

Strothman & Company PSC

Financial News & Views

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The Strothman Spotlight

Steve Daniels CPA
Senior Manager
sdaniels@strothman.com
502-585-1600



Balancing the Roundtables

Meet Steve Daniels, Senior Manager with Strothman & Company. Steve has 20 years of experience in public and corporate accounting. He has served a variety of clients throughout his career including private and public companies ranging in size from less than \$2 million to more than \$100 million in revenues.

Recently Steve has lead efforts to create two new CFO/Controller Roundtables in which he is the facilitator for both groups. These efforts show Steve's dedication to businesses of all sizes across different industries. The mission of the newly formed roundtables is to freely exchange best practices, ideas and experiences so that members can grow professionally and provide value to their companies. Let us know if you or a CFO or Controller you know would be interested in joining one of our Roundtables.

Steve works closely with Strothman & Company's Entrepreneurial Business Service (EBS) Group to help entrepreneurial companies that do not have internal CPAs or controllers. The EBS Group provides services such as outsourced accounting, accounting system design and implementation, advisory services, outsourced CFO services, internal control review and strategic business planning.

Steve is a graduate of Western Kentucky University and Bellarmine University with degrees in Economics and Accounting, respectively. He is a member of the American Institute of Certified Public Accountants, and the Kentucky Society of CPAs where he serves as a member of its Leadership Council and a Trustee of its Education Foundation.

For the past six years, Steve has served as an Ambassador for Greater Louisville Inc. where he is as a member of its Leadership Group. He is also a member of the Board of Directors of the Louisville Area Chapter of the American Red Cross, and is the immediate past Chairman of the Western Kentucky University Accounting Advisory Council. Steve is also active in various other community organizations.

If you have any questions, call Steve at 502-585-1600.

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General Business News

Tips for Improving Your Cash Flow

No business can survive for long without a positive cash flow – that is, more cash flowing in than flowing out. This is probably the top reason a business fails. In times of an economic downturn, you must be aware of your company's current cash situation and take the necessary steps to repair and improve it. Correcting it now will help you weather stormy economic times in the future.

Take Control of Your Receivables

Some of your customers might be making payments late or not at all. The time to go after receivables is before they become late. Prompt invoicing is extremely important in receiving payments in a timely manner. The sooner you invoice a purchase, the sooner you can collect payment. This money will go into your bank and start earning interest to improve your cash flow situation. Consider invoicing your customers more often, such as monthly instead of quarterly. Review your accounts receivable often to make sure customers are not skipping payments or making a habit of paying late. Ask for partial payment up front on large purchases. If customers are late with payments, send out reminder notices quickly. Often, customers just need a reminder that they have forgotten to make this month's payment. Offering a discount for early payment is also a great incentive to encourage timely payments. Communicate your credit terms up front to avoid future problems.

Create a Budget and Stick To It

Every business owner should create a budget no matter the size of the company. A budget can help you determine if financial goals are being met. By creating one for the whole year, you can spread the cost out over several months. Break down revenue and expenses by each month and determine the amount of cash you will need coming in to keep your bills paid. Review your budget each month to make sure you are meeting your goals. Begin next year's budget before the end of the current year to stay ahead of the game.

Pay Your Bills on Time But Not Early

It takes more than improving sales and receivables to maintain a proper cash flow for your business. You must also make sure you pay your on bills on time. This will put money in your pocket by saving on late fees and interest charges. Consider scheduling payments to creditors electronically to avoid late fees. However, sometimes it is in your best interest not to make payments before they are due. This allows your money to stay in your bank drawing interest until it's needed. Try negotiating credit terms for purchases. Paying 30 days after receipt would be more advantageous than paying 30 days after shipment of goods. Negotiate with your vendors to get the best deal possible.

Control Your Inventory

Controlling your inventory is key to improving your cash flow situation. Inventory includes both raw goods and finished products. You want to have enough inventory on hand to fulfill orders but not so much that it will sit on your shelf. You should know when you place an order how long it will take to receive the shipment to help you establish reliable lead times for placing orders.

Keep Accurate Records

Accurate records are essential in keeping track of sales and expenses. Checks written should have details regarding what the purchase was for. That information can be important at tax time when your accountant is preparing your tax documents. Receipts are extremely important. Keep them all! They contain details about transactions that a check does not. Your accountant will also need information about transactions such as whether a payment was made to an individual contractor or a corporation.

Consult With Your Accountant

Your accountant has detailed information to help you manage your cash flow situation effectively. Ask about practices that will help you improve your receivables, collection practices, budgeting, inventory management and record keeping. An accountant also might be able to help you establish credit and collection policies if you do not already have those in place.

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Tax News

States Eye Online Sales Taxes to Help Close Budget Gaps

Mining Online Revenues

With many states facing revenue shortfalls, there is a renewed intensity over how state governments can collect sales taxes from online retailers. New York, Illinois and other states have already passed legislation requiring online sellers with a presence in their states to collect sales taxes from residents.

Clicking Through

While the legislation is aimed at large enterprises like Amazon and Overstock.com, small online affiliate marketers might be the businesses most affected by the new laws. Amazon has dropped affiliates in some states that have passed similar measures. With no affiliates in a state and no other type of presence, Amazon is not required to collect sales taxes under a 1992 U.S. Supreme Court ruling, which determined that only companies having a physical location in a state were required to collect sales taxes. Given such a complex variety of state and local tax rates and rules, requiring all online retailers to comply universally with all state tax codes would be unreasonable and far too cumbersome, according to the decision.

A Simple Solution?

Given that states today face more than \$100 billion in combined budget deficits, there is a push toward simplified tax codes and administration. Certified software, which would enable a federal

solution for collecting sales taxes and directing them to the states, is gaining momentum. This initiative comes from a consortium of 44 states, the District of Columbia, large brick-and-mortar (so called big-box) businesses and other stakeholders. Their goal is to level the retail playing field by having online retailers collect sales taxes from buyers in the states that have ratified legislation (which conforms to the simplification standards set by the Streamlined Sales Tax Governing Board). The idea is that this will make collecting sales tax easy, rendering the 1992 ruling obsolete. So far, 24 states have passed conforming legislation and several others are considering it.

Some states are not waiting for simplification and are moving ahead with their own solutions aimed at getting more revenue from online sellers now.

Illinois, for example, recently passed legislation requiring online sellers with affiliates in the state to collect sales taxes. Oklahoma has passed similar legislation, and Texas and California are considering their own measures.

Fair or Misguided?

Walk-in retailers say it is only fair that if they are required to collect sales taxes from their customers, online retailers should have to do the same, and that failure to require it creates an unfair advantage. Shoppers, they argue, browse real stores for products they are interested in and then buy from an online store to avoid paying sales taxes.

In addition to philosophical differences, opponents point out that online retailers already must figure shipping costs, which negates the sales tax advantage. Further, they argue that they have the disadvantage of shoppers not being able to physically handle goods, plus the lingering reluctance of many buyers to conduct financial transactions online. Opponents also argue any increase in sales tax revenues will be nullified by a reduction in state income taxes as affiliate marketing companies lay off workers, leave the state or go out of business. Even with the current sales tax model, brick-and-mortar stores account for more than 95 percent of retail sales.

It seems inevitable that the era of tax-free online purchases will eventually end, either by individual state legislation or by Congress enacting laws that enable the federal government to oversee, collect and distribute online sales taxes to the states.

What Does It Mean To You?

For online shoppers, the Internet will likely continue to offer bargains because online retailers retain the advantage of lower overhead costs. Those bargains, however, might become harder to find. If the comparative costs narrow enough, brick-and-mortar stores could experience a surge in sales. One variable, however, is convenience, which for many buyers is the reason they shop online.

If you are an online store owner or affiliate marketer, prepare now for potential changes in how you do business. Wal-Mart is already courting affiliates in Illinois, anticipating that Amazon will drop affiliates in that state. Some companies will restructure and relocate offices and distribution centers to more tax-friendly states – and maybe even offshore.

Whatever the outcome of the sales tax battle, online sales, which were more than \$160 billion in 2010, will continue to be a significant part of the retail sector and offer endless business opportunities for creative entrepreneurs.

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Tip of the Month

Tip: Thriving and Prospering in a Tough Economy

It's been two years since the economy hit a rough patch, and – although we are in recovery mode now – progress is slow, and many small business owners are still feeling the pinch. The effects of the recession have reverberated through business and industry worldwide, leaving no sector untouched. It is apparent that many U.S. businesses continue to face a challenging marketplace.

Perhaps the slow pace of recovery has daunted some entrepreneurs, but many understand there are no simple or fast solutions to the complicated business issues that created the crisis in the first place. However, there are some fundamental strategies that will allow companies to not only survive tough times, but also to recast their business operations to succeed in the new economy.

Here are some back-to-basics strategies that work.

1. **Be realistic about the amount of debt you can carry.** If you have seen a decline in revenues, you might need to rework your relationships with banks and creditors. Most creditors are willing to work out solutions with business owners, but make sure you sit down with a plan that shows how you intend to cut overhead without sacrificing productivity.
2. **Stay focused on day-to-day expenses and revenues.** You can't afford to wait until the month's end to see which clients/projects/products were most profitable and where losses occurred. Weekly reports will show you emerging problems and areas of opportunity, thereby preventing you from throwing good money after bad. Pay close and frequent attention to key indicators and productivity data.
3. **Learn about online marketing options.** There are frequent classes and seminars in most cities and towns that explain how social media and Internet marketing can help. Your business might or might not be a good fit for online marketing strategies, but be open-minded and invest a little time to find out. If you can reduce your marketing budget by using nontraditional media, do it.
4. **Promote productivity.** Make sure your employees understand how important each person's effort is to the company's overall success. Cross-train your staff as much as possible so that sick days and vacations are covered by backup personnel on staff. You can make the idea more palatable by encouraging employees to select a business skill they would like to learn.
5. **Avoid discounting and leverage your competitive advantage.** Tempting though it might be in a tough market, avoid giving discounts on goods or services. It is hard to recover customers' willingness to accept future pricing if you undermine the basic value of your products or expertise by giving big discounts to gain new business. It might also set up pricing issues with existing customers. If you are a small firm, you can offer a caliber of personal service and responsiveness that the bigger companies can't deliver. Determine what your specific competitive advantage is and make sure existing and prospective customers know what you offer.

Finally, remain true to your commitment to quality services and/or products. When cash is tight, customers and clients become more value-conscious, not less. Businesses that survive tough times do so by successfully adapting to new conditions – not by lowering their standards.

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Financial News

The Pros and Cons of Owner Financing

Existing home sales are down in most regions of the United States, and the depressed housing market continues to slump even with improved job growth. Expiring tax credits are a factor in lower than expected sales, as are tighter lending requirements and fewer qualified buyers, a lingering effect of the financial crisis and economic recession.

For owners trying to sell their homes, the current environment might mean they have to lower their asking price, take a loss or continue to wait for the market to rebound.

However, for some sellers (and buyers) there is another option: owner financing. Popular when interest rates were very high in the 1980s, seller-financed homes have experienced a resurgence since 2008 in the aftermath of the financial crisis. Owner-financed home sales are up more than 50 percent in 2010 compared to 2008.

The Resurgence of Owner Financing

Until recently, owner financing was fairly uncommon – and less appealing – when compared to easy credit and low mortgage interest rates. Now, with many homeowners tired of waiting for a sale and a segment of buyers unable or reluctant to go through the traditional mortgage process, it is again emerging as an alternative to conventional mortgages.

In today's market, lenders are requiring higher credit scores and larger down payments. Sellers are faced with lower home prices and longer wait times for qualified buyers, even with 30-year mortgage rates less than 5 percent. For many buyers, stung by unemployment, recent bankruptcies and foreclosures, owner financing might be their only route to owning a home.

Buyers with homes worth less than they owe might choose to walk away from their mortgages and start over with an owner-financed property.

Whether you are a motivated seller or a buyer with damaged credit or an upside-down mortgage, seller financing makes sense. But before taking a ride on the owner finance train, consider the advantages and risks that buyers and sellers might face.

Interest Income and Other Benefits

Although not for everyone, owner financing can offer some advantages:

- For a seller who needs to quickly free up cash, owner financing sometimes results in a quicker sale, thus alleviating financial stress.
- Owner financing can enable more buyers to enter the market, stimulating home sales nationwide and helping to stabilize prices.
- Sellers can often get market value for their homes instead of lowering the price to attract conventional buyers.
- Closings are faster.
- Fees associated with conventional mortgage loans are eliminated, freeing up more of the buyer's money for a down payment, benefiting both the buyer and the seller.
- The seller enjoys a steady flow of interest income as well as possible tax benefits.

- Sellers get the benefit of having a liquid asset; the seller can convert the note to cash later, if desired, by selling it to a third party.

Potential Pitfalls

With all its advantages, there are some potential pitfalls involved with owner financing – for buyers and sellers alike.

In general, buyers can expect to pay more for an owner-financed home, in addition to a higher interest rate and a larger down payment.

Probably the biggest risk for buyers with an owner-financed home occurs when the seller still owes money on the property. Although this situation does not exclude owner financing, many mortgages contain a due on sale clause, and buyers could be at risk that the lender will call the note, or repossess the home, when ownership is transferred. There is also the risk that the seller could go bankrupt or the home could go into foreclosure if the seller fails to keep the payments current.

Other than the obvious disadvantages – the responsibilities and headaches associated with acting as a lender – sellers must be prepared to foreclose or evict if the buyer does not pay. Sellers also face the risk of damage to the home and being on the hook for the cost of repairs.

Structuring for Success

Owner financing can be set up in a variety of ways.

One popular way to structure a seller-financed deal is to do a land contract (sometimes called a contract for deed or installment sale agreement), in which the seller holds the title to the property until the buyer pays for the property in full. Seller and buyer can negotiate the down payment and interest rate.

Land contracts often include a balloon payment, at which time the balance of the note is due in full – typically after several years. At that time, the buyer can either hope to be in a position to obtain a conventional loan or have saved enough cash to pay off the loan. Some sellers will help buyers rebuild their credit and find financing to make the balloon payment when it comes due.

If the buyer is unable to pay, it might be possible to negotiate an extension. If not, the seller can take possession of the home. One advantage of the land contract for the seller (in some states) is the ability to take it back by forfeiture instead of foreclosure, as forfeitures are generally cheaper and simpler to do.

Other options for owner financing include private mortgages and lease/purchase arrangements.

Sellers and buyers should consult with a financial planning professional or attorney to set up the type of contract that works in their state and for their situation.

An Option With an Asterisk

Owner financing is a viable option in the current economy for motivated sellers who don't mind trading immediate cash for monthly interest income and for buyers with damaged credit and sufficient cash for the down payment and monthly payments. As with any financial transaction, an owner-financed home sale might carry substantial risks for buyer and seller. Both parties should always do considerable due diligence and consult a professional prior to finalizing any deal.

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Stock Market News

Analysts Urge Diversification; Tech Seen as Possible Winner

Believe it or not, by June 2011 the U.S. economy officially will have been in recovery mode for two years, according to economic experts. As with any anniversary, this second year mark has prompted investment experts to contemplate where we stand and to ponder where we are heading. Post-recession, the rallying cry was that the rules had changed and traditional market behavior was no longer the rule. We were in new territory, experts said, with little in the way of past experience to guide us. As we pass the 24-month mark, have we learned? Are we any better at navigating this new investment environment?

Not surprisingly, investment pros have a variety of opinions on the subject. Here, in broad strokes, are some of the talking points.

- According to data collected by the National Bureau of Economic Research (the organization that tracks U.S. economic cycles) corporate profits have surged, credit lines are available and gross domestic product has increased slowly since June 2009. Despite the buoyant economic assessment, many investors remain skeptical of an economic recovery because they have not seen much improvement – probably because the statistics that affect them most directly, unemployment figures and house prices, have not changed much over the past two years. The nation's \$1.5 trillion budget deficit also brings little comfort.
- All investments carry risks. They always have. Despite the naysayers who are concerned about the slow rate of economic growth, many investment pros see opportunities in today's market. Those who are prepared to diversify across a broad investment spectrum. The experts suggest that individual investors pay special attention to the composition of their portfolios. Smart investors protect themselves through diversification. Analysts traditionally suggest that investors do not put all their eggs in one basket. In today's investment climate, this advice is more important than ever. It means avoiding major concentrations in stock and commodities that are similar, and studying the returns of various mutual funds to look for those that are beating major market benchmarks like the Standard & Poor's 500.
- Despite economic concerns, stock prices are more expensive than they have been since 2007 – just before the most recent bear market began. Some analysts attribute such high price-to-earnings ratios to the excellent results many companies posted in their first quarter earnings reports. Some wonder if stocks will hold their current valuations and help lift the economy. Others fret that a market correction (downturn) is on the horizon.
- Some analysts look to the technology sector to deliver. Driven by the growth of cloud computing, earnings are predicted to remain strong into the second quarter of the year and beyond. Analysts also like the fact that many of the technology industry leaders are cash-rich and primed to make acquisitions and pay out higher dividends.
- Global conditions – a slow-down in China's growth, the devastating tsunami in Japan and its impact on the technology and auto industries, fiscal problems throughout Europe, and the ongoing threat to oil supplies created by the turmoil in the Middle East – weigh heavily on the minds of analysts and individual investors. Despite this, there is some optimism. It suggests we should not worry too much about unexpected geopolitical issues. Unanticipated events such as natural disasters, armed conflicts and turmoil in overseas economies can cause U.S. markets to stutter, but historically they have not had long-lasting impact on the stock market.

Stock market analysis is notoriously fickle. The points above are intended as discussion ideas only, and are not intended as investment advice.

intended to substitute for professional advice from tax and investment professionals.

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Technology News

Technology: SEC Considers Revising Rules for Online Funding

Finding new ways to raise capital is important to many small business owners, especially since traditional credit has slowed following the recent financial crises. New challenges require new solutions. To that end, innovative entrepreneurs have developed crowd-funding online sites as a new way for small businesses to raise capital. The growing popularity of crowd-funding along with lobbying efforts from the small business sector have prompted the U.S. Securities and Exchange Commission to agree to revisit the current regulations governing fund-raising for small businesses. Currently, crowd-funding supporters are waiting for the SEC findings and hoping that existing fund-raising rules that ban the sale of equity on such sites will be eased so startups can sell a limited amount of stocks online.

What is Crowd-Funding?

The money raising mechanism known as crowd-funding has been around for about 10 years, in one form or another. It started as a way for musicians, artists and filmmakers to use the Internet to raise money from fans and supporters. The idea was co-opted by small businesses to allow small business owners and entrepreneurs to pitch their ideas and proposals through online networks. Regulations currently allow these sites only to facilitate donations. Individuals assess the firms' pitches online and decide whether they wish to donate funding to any of the businesses featured. Most companies that run these sites make money by charging a service fee to the businesses listed. SEC regulations currently prohibit these sites from conducting online equity sales that would give donors a stake in the companies they support. To comply with regulations, donors who provide funds receive a token gift in return, rather than an actual stake in the company.

Will the SEC Allow Internet-Based Equity Funding Sites?

At the beginning of May, the SEC announced it was forming a Small Business Committee to review regulations governing fund-raising for small private firms. Specifically, the SEC mentioned online crowd-funding and regulatory approaches to Internet-based capital-raising efforts. According to SEC Chairperson Mary Schapiro, the SEC has recognized that "cost-effective access to capital for companies of all sizes plays a critical role in our national economy, and companies seeking access to capital should not be burdened by unnecessary or superfluous regulations."

The review will also look at the current ban on advertising the sales of securities and at rules requiring companies with more than \$10 million in assets and 499 investors to register with the SEC and disclose financial data.

Pros and Cons

Supporters of proposed reforms believe the regulations should be revised to reflect the Internet's critical role in business today. They believe current requirements – that date back to 1930 – are too complicated and financially burdensome considering the legal and filing fees involved. They hope that an SEC exemption will allow startups to sell a limited amount of shares through Internet sites, providing an incentive for online backers.

Others express concern that revised regulations would weaken the protection investors have and possibly enable fraud. They think investors could suffer if the reporting and disclosures currently required are eased, and believe the current rules are necessary to help individual investors make appropriately informed decisions.

No timetable has been established, but the Small Business Committee's proposals will be subject to public comment before any action is taken.

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Strothman & Company PSC
Certified Public Accountants & Advisors

1600 Waterfront Plaza . 325 West Main Street . Louisville, Kentucky 40202 . info@strothman.com . www.strothman.com

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