



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Rea REPORT

VOL 11 | ISSUE 2 | SPRING



PRESIDENT'S REPORT

In a successful business, your values attract good customers and employees, and encourage them to stay.

"The Rea Way" (www.ReaCPA.com/ReaWay) is our value statement, and it helps define who we are as a firm. It encourages traits like integrity, respect, teamwork, continued learning, failing forward and a positive attitude. These are the philosophies we live and work by every day. And in a recent survey, 86 percent of our employees confirmed that The Rea Way represents our firm.

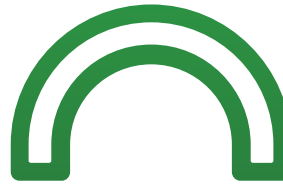
Wholesome Pet is another company that remains true to its values. Founders Allan and Rose Bauman and President Clancy Lavins live their company's values each day. They demonstrate it through the actions they take with their employees, suppliers and customers.

As we begin to return to business as usual, remember the values that got your business where it is today – especially if you've had to temporarily turn away from them during the recession. You have to believe them and live them every day. Surround yourself with people who are committed to living them, too.

Whatever you value, continue to do it well and find ways to do it even better. That's the prescription for keeping customers – and employees – for life.

Clancy Lavins

JUMPING BACK INTO INVESTMENTS | 2
 GReaT IDEAS | 3 EMPLOYEE HIGHLIGHTS | 4
 SERIES 2011: THE CHANGING ROLE OF GOVERNMENT | 4
 CLIENT FOCUS: Wholesome Pet | 6 TAKE A GLIMPSE | 7
 HIRE SMARTER | 8



PROTECTING YOUR BUSINESS

Would you hand over \$1 million to an employee? How about a mere \$160,000? If you don't have good internal controls in place, someone who works for you could easily take this much. How protected are you?

In its 2010 Report to the Nation on Occupational Fraud and Abuse, The Association of Certified Fraud Examiners found that the average fraud case is \$160,000, with nearly 25 percent of the fraud victims reporting losses of more than \$1 million. Insider fraud costs businesses an average of 5 percent in revenues each year.

Your business is never too small to put internal controls into place. In fact, small organizations are disproportionately victimized by fraud because they rarely have strong internal controls.



**SIMPLE
STEPS
CAN HELP
YOU DETER
FRAUD**



Controls don't have to be costly or complicated, and you don't necessarily have to hire a new employee to help develop and carry them out. Consider incorporating the following internal controls to help protect your business.

SEGREGATE DUTIES
Whenever possible, separate responsibilities so that one person doesn't have total control. For example,

have someone without check-writing authority reconcile the checking account, or have someone other than the receiving employee verify inventory. Even in a small office, cross-training duties and occasionally rotating them between employees can protect you.

CONTROL CASH

Your bank can help you when they know your policies. Tell them if your checks require two signatures, for example,

CONTINUED ON PAGE 3

BY MICHAELA MCGINN, CPA (PRINCIPAL, DUBLIN OFFICE) AND ANNIE YODER, CPA, CFE, CFF (MANAGER, NEW PHILADELPHIA OFFICE)





Jumping Back into Investments

NOW MAY BE THE BEST TIME FOR YOU TO INVEST

If you've been sitting on the investment sidelines the past few years, perhaps you're wondering if it's time to get back into the game.

The Standard and Poor's 500 tracks the prices of 500 of the largest publicly held companies traded on the New York Stock Exchange and the NASDAQ, and it's considered the bellwether for the American economy. The S&P, as it's known, reached its high, 1565, in Oct. 2007. The low was 677 – a 57 percent drop – on March 9, 2009. Through Dec. 31, 2010, the S&P had recovered 86 percent of its low and closed at 1258. That's a pretty substantial recovery, but it still has a way to go.

To illustrate why the timing is right to invest now, **Doug Bambeck** and **Chris Hensel**, investment advisor representatives with Investment Partners Ltd., share their personal insights. ■ ■ ■

What do you tell investors who may be hesitant to return to the market?

BAMBECK: The public still thinks we are in the recession, and investors recall the events of 2008. Unemployment is still high, and most people aren't getting pay increases. However, losses in U.S. Gross Domestic Product have been recovered and the economy is starting to slowly expand. Inflation seems to be under control and interest rates still remain relatively low.

When talking to a hesitant investor, I ask, "If now isn't a good time to invest, when is?"

HENSEL: Investors were understandably fearful during the historic lows of 2008 and early 2009. They relented, took money out of the market, and were consequently gun shy about coming back. Now they may find that deciding to get out of the market isn't as difficult as deciding to get back in.

The key is to be patient and use a long-term approach to investing, which isn't easy when the markets really become volatile.

Why should investors get back into the market now?

BAMBECK: A study by JP Morgan Chase found that we would have to achieve an annual return of 26.5 percent in the market from where we are now in order to get back to the level we were at in 2007. Obviously that's not a realistic one-year return.

But if it took five years to reach that level, we would need a more realistic 6.5 percent annual return. Even if it took 10 years to reach, we would be looking at a 4.2 percent annual return. But I doubt the recovery in the market will take 10 years.

HENSEL: And if you're not currently invested, your money may be sitting in a money market, checking or savings

account. Unfortunately, that means you are probably earning less than half of 1 percent in interest. If you invested that money, you could be earning substantially more.

At some point you need to analyze the risk versus reward on your money choices. You have to decide how long you are willing to let money sit there earning practically nothing.

Do people look at investment risk differently today?

HENSEL: I think Doug will agree that before the financial crisis, many people, including advisors, viewed the prospect of a plus 25 percent loss in the stock market a possibility, but not likely in the "modern economy." Obviously today we know different. The last 10 years were a difficult time to be an investor. It's not shameful to admit you're not at ease with certain levels of risk.

BAMBECK: Absolutely! You need to be comfortable with what you're doing regardless of whether the markets are rising or falling that particular day. That kind of confidence will permit you to get back to utilizing a reasonable investment approach moving forward.

What should investors consider as they get back into the stock market?

BAMBECK: You don't have to make huge investments all at once. Your investment advisor can help you reposition your investments without making drastic moves. You also have to understand that the market will always have some volatility. There will always be something happening in another country, new legislation, a new government report or some other news that will impact the market.

HENSEL: Take it one step at a time to remove some of the pressure. Try not to let your emotions become your investment guide. It is never the "perfect" time to invest, but don't let that stop you. ↑

PROTECTING YOUR BUSINESS



CONTINUED FROM COVER

or that wire transfers over \$10,000 require a second signature. They will contact you if the threshold is reached, halting the transaction for the time being.

They can also watch out for cumulative transactions that add up to limits in your policy. Otherwise, if not checked until the next day, an employee could make a number of seemingly innocent transfers and walk away with loads of your company's money.

PERFORM OVERSIGHT

Use software to quickly obtain and review a summary banking report daily, weekly or monthly. Better yet – open the bank statement yourself or even have it sent directly to your home. If your employees know that you're watching, even if it's just randomly, they'll think twice before committing fraud.

REVIEW VENDORS

Review your company's vendor list at least once each year to look for vendors you don't use or recognize. Vendors are a great place to look for suspicious transactions. Also, control who can add or delete vendors to the vendor list to deter employees from adding fictitious vendors. Similarly, control who may add or delete employees from the employee master file. This will make it more difficult for someone who does payroll to add a ghost employee for a fraudulent payment.

ASK FOR ORIGINAL DOCUMENTATION

When signing a check for an expense, ask for the original invoice or documentation, not a copy, which is easier to alter. You can always obtain a copy of the invoice to place with your records.

ENCOURAGE EMPLOYEE VACATIONS

Ensure that key employees take vacation or leave. When a staff member refuses to take time away, maybe he or she is afraid something fraudulent will be discovered.

CONSIDER POSITIVE PAY

Positive Pay is a fraud detection tool that most banks offer. It matches the account number, check number and dollar amount for each check presented for payment against those previously authorized and paid by the company. All three components must match or it will not pay.

CONSIDER DIRECT DEPOSIT OF PAYROLL

Eliminating paper checks makes it more difficult for an employee to write a fraudulent check to a ghost employee.

Internal controls don't have to be expensive or labor-intensive. By either putting policies in place or improving the ones you already have, you can better protect your business from a potentially crippling loss. 🕒

COMPLY WITH ERISA REQUIREMENTS

A U.S. District Court recently fined a company \$5,880 for not providing a summary plan description to a plan participant beneficiary. Fines for not providing the documentation can be as high as \$110 a day. To avoid fines, make sure you meet all ERISA compliance requirements with all of your employee benefit plans.

REFINANCE DEBT TO REDUCE INTEREST COSTS

Take advantage of falling interest rates to refinance existing business debt. See if your bank can trim the interest on your mortgage by two or more percentage points, too. The fees and closing costs may be recouped in less than a year because of the savings. And if cash flow isn't an issue, consider reducing the term of your loans instead to pay debt off faster.

CURB WORKPLACE VIOLENCE

There are many potential threats to the safety and harmony of your company – staff disputes, former employee revenge, violent customers – and you can be legally liable. You can help provide a safe workplace by establishing a policy regarding violence. Also train managers to recognize warning signs so explosive situations can be avoided.

REVIEW DISABILITY COVERAGE INSURANCE

The group disability insurance you get from your employer may not cover all the expenses you'll encounter if you become disabled. Look at the length of the policy, any dollar limits in the coverage and any required waiting period. You may want to buy individual disability coverage to supplement current coverage or to provide protection that's lacking.

Great IDEAS



EMPLOYEE HIGHLIGHTS

Mark Beebe joined the Dublin office as a staff accountant.

Michaela McGinn (Dublin) testified earlier this year before an Ohio congressional committee on behalf of the Ohio Society of CPAs. She discussed how performance audits of state agencies help evaluate whether tax dollars are spent in an efficient, effective and economically sound manner.

Pat Porter (Dublin) was named a Superstar by *Columbus CEO Magazine*.

Mike Studer (New Philadelphia) passed the CPA exam.

Dan Watson (Medina) joined the Auditor of State's Southeast Ohio and Southwest Ohio Regional Advisory Boards. **Don McIntosh** (New Philadelphia) joined for the Northeast Ohio region.

SERVICE MILESTONES:

20 YEARS

Darlene Finzer

(New Philadelphia)

15 YEARS

Sandi Hinman

(Medina)

10 YEARS

Lisa Contini

(New Philadelphia)

5 YEARS

Dee Webb

(New Philadelphia)



Series 2011

THE CHANGING ROLE OF GOVERNMENT AND HOW IT IMPACTS YOUR BUSINESS

part two:

HOW DOES IT FEEL TO HAVE A TARGET ON YOUR BACK?

**GOVERNMENTS INCREASE
SCRUTINY AT EVERY LEVEL**

Just like the rest of us, state and local governments are experiencing budget shortfalls. This is bad news for them, of course. But since they are on the prowl for revenue, it could be bad news for your business, too.

Many state and local governments are hesitant or unable to increase tax rates. Instead, they are stepping up enforcement actions to collect taxes and penalties from unwary and noncompliant taxpayers.

This enforcement falls under two areas: audits of taxpayers who already file returns, and discovery in hopes of finding non-filers. Here are some things to be aware of and actions to take to protect yourself.

MITIGATING AUDIT RISK

State tax authorities are increasing their audits of the following taxes:

- state income
- state franchise or privilege
- sales
- use
- other non-income based taxes

Simply filing a form is not enough. Make sure you comply with the multitude of complex regulations. While there is no way to totally prevent a state or local audit of your business tax returns, you can help mitigate your risk by doing the following tasks:

Conduct a state tax review. A state tax review of your current filings will help ensure you don't have any unknown exposures. The review should be conducted by a state and local tax specialist in each of the tax jurisdictions that you are filing in.

Report all income. State taxing authorities cross-reference W-2s, 1099s and other sources of income to make sure the income information reported matches what is on your return. When your information doesn't match, you will receive an automated notice.

Provide complete information. Answer all of the questions on the return and provide all of the forms, schedules or other necessary information. If information is missing or incomplete, your return could face a more extensive review. There

This is the second part in a four-part series about how governments' increasing regulations affect businesses.

BY CHAD A. BICE, CPA (PRINCIPAL, ZANESVILLE OFFICE)

is skill involved in properly answering questions on the various tax forms. Certain responses could elicit a negative reply from the taxing authority.

Most states perform random audits to obtain statistical data for their computer selection process. Be prepared by keeping good records for your business activities, retain required receipts and documentation and use separate bank accounts and credit cards for your business and personal activities.

DISCOVERING NON-FILERS

State and local tax authorities are looking for non-filers. Make sure you understand your businesses' tax footprint and your connection to a jurisdiction (nexus) to ensure you are filing everywhere you should.

Nexus. Nexus requires you to file in any state in which you have a "connection." The level of connection that requires a filing requirement differs by tax type and state. You must understand your state tax footprint and the related nexus it could create so you can analyze where you might need to file additional tax returns.

Ohio Use Tax. The Ohio Department of Taxation's new Use Tax Education Program (UTEP) aims to teach you about the use tax – and the department is also using it to step up enforcement efforts for Ohio's use tax law.

Use tax is a sales tax that wasn't paid, but should have been, on taxable property or services your business purchased. In other words, if your company bought a taxable item or service which is used in Ohio and paid Ohio sales tax on it, you do not owe Ohio use tax. However if your business purchased a taxable item or service which is used in Ohio and did not pay Ohio sales tax on it and there is not a statutory exemption, exception, or exclusion from taxation, you owe Ohio use tax.

Taxing authorities are cross-referencing records, and they will find businesses that are

not complying with the use tax law. If you're one of them, they'll contact you soon.

AVOIDING A USE TAX AUDIT

If your business doesn't have a use tax account, take action quickly to help avoid penalties and a longer look-back period. The agency set up a voluntary disclosure agreement program, or VDA, that provides more favorable treatment if entered into before the state contacts your company.

Here's how it works:

ACTION	LOOK-BACK PERIOD	PENALTIES
Enter VDA now	3 years	Waived
Enter VDA after dept. contacts you in August	4 years	Waived
Ignore notice and don't enter a VDA	7 years	Up to 15%

If you choose to ignore the notice, one of two things will happen:

1. Your company will be audited.
2. The Ohio Department of Taxation will send you a bill for your estimated tax due, plus interest and penalties.

You must also review your company's purchases for the 36 months prior to the date you notified the state of your use tax obligation and determine what use tax you owe. A sales and use tax specialist can not only help you structure, but guide you, through the taxability review and VDA process.

KNOWING YOUR EXPOSURE

If these smaller tax authorities have you targeted, you could owe big – and if you owe enough, you might be forced into drastic measures or even close your doors. Take a few simple steps and talk to your tax preparer to better understand your exposure.

If any of these tax authorities come knocking, you'll be glad you did. 🎯

WANT TO KNOW MORE ABOUT USE TAX?

Listen to a free pre-recorded webinar on the topic at www.ReaCPA.com/utep

THE GOLDEN RULE

RESPECT HELPS WHOLESOME PET
FUEL A PASSION FOR PETS



Real CLIENT FOCUS

Do unto others as you would have them do unto you. That's The Golden Rule, and it's at the core of Wholesome Pet Distributing's business philosophy.

Allan and Rose Bauman were on a quest to find healthy food and treats for their kennel business. They ended up with a lot more when they founded a wholesale business that distributes pet food, supplements, treats and grooming supplies in six states.

Its customers include independent retailers, veterinary hospitals, groomers, day care centers and health food stores, as well as wholesale suppliers. The Smithville, Ohio, company more than doubled its growth in the past four years.

"The Baumans only distribute products they believe in, and they look for the healthiest products they can find," said Clancy Lavins, president and majority owner. He was attracted to the business because of the owners' business principals and the way they managed the company.

"Today, we continue to develop unique relationships with our customers. We treat them, as well as all our suppliers and employees, how we'd like to be treated," said Lavins.

A SIMPLE MODEL

Wholesome Pet operates on a basic business model. The company researches and purchases pet food, supplements and treats. They then warehouse and distribute the more than

3,000 products to their customers.

"Many of the products we carry are unique to our retailers," Lavins said. "Since they may not be as well known in the marketplace, our employees often teach our customers about the benefits and unique features of the products."

*We continue to develop
unique relationships with our customers ...
We treat them how
we'd like to be treated.*

According to Lavins, the company's personnel are the key to its success. "Our employees, and their ability to work this business model better than anyone else, really set us apart," he said.

THE CHALLENGES OF INVENTORY AND INNOVATION

And with such a large inventory, managing the movement of its product lines remains one of the company's biggest challenges. "We review our major lines every day," he said. "Our team works proactively to make sure we have the appropriate amount of inventory on hand."

The company's retail customers are a crucial part of its research and development team. "We may bring value to our customers, but they also bring great value to us," said Lavins.

"They often suggest a new product to us and we research it. Many times we become the first U.S. supplier to offer the item."

CONTROLLED GROWTH

In both the products it offers and the states it serves, Wholesome Pet has experienced controlled growth. "We want to make sure every product we offer is of the highest quality, and we also want to remain true to our supplier partners and not oversaturate the market," Lavins said. "We want to make sure we do the fundamentals right."

Lavins joined the company on the ground level. He spent his first year in sales, and personally managing more than 60 customers, to get to know the Wholesome Pet customers and their needs. This was truly beneficial in the new markets in which the company expanded, all within a five hour drive from its headquarters.

"We have a young market in Indiana and Michigan where we are still pursuing business. So we decided not to expand our area right now," Lavins said.

PASSION FOR PETS

Working in the pet industry is gratifying to Lavins. "People are passionate about their pets, and we're passionate about them too," he said. "You have an immediate bond with people as they talk about their pets. It's a great industry to work in."

To learn more about Wholesome Pet, visit www.WholesomePet.com.



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

The price of materials is up while the price for finished projects remains flat, according to an analysis by the Associated General Contractors of America. This will continue to hurt contractors and may drive more companies out of business – worsening unemployment rates. The industry may also face volatile material costs this year, further reducing profit margins. Purchases and leases of machinery are expected to be postponed.

• MANUFACTURING

U.S. activity is expected to increase by 6.5 percent in 2011 compared to 2010. Industries with the most anticipated growth include: primary metals; fabricated metal parts; petroleum and coal products; apparel, leather and allied products; and transportation equipment. The same survey by the Institute of Supply Management also showed that employment as well as labor and benefit costs will rise by about 2 percent.

• MEDICAL

A shortage of primary care physicians in rural and poor areas leads to preventable hospital stays. If people with certain conditions, like diabetes and asthma, had access to physicians who could help manage their condition, one in 10 hospital stays could have been avoided. The study by the U.S. Agency for Healthcare Research and Quality looked at hospitalization rates for 2008.

• DENTAL

Visiting the dentist may reduce a women's risk for a heart attack. *The St. Louis Post-Dispatch* reported that research conducted by the University of California at Berkley School of Public Health looked at the known relationship between blood vessel inflammation and cardiovascular disease. Their hypothesis is that good oral hygiene reduces the bacteria in the blood stream that leads to inflammation.

• NOT-FOR-PROFITS

Things may be looking up for not-for-profit organizations. U.S. corporate profits were up 27.8 percent in late 2010. This is often an indicator of corporate sponsorships, memberships and donations. A similar, yet smaller, trend is emerging with personal income, too. A modest 3.8 percent rise in personal income will help drive an individual's ability to make donations.

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.



www.Facebook.com/ReaCPA
www.Twitter.com/OhioCPA
www.Twitter.com/ReaCPA
BLOG: www.DearDrebit.com



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



You may be at the point where you are ready to hire for your business – either to expand your workforce or to replace employees you were forced to let go of during the Great Recession.

There are a lot of talented people who are still looking for work, so you can afford to be choosy. Maybe it's been a while since you tried your hand at recruiting, so here are some tips.

TEMPORARY VS. PERMANENT EMPLOYEES

Are your needs temporary or more permanent? Some businesses experience ebbs and flows. You may be able to get away with hiring temporary employees instead of employees who will work for you year-round.

For example, Rea & Associates conducts a large concentration of our business between January and April, so it makes sense for us to hire temporary employees to help during that time.

Manufacturers also experience this. If you have a large order or account coming up, you might consider following in the footsteps of Honda, Nike and Smuckers, and hire temporary employees to help out until things calm down again.

Retail businesses follow this trend, too, when they hire seasonal employees to help out during the holidays.

HIRING YOURSELF VS. OUTSOURCING

Recruiting is an art, not a science. Practice makes perfect, so if you think you have a lot of hiring in front of you, you might want to finesse your skills in this area – or even add a human resource professional to your staff. Otherwise, it would probably be more efficient to outsource this function to an HR service.

PUT THE PEDAL TO THE METAL

Once you've ironed out the details, it's time to begin your search. Follow these steps to help ensure you find the best candidate for the job.

- Write a succinct and specific job description.

Include key words that your ideal employee might type into a job search engine. Be honest about your expectations, job requirements and the culture of your company, too.

- **Gather and sort resumes.** As the resumes come in, put each into one of three piles: yes, no and maybe. Tell the no's, "Thanks, but no thanks." Look through the others again and call three to five for an interview.
 - **Conduct phone and in-person interviews.** Starting off with a phone interview is the best way to save time and resources. But this way, you don't have the benefit of connecting with the candidate and picking up on non-verbal cues. Meet face-to-face with any candidate you are seriously considering.
 - **Screen the top three candidates.** Once you narrow-down your pool, gather more information about your top picks. At Rea, we give all of our hires a personality-based assessment and an aptitude test. This gives us a better feeling for how they will fit with our culture and how apt they are to perform the required tasks.
- You may also want to conduct background checks and drug testing, but there is a cost associated with those. Control costs by conducting these on your final candidate only. You should also check this person's references.

Your company is only as strong as its workforce. Dedicate yourself to finding the right employees and you will reap the benefits. Q