the common mission of improving the health of the ocean. On March 10, 2009, the Ocean Conservancy released the report of that effort entitled *A Rising Tide of Ocean Debris and What We Can Do About It*, featuring the organization's annual *Marine Debris Index*—the world's country-by-country, state-by-state analysis of trash in the ocean and waterways. The report focused on the hazardous impact of trash on wildlife and the resilience of the ocean in the wake of rising sea levels, warming, and acidification, some of the most serious effects of global climate change.

"At Sullivan & Company, we encourage everyone to find the life balance that works best for them. We've found that we are all energized when we work together for an organization that makes significant contributions to the community—and in the case of the Ocean Conservancy—to the world. We feel a sense of pride that as a group of people TEAM SULLIVAN really does make a difference," commented Sullivan & Company Principal Michael L. Hanna.



Provocative questions generated serious discussions between the panelists and attendees.

Moving Rhode Island Forward, cont.

A panel discussion and a question-and-answer period followed the presentations. Committed to producing seminars for clients and business colleagues that serve their needs and interests, we ask attendees to complete questionnaires at the end of the program. The 2009 Economic Outlook Breakfast was consistently evaluated by attendees as outstanding based on the presentations, inclusive treatment of the subject, program content and length.

In The Margins is published periodically by Sullivan & Company. We recommend that you consult us or your business and tax advisors before acting on any matter discussed in this newsletter. For additional information, please contact Sullivan & Company by telephone at 401.272.5600 or via the Web at www.SullivanandCompanyCPA.com.

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