

Partner's Perspective A Tribute to the Memory of Allan Markey

By Richard C. Fedorovich, CPA, Managing Partner



As you may be aware, Bober Markey Fedorovich partner Allan Markey passed away on May 25 after a long illness.

I feel compelled to offer you some thoughts on Allan. Despite his long association with the firm and his many years of leadership in the community, many of you may not have had the opportunity to work with Allan. So while I consider these thoughts to be "for all," I offer them more specifically to those of you who did not know Allan Markey.

Allan grew up in Cleveland Heights. He attended Miami University of Ohio, was a proud member of the Zeta Beta Tau fraternity, and ultimately graduated from Western Reserve University (now Case Western Reserve University), earning a Bachelor of Science in business administration. Upon graduation in 1965, Allan went to work for Arthur Andersen. In 1970, he joined founding partner Stanley Bober, who was also Allan's uncle. Allan was elected partner in 1972 and the firm's name was changed to Bober & Markey.

I first met Allan in the late summer of 1979, having never seen nor heard of him (or the firm) before then. I have to admit that I was taken by his charm and enthusiasm but also found him to be like no one I had ever met. My memory of Allan Markey will always be framed by a billboard that had long been on Lane Avenue in Columbus (for all of you Buckeye fans). It featured

in this issue

3	take steps now to prevent employee fraud
4	how going green can save you some green
6	defined benefit plans and small businesses
7	profiles
8	bmf services / about our staff

a large picture of Woody Hayes and written underneath it was, very simply, the following words, "IN ALL THE WORLD THERE IS ONLY ONE." That is the way I have always thought about Allan. Brilliant to be sure, an urgent sense about his responsibility to clients, absolutely. Impatient at times, yes. Direct in his comments, but that was his style. No one was ever left wondering where Allan stood on a matter. To this day, I believe that one of our firm's fundamental assets of rendering our honest opinion when clients ask questions can be traced back to Allan. He set the tone in the early days for many of the positive attributes that exist today at the firm.

As I got to know Allan a bit better, there were certain truths that came to pass. For many years we used to play racquetball doubles at the Jewish Center, with a standing game on Christmas morning at 8 a.m. (why I will never know). What I learned there was that I never let Allan play behind me! I think that I still have the lumps in the back of my head to demonstrate why not.



Partner's Perspective

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CONTINUED FROM PAGE 1

More importantly, he was a person with impenetrable integrity and someone you could always trust and depend upon. He could be a bit gruff and tough, but he had a heart of gold and never backed away from helping people with their personal as well as professional problems. And he was a man of interesting sayings such as: "You can call a pig Rover, but you can't make him fetch" or "He'd rather curse the darkness than light a single candle."

Probably one of my favorite recollections of Allan was that he was never reluctant to say, "The answer is I don't know!" It was typical of his bottom line approach, which was to speak honestly, with no false airs about him. Make no mistake – he would follow up later with the guidance necessary. But to this day I still laugh when thinking about the times that I would hear him say that and recall the stunned expression on people's faces. It was a look that was, as they say, priceless.

Allan loved his family, he loved his religion, he loved his friends, he loved his clients and he loved the firm. He was a fixture at the offices of his largest client even after his retirement, having spent a business lifetime in service to them in particular. He also loved his community, having served across a broad range of efforts over many years, generally in a leadership role. Just a cross section of what Allan did that set the tone for community service at the firm included:

- President and campaign chair of the Jewish Community Federation of Akron
- President of the Shaw Jewish Community Center of Akron
- President of the Kent State University Hillel Foundation and Ohio Valley Hillel Consortium

- President of B'nai B'rith
- United Way of Summit County Allocations Panel
- Central Hower Advisory Board member
- Temple Israel board member
- Treasurer for Congressmen Tom Sawyer and John Sieberling congressional campaigns
- Treasurer for a number of key political and judicial campaigns
- Board member of the Boy Scouts of America
- Alumni board member for Case Western Reserve University
- Finance committee chair for Cuyahoga Falls General Hospital
- Volunteer for Planned Parenthood

Allan collected many awards and accolades through the years but was most proud of the legacy that he built at the firm, in the Akron Jewish community and in the Akron community. We are all better for the many accomplishments of Allan Markey.

On behalf of all of the partners of the firm, I would like to pass along our most sincere sympathies to Allan's family – Arlene, Carrie and Sam, Robin, Andrew and Zachary.

For those of us who had the privilege of working with Allan or being his partner, I say "rest in peace," Allan. You have left us with life lessons and with memories that will serve us well for the remainder of our lives. In an entire lifetime one cannot do more. ■

Allan loved his family, he loved his religion, he loved his friends, he loved his clients and he loved the firm.

A Sign of the Times: Take Steps Now to Prevent Employee Fraud



By James E. Merklin, CPA, CFF,
CFE, Partner

Whether they realize it or not, many small business owners face the very real risk of internal fraud and embezzlement. Unfortunately, this risk may be magnified during times of economic uncertainty — when employees may be facing extreme financial pressures.

In fact, more than half (55 percent) of the Certified Fraud Examiners surveyed in a report published by the Association of Certified Fraud Examiners (ACFE) last year said they believe the level of fraud slightly or significantly increased in the prior year.

According to the ACFE, asset misappropriation is by far the largest type of internal fraud committed within small businesses, occurring in nearly nine out of every 10 fraud cases. There are two primary fraud schemes involving payment receipts:

Skimming – Cash is stolen before it is recorded in the books. For example, an embezzler could accept payment from a customer and simply pocket the cash and not record the sale.

Cash larceny – Cash receipts are stolen after they've been recorded. For example, an embezzler could steal cash and checks from daily receipts before they are deposited in the bank.

The best way to guard against these schemes is to segregate financial duties. For example, different employees should receive customer payments, fill out deposit slips, make deposits, enter them in the ledger, and reconcile the bank statement. If this isn't practical for a very small business, the owner should personally oversee these functions.

Cash Disbursement Fraud

There are a number of common schemes involving cash disbursements:

Billing schemes occur when an employee submits invoices to the employer for fictitious goods or services, or inflated invoices for more than the actual amount. A common scam is to create a shell company and bill for nonexistent services.

Check tampering occurs when an employee steals, forges or alters a company check and makes it out to him or herself, or steals a check the company has issued to a legitimate payee and tries to cash or deposit it.

Fictitious expense reimbursements occur when an employee makes a reimbursement claim for fictitious or inflated business expenses.

Payroll schemes occur when an employee makes false claims of compensation and attempts to receive payment for work not actually done or overtime not worked. Adding ghost employees to the payroll is another example.

Cash register theft occurs when an employee makes false cash register entries (like voiding a sale) to conceal the removal of cash from the register.

The best defense is simply diligent oversight of all of the company's financial transactions. If your company is too large for this, at least perform periodic spot checks in each of these areas so that employees are aware that you (or another member of your management team) is watching. This will go a long way toward making employees think twice before stealing from you.

If you would like to talk about how you can implement internal controls to reduce the risk of fraud taking a bite out of your profits, please call or email me at jmerklin@bobermarkey.com to discuss. ■

How “Going Green” Can Save You Some Green



By Alex A. Bagne, JD, CPA,
Tax Senior Manager

It seems that everybody is “going green” these days, as environmental awareness continues to rise. This extends to small business owners, many of whom are wondering what they can do to run their companies in a more environmentally friendly way.

Federal Investment Tax Credits

Since the federal government also has a vested interest in promoting environmentally friendly business practices, it has created a variety of tax incentives for companies that implement renewable and energy efficiency improvements at their facilities.

Solar: This credit is equal to 30 percent of expenditures (with no ceiling) on new equipment that uses solar energy to generate electricity, heat or cool a structure, or provide solar process heat. Hybrid solar systems, which use solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, are eligible for the credit, but passive solar and solar pool-heating systems aren’t.

Fuel cells: You can also claim a 30 percent credit for expenditures on fuel cells. This credit is capped at \$1,500 per 0.5 kilowatt (kW) of capacity. Eligible property includes fuel cells with a minimum capacity of 0.5 kW that have an electricity-only generation efficiency of 30 percent or higher.

Small wind turbines: The same 30 percent credit applies to wind turbines with up to 100 kW in capacity, with no maximum credit.

Geothermal systems: This credit is equal to 10 percent of expenditures on geothermal heat pumps and equipment used to produce, distribute or use energy derived from a geothermal deposit, with no maximum credit.

Microturbines: This credit is equal to 10 percent of expenditures on microturbines with up to two megawatts (MW) in capacity that have an electricity-only generation efficiency of 26 percent or higher.

CHP systems: The same 10 percent credit applies to CHP systems up to 50 MW in capacity that exceed 60 percent energy efficiency, subject to certain limitations and reductions for large systems, with no maximum credit.

The original use of the renewable energy equipment generally must begin with the business that installed it, or the system must be constructed by this business. Also, the equipment must meet any performance and quality standards in effect at the time it is acquired, and must be operational in the year in which the credit is taken.

It seems that everybody is “going green” these days, as environmental awareness continues to rise.

Tax Deductions

In addition to these tax credits for renewable and energy efficiency improvements at your place of business, tax deductions are available for expenditures incurred to increase energy efficiency in commercial buildings. These expenditures include the installation of:

- High-efficiency insulation in walls, ceilings and floors
- Programmable thermostats and automatic lighting controls
- Energy-efficient doors, windows, light bulbs and fixtures
- Ultra-efficient air conditioners and furnaces
- High-performance glazing and other energy-efficient materials on a building's exterior

This Commercial Building Tax Deduction can be significant: up to \$1.80 per square foot of the building's floor area if the building achieves at least a 50 percent reduction in energy and power costs. The deduction falls to \$0.60 per square foot if the energy and power cost reduction is at least 16.66 percent. In order to receive the deduction, you must obtain certification that the upgrades meet the federal government's specific energy efficiency requirements.

To learn more about federal tax incentives available for business energy efficiency improvements, please call or email me at abagne@bobermarkey.com. ■



Recession Rebound

By Michael J. Moldvay, CPA

With each passing month, there's more evidence that the economy is on the mend.

If so, the coming months may represent a unique opportunity for entrepreneurs to ride the tailwinds of a robust economic recovery, with these four strategies:

- 1. (Re)-ramp up your marketing.** Start planning now for the most efficient and cost-effective ways to re-implement marketing programs curtailed during the recession. There are still some bargains to be found, whether in cash-strapped magazines and newspapers or advertising agencies willing to provide services at reduced fees.
- 2. Strengthen your cash flow.** With credit still tight, bankers are looking primarily at the strength of a company's cash flow to service debt when deciding whether or not to lend money. Scrutinize your financial statements now so you'll be in the best possible position to borrow money for growth when the need arises.
- 3. Stay focused on business fundamentals.** The recession forced most business owners to focus like a laser on fundamentals: things like strong inventory management, receivables collections and cost control. Don't let up just because there's a light at the end of the economic tunnel.
- 4. Consider staffing up.** The stubbornly high unemployment rate is good news for businesses looking to hire top-notch employees. If you can afford it, now could be the perfect time to staff up in preparation for anticipated future growth.

If you would like to talk about rebound strategies, please call or email me at mmoldvay@bobermarkey.com. ■

Defined Benefit Plans and Small Businesses



By Cindy H. Mitchell, CPA,
Tax Senior Manager

When most small business owners think about retirement plans for themselves and their employees, they think about 401(k)s, SEP IRAs and profit-sharing plans. These are referred to as defined contribution plans.

However, there may also be a place for a defined benefit plan within a small business. Also known as pension plans, these are usually thought of as benefits for employees of large corporations or unions. But given the right circumstances, they can present a tremendous opportunity for small business owners to build wealth by saving significantly more for retirement than they can with defined contribution plans.

The Best Candidates

Defined benefit plans typically work best for relatively small companies where the owner is older than the employees and receives most of the compensation. They can be especially useful for professional services firms like doctors, dentists and attorneys.

Typically, the firm will set up a pension plan as a supplemental or overlay plan in addition to a defined contribution plan. With this structure, only 40 percent of qualified employees must participate in the pension plan, and they don't all have to benefit equally from it. There is no minimum number of employees required to set up a pension plan.

Contribution amounts for pension plans are determined based on the ages and compensation amounts of the owner and the participating employees. The older the owner or employee and the greater his or her compensation, the more money must be contributed to the plan.

An example helps illustrate how a pension plan can help a small business owner save large sums of money for retirement each year.

Consider a business with a 60-year-old owner who is paid \$200,000 a year and four employees who earn a total of \$160,000 a year combined.

To maximize retirement savings, the owner could reduce his compensation to \$120,000 and put \$80,000 into the pension plan for himself. He could

then put another \$20,000 in for his employees, to be split equally among them, for a total annual pension plan contribution of \$100,000.

But look at the impact of the tax savings: Since the \$100,000 contribution is fully deductible, it will result in an income tax savings of \$45,000 (assuming a 45 percent combined federal and state tax rate). Therefore, the owner's net contribution to his own retirement plan (after subtracting the tax savings) is only \$35,000. Put another way, the government is funding more than \$45,000 of his retirement contribution.

Double-Edged Sword

It's important to keep in mind that defined benefit plans are not without risk. Unlike defined contribution plans, they guarantee a future benefit amount to each participant, regardless of market performance.

As the financial markets have lost value over the past few years, many pension plans have become underfunded, leaving owners not only with shortfalls in their own retirement savings, but also large financial liabilities to participants.

One possible solution to this problem is to freeze the pension plan. During the time that a plan is frozen, the owner elects not to accrue additional benefits based on the current period activity. Freezing a plan may allow current contributions to be applied against prior liabilities. This helps make up the deficit many plans currently have due to the market downturn of recent years.

The Employee Retirement Income Security Act (ERISA) requires that employees be paid the full amount of their vested pension plan benefit at the time they leave the company. This is a potentially large expense that must be incurred by the business, making freezing the plan an option if employees participating in the plan have left the firm recently, or if the firm has recently had to lay off participating employees. If a relatively low number of employees are participating, and the amounts guaranteed to them are relatively small, this strategy can also enable owners to replenish their own retirement accounts faster.

Freezing a pension plan may be especially attractive in light of what appear to be a rebounding economy and rejuvenated financial markets. But it does require a cash outlay in order to fully fund employees' accounts, which a business may not be able to afford.

To learn more about the potential benefits of a defined benefit pension plan for you and your employees, please call or email me at cmitchell@bobermarkey.com ■



profiles

In this feature of InfoLetter, each quarter we provide a profile of one of our professionals available to work with our clients and friends.

Karen J. Costantini, CPA Tax Senior Manager



With more than 12 years of experience, Karen works extensively with privately held and private equity-owned corporations in a variety of industries, including manufacturing and distribution, service, real estate and investments.

Her focus is on the firm's core tax practice, specializing in corporate tax returns, including C Corporations, S Corporations, partnerships and LLCs. Karen also has extensive experience with FAS 109/ASC 740, LIFO and 263 A inventory calculations, as well as international tax and family office services

Karen was with a regional public accounting firm in Cleveland for 12 years before joining BMF in January.

Specializations: Business tax services for both closely held and private equity owners, FAS 109/ASC 740 tax provision services, LIFO and inventory tax services, family office services, multi-state taxation services, consolidated and tiered entity structures

Education: Bachelor of Business Administration in accounting, Baldwin Wallace College, Summa Cum Laude

Professional and Civic Memberships

- American Institute of CPAs
- Ohio Society of CPAs
- Association for Corporate Growth - Cleveland Chapter
- Cuyahoga Valley National Park Association Member

"Unfortunately taxes are one of life's only certainties. With hundreds of tax law changes every year it is nearly impossible for most business owners to keep up. I enjoy the challenge of the ever-changing tax environment and my clients love the comfort of knowing someone is watching out for their best interests and making sure they stay in compliance with all forms of business taxes. The first step is taking an active role in understanding my clients' businesses as well as educating them on the tax issues that will affect them. By understanding current needs as well as future goals we can help businesses with proactive tax planning and overall tax minimization." ■

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Lender collateral audits

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about our staff

Jim Merklin presented several sessions at the Ohio Society of CPAs' Employee Benefit Plans Conference in Columbus on April 19, at the AICPA's National Conference on Employee Benefit Plans on May 11-13 in Las Vegas, and at the PKF North America EBP Conference on June 10-11 in Chicago. In the community, Jim has been named to the boards of directors of the United Way of Summit County and Leadership Akron, and as treasurer of NEOUCOM Foundation. He also has been appointed chair of the Tocqueville Society Leadership Committee and to the executive committee for the United Way of Summit County.

On June 30, **Danielle Kimmell** was presented with the ATHENA Young Professional Award for the Akron region. On April 16, she served as a panelist for The University of Akron's School of Accountancy on careers in accounting. On May 18, she presented "Accounting and Auditing Update" to the Akron/Canton Chapter of the ASWA. Finally, she has been elected to the board of directors of Goodwill Industries of Akron.

On April 30, **Mike Moldvay** served as moderator for the "Legal and Fiduciary Update" for the Ohio Employee Ownership Conference. In April, Mike also attended the National Center for Employee Ownership Conference in Minneapolis.

Alex Bagne taught Junior Achievement at Imagine School on May 6. Additionally, he has joined the Northeast Ohio Chapter of the US Green Building Council.

Mark Bober has been elected to a second term as President of the Jewish Community Board of Akron. He taught "Mergers and Acquisitions" to a joint session of the Law School and the MBA Program at The University of Akron on March 8.

On April 23, **Jim Bowen** was presented with the Outstanding Accounting Professional Award by the School of Accountancy at The University of Akron.

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