



Virtualization almost a virtual reality

Randy Herget, MCSE

Because virtualization is rapidly transforming the IT landscape and fundamentally changing the way people compute, it's useful to understand what it is. Today's x86 computer hardware was originally designed to run only one operating system (OS) and a single application, but virtualization makes it possible to run multiple operating systems and multiple applications on the same computer at the same time. It is technology that can benefit anyone who uses a computer by saving time, money and energy while achieving more with the computer hardware they already own.

In essence, virtualization lets you transform hardware into software through the use of virtualization software. A virtual machine is a tightly isolated software container that can run its own operating systems and applications as if it were a physical computer. It behaves exactly like a physical computer and contains its own software-based CPU, RAM, hard disk and network interface card. Once installed and configured, it is a computer running inside of a computer.

An operating system can't tell the difference between a virtual machine and a physical machine, nor can applications or other computers on a network. Even the virtual machine thinks it is a "real" computer. Nevertheless, a virtual machine is composed entirely of software and contains no hardware components whatsoever. As a result, virtual machines offer a number of distinct advantages over physical hardware, such as:

- **Compatibility:** Virtual machines are compatible with all standard x86 computers.
- **Isolation:** Virtual machines are isolated from each other as if physically separated.
- **Encapsulation:** Virtual machines encapsulate a complete computing environment.
- **Hardware independence:** Virtual machines run independently of underlying hardware.

So what good is virtualization in simple terms, you might ask? What are some practical applications for virtualization? Some applications don't like being on the same server together because they don't get along. Instead of spending money on additional server hardware, you can

"VIRTUALIZATION" CONTINUED ON PAGE 5



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FASB Statement No. 157, Fair Value Measurements

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In September 2006, the Financial Accounting Standards Board issued Statement No. 157, *Fair Value Measurements (FAS 157)*, with an effective date for fiscal years beginning after November 15, 2007. FASB Staff Position No. FAS 157-2 amended the effective date to fiscal years beginning after November 15, 2008, for non-financial assets and liabilities. FAS 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and broadens disclosures about any fair value measurements used to prepare the financial statements.

The most common misunderstanding about FAS 157 is that it does not establish new rules about which assets and liabilities should be fair valued. Rather, it establishes criteria by which assets and liabilities requiring fair-value measurement should be valued. Simply put, if another standard requires fair-value measurement, FAS 157's rules govern the fair-value determination. Prior to the issuance of FAS 157, various methods were used to determine fair value, making comparability of fair-valued assets and liabilities extremely difficult for investors and analysts.

The following are some key points within FAS 157:

Exit Price vs. Purchase Price

Prior to FAS 157, purchase price, or entry price, was often assumed to be fair value and assets and liabilities were recorded as such. Under FAS 157, a "day one" gain or loss to adjust the carrying value of the

asset or liability from the entry price to the fair value is required. A common example is the purchase of assets from a seller in a distressed financial position, where the seller accepts a price below fair value if the purchaser is willing to pay cash for the assets, resulting in a one-day gain because the assets must be written up to fair value. Another example is when a buyer pays a price well above the rest of the market in order to obtain the assets, resulting in a one-day loss because the assets must be written down to fair value based on the fair value. As required by FAS 157, the carrying value, or fair value, of the assets in these examples must be based on the exit price if the buyer were to sell the assets in the market after the purchase, not the acquisition price paid by the purchaser.

Fair Value Hierarchy

FAS 157 establishes an explicit three-level hierarchy of fair value measurement. Level 1, which is the most objective, requires the use of an active market that provides a quoted value for each unit. Level 2 includes assets and liabilities for which no active market exists, but have parallel markets or observable transactions involving similar assets that were traded or transferred between external parties. Level 3 is for assets and liabilities that do not fit under levels 1 or 2 and whose values are based on information from the company. This data is "unobservable," but is combined with observable data as much as possible, such as interest rates. Fair values must be based on the highest level possible.

"DEDUCTIBLE" CONTINUED ON PAGE 5

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New office under construction

We're moving! By the new year, our office will relocate to 5929 South Fashion Point Drive in South Ogden. This new location offers more space to serve our clients and will enable more efficient processes. The new office, located at the junction of Harrison Boulevard and Highway 89, is accessed from the highway at the light on Skyline Drive, going east one block, then turning north on South Fashion Point Drive.

We look forward to seeing you there!



SGS Increases Expertise in Employee Benefit Plans

Schmitt, Griffiths, Smith & Co. has joined the AICPA's "Employee Benefit Plan Audit Quality Center". To help CPAs meet the challenges of performing quality audits in this unique and complex area, the AICPA has established the Employee Benefit Plan Audit Quality Center, a firm-based voluntary membership center for firms that audit employee benefit plans. Employee benefit plan audits include pension, health and welfare, and 401(k) plans subject to the Employee Retirement Income Security Act (ERISA) under the regulatory authority of the U.S. Department of Labor (DOL). Member firms must meet certain requirements, including training and peer review requirements.



Business Savings

Beth Baldwin, MAcc, CPA

As gas prices continue to fluctuate, so do many business costs. Whether you run a restaurant and pay for food, or you're a physician paying to ship in medical supplies, it seems that fuel charges are being passed on to everyone. In this environment of increased prices, here are some ways that your business can save.

Insurance.

Insurance is a significant cost for many businesses. Many insurance companies will offer you a discount the first year that you sign with them and then will raise the costs in future years. To avoid this, shop around. Get competitive rates from several insurance companies and decide which plan meets the needs of your business and your wallet. This may be as simple as asking your insurance agent to do comparative shopping for you. Also, check your coverage. Your goal is to be adequately insured, but not under- or over-insured.

Office supplies.

You might be surprised at the selection and quality of office supplies available at discount stores such as Sam's Club and Costco. Many of these stores offer special membership rates for businesses and even preferred hours for business members. Also, evaluate the supplies that you are using. Are there more cost-effective choices that still meet your needs?

Outsourcing.

Many companies outsource functions such as payroll, human resources, and accounting. Doing this gives you access to people who are informed of the latest

tax and employment laws and saves the cost of having to pay a full-time employee with benefits.

Investing idle cash.

If you are in a position where you have excess cash—then congratulations! But how are you using this excess cash? Make sure that you use it as wisely as possible. For example, should you be paying down high-interest debt? Is it in an investment with a decent return, or is it wasting away in a low-yield bank account? Take the time to review the best use of excess funds.

Leasing vs. buying.

Many of us are familiar with this when it comes to cars. But did you also know that many types of office, medical, and production equipment can be leased? Examine the leasing options available to determine if the rates available to you provide a better return than buying the equipment outright.

Paying bills.

Nobody wants to incur finance charges on overdue bills—but are you paying your bills too early? Identify those vendors that provide a discount if payment is made early and determine if the savings on early payment is greater than the return if you invested the money and paid the bill on the due date. Unless you're receiving a discount, don't pay bills early. If you get 30 days to pay a bill, use those 30 days to earn a return on your money while still paying your bill by the due date.

These simple suggestions can help you focus on cutting costs and make the most



“VIRTUALIZATION” CONTINUED FROM PAGE 1

deploy a virtual server running on your existing one that separates the two environments, thus saving you several thousands of dollars. Virtual servers can be moved and migrated to a new upgraded server in a matter of a few hours instead of a few days, saving time and money. Also, when disasters strike, recovering from a failed server can take a matter of hours instead of days.

Entire networks can be virtualized and housed in remote data centers. It’s possible to have an inexpensive dumb

terminal at an end user’s desk with a monitor, keyboard, mouse, and Internet connection remotely connecting to a virtual computer that is never seen. The advantage is that hardware costs are reduced and networks can be managed by employees of a data center, which provides protection from natural disasters. An entire company’s network can be housed on one single virtual server. In the near future, it is entirely possible that virtualization will be a virtual reality. ■

Randy is our firm’s network administrator. He is available to consult on your network needs.

“DEDUCTIBLE” CONTINUED FROM PAGE 2

Frequency of Valuation

Assets and liabilities requiring valuation fall within two categories, recurring and nonrecurring. Examples of assets and liabilities requiring recurring valuations are trading securities, available-for-sale securities, derivatives, and other investments. Examples of assets and liabilities requiring nonrecurring valuations include goodwill, intangibles, and long-lived assets that are used or held for sale. Valuations of recurring assets and liabilities occur whenever financial statements are prepared, whereas valuations of nonrecurring assets and liabilities are made once a year at the end of the fiscal year or as needed based on an event, such as an acquisition or disposal of a business segment.

Disclosures

FAS 157 establishes extensive disclosure requirements that

are robust in nature and require companies to disclose assumptions made and techniques used to determine fair value. Each hierarchy (levels 1-3) has its own disclosure requirements, with level 3 valuations requiring the most extensive disclosures. Recurring valuations require more frequent disclosures, whereas nonrecurring valuation disclosures are only required on an annual basis.

As you can see, FAS 157 is a complex standard that requires consideration on a case-by-case basis, particularly on acquisitions and impairment measurements. Unless your company purchases another company, or possesses financial assets that are often subject to fair value, FAS 157 may not affect you. However, because this standard becomes effective on January 1, 2009, for calendar-year-end companies, please let us know if you have any questions or concerns about how FAS 157 might affect your company. We will be happy to help. ■

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