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QUARTERLY NEWSLETTER

TABLE OF CONTENTS

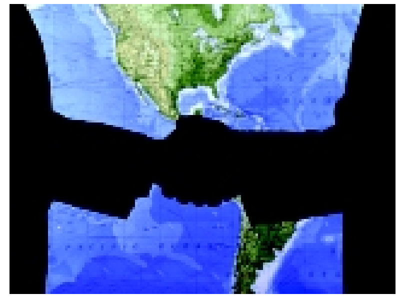
Editor: Donald C. Gaudet

Runyon Kersteen Ouellette

Certified Public Accountants
and Business Consultants

RKO ANNOUNCES NEW PARTNERS

RKO is pleased to announce that Greg Chabot and Roger Lebreux have joined the partner group.



Greg Chabot has been with the firm since 1991 having graduated from the University of Maine with an MBA. Greg heads our Governmental Department and is a proven leader in governmental accounting in the State of Maine.

Roger Lebreux graduated from the University of Maine in 1991, and, after working in the construction industry, joined RKO in 1994. Roger specializes in the commercial, tax, and governmental industries. He heads our Commercial Department and has successfully managed the Firm's continuing education and recruiting efforts for several years.

10 WAYS TO IMPROVE CASH FLOW

By Greg Chabot, Partner

Even if sales and profits are good, it is possible to be in a tenuous cash flow situation. Paying careful attention to business management can help avoid a cash bind. Here are ten things your organization can do to avoid a situation where you do not have enough cash available for day-to-day operations:

Bill promptly - A bill doesn't start aging until the customer receives it so it is important to try to bill at the time of service whenever possible. By waiting days or even weeks to send a bill out, you automatically tack that much time onto your wait for the cash.

Collect receivables aggressively - Actively managing receivables is essential to keeping cash flowing. Send second notices out promptly as invoices become 30 days old, and consider charging interest after an invoice has been unpaid for 60 or 90 days. The longer a bill goes unpaid, the less likely the business will ever receive the cash. After six months, a business has a less than 60% chance of collecting.

Tighten credit terms - Try to shift as many customers as possible from a credit to a cash basis by tightening credit terms or eliminating credit altogether for all but your largest accounts. At the very least, scrutinize the credit-worthiness of new customers very closely before extending credit. Credit ties up money in accounts receivable, subjects a business to bad debts, and increases administrative costs.

Maximize your own available credit - Take full advantage of the 30 days offered by suppliers when paying bills and take advantage of your line of credit with credit-card companies. Put things like travel expenses, office equipment, or office supplies on a business credit card. Using the options available to you in paying your bills can enable you to hang on to your cash up to several more weeks.

Watch your pricing - Too many small-business owners under-price their goods and services and have too low a profit margin. Many small businesses may not understand how to figure the break-even point for goods they produce, and it is even more difficult in the service industries.

Put reserve cash to work - Make the most of the available cash you have by asking your bank to take your account to a zero balance each day and invest the money in very short-term investment vehicles. At a minimum, keep reserve cash in an interest-bearing savings account instead of a checking account, or look into short-term certificates of deposit or Treasury bills.

Rein in expenses - Sometimes it can be easier to raise cash by saving on expenses than by increasing sales. A business with a 10% profit margin needs $1,000 in sales to generate $100 of profit. Turned around, if that business saves $100 in expenses, it's the same as if it made $1,000 in sales. Consider centralizing purchasing and procurement, so that one individual can become knowledgeable enough to shop for deals and discounts. Never make full advance payment for expensive services like insurance. If your insurance company doesn't offer a payment schedule, ask for one that spreads out the demands against your cash over time. The idea is to hang on to your cash as long as possible. Also consider outsourcing things that make sense, such as payroll administration.

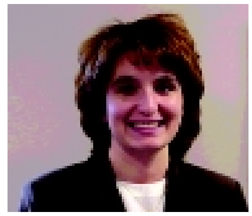
Budget your cash - Project your cash needs, taking seasonal fluctuations, volume purchases of raw materials, or other "cash blips" into account on a daily, weekly or, at a minimum, monthly basis. Then track actual cash coming in on that same basis, to catch cash-flow problems before they get out of hand. If you are borrowing, find out in advance how restrictive your lender is going to be about how you manage cash flow, to be sure you will have cash flexibility when you need it.

Keep good financial records - Budgeting cash flow, tracking expenses, managing accounts receivables, and other things that will help cash flow requires good financial records. With the computing power and versatile business software available today, business owners have ready resources to monitor their business' financial health.

Get good advice - Obtain the assistance you need with concepts such as break-even points or how cash, receivables, profits, and sales are related and in helping your organization keep track of the cash flow in the organization's operating cycle.

EMPLOYERS AND DIRECT DEPOSIT

By Danielle D. Martin, Manager

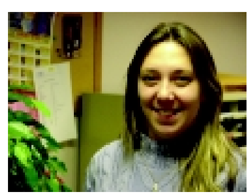


From time to time our clients ask us whether or not an employer can "force" their employees to accept their paychecks through direct deposit. Well, I did a little research and, after searching Chapter 7, Title 26 of the Maine Statues, it was clear that there is no specific law on this issue. According to a memo from the Wage and Hour Division of the Department of Labor, Bureau of Labor Standards, reliance is placed on the definition of "wages" when making a determination on direct deposit. According to Chapter 7, Title 26, the term "wages" is defined as "compensation paid...to employees in the form of legal tender...that is convertible into cash upon demand..."

Therefore, as long as an employee receives their wages in a manner that can be converted into cash upon demand, the employer has met the payment of wage law. Please note that, in addition, the employer still has to provide a statement of earnings, hours worked, etc. each time a payment or deposit is made.

CHECK FRAUD PROTECTION

By Laura Bryant, Staff Accountant



Check fraud is on the increase, especially with all the high tech "tools of the trade" at the counterfeiter's hand. You can never be completely excluded from this catastrophe. The only thing you can do is to protect yourself. According to the Office of the Comptroller of Currency, more than 1.2 million fraudulent checks are written every day. That is more than 13 per second. Losses for 2000 will clearly exceed $20 billion. The only way one can minimize the risk of check fraud is to follow some simple tasks. Here are some procedures that you could perform to limit your risk of becoming a victim of check fraud.

- Reconcile your bank statement promptly.
- Restrict access to your checkbook/check stock - ensure that only trusted staff that need access have it.
- Audit your checks - however, this can be difficult because often checks are removed from the bottom or middle of the book or stack.
- Use a custom design or have your check supplier use comprehensive security features.
- If you issue a large number of checks, particularly with a low amount (e.g. rebate checks), open a separate account and alert the bank staff of an upper limit for that account.
- Don't use pre-printed checks. Pre-printed checks make fraud as easy as filling in the blanks.
- Write fewer checks by using automatic deposits or electronic funds transfers.

- Destroy unused checks from closed accounts immediately and thoroughly.
- Use highly secure check stock with at least seven security features. Your best choice is stock containing both overt safety features (such as watermarks and warning bands) and covert features (such as micro-printing and multi-chemical sensitivity), or a "void" pantograph (which displays the word "void" when the check is photocopied). Avoid multiple colors and sizes of checks in the same account-they make spotting counterfeit checks much more difficult. Special ink that can be read under ultra violet light and chemical coatings that react to attempts at alteration are other options.
- When laser-printing checks, issue multiple passwords to those responsible for check printing and use check paper with toner anchorage to permanently bond the toner ink into the paper.
- When typing checks, use a type font of 12 points or larger. Forgers erase smaller type and replace it with larger type.
- Separate responsibilities for handling checks. Reconcilers should not be signers, and vice versa.

• Require two signatures on checks over a specified amount.
• Update signature cards when staff changes.
• Provide for physical security of returned checks and check copies or digital images.
• Ensure proper segregation of duties among staff initiating, authorizing, preparing, signing, and mailing payments and reconciling bank statements.
• Conduct periodic and surprise audits or reviews of procedures.
• Promote use of Electronic Funds Transfer (EFT).

These are just some examples used for prevention of check fraud. While it would not be practical to include all the features on a single check form, the more security features your check has, the better you are protected against fraud and liability.

IRS FORM 990 - WHY IS IT SO IMPORTANT?

By Amy Rossignol, Staff Accountant

IRS Form 990 has become one of the most widely available documents to the public. It can be requested by anyone, and is required by law to be furnished by a charity if such a request is made. Currently, charities must have available copies of their 990's for the three most recent fiscal years. On-line access to 990's is also available at www.guidestar.org.

With the growing number of demands for 990's it is important for organizations to provide correct and accurate information on the returns. The following are some important tips to keep in mind when preparing an organization's Form 990:

• Statement of Functional Expenses - An organization is required to classify their expenses into three categories: Program Service, Management and General, or Fundraising. Be careful in allocating which expenses belong to which program. If certain percentages appear too high go back and check that the appropriate guidelines were used in determining which classification the expenses should be assigned.

• List of Board Members - Part V asks for a list of names and addresses of officers, directors, and key employees. Home addresses are often used in this section, however the use of the organization address is more appropriate.

• Mathematical errors - Mathematical errors are prevalent in tax returns. Make sure you review the return closely to ensure no such errors exist.

• Statement of Program Service Accomplishments - This section allows an organization to describe their purpose and what program activities they have to offer. Often times organizations are vague in describing what they do. Take the time to describe what the purpose of the organization is and what they offer. Most donors, reporters, or public officials will refer to this section to find out what the organization is all about.

• Schedule A, Section 1D - Remember that this section does not have to be made available to the public.

• Timely Filing - Make sure that the return is filed on time. All Form 990's are due to the IRS on or before the 15th day of the fifth month following the agency's fiscal year end. Two three- month extensions can be obtained if the need arises. If the return or an extension is not filed timely, substantial failure to file penalties can be levied.

CHANGES TO FORM 5500 FILING REQUIREMENTS

By Don Gaudet, Manager

In April of 2002, the Internal Revenue Service announced the suspension of the Form 5500 and/or Schedule F filing requirements imposed on certain employee benefit plans. According to the announcement, employers maintaining cafeteria plans under Code Section 125, education assistance/tuition reimbursement plans under Code Section 127, or adoption assistance plans under Code Section 137, are no longer required to file such forms.

In abiding by this notice, though, employers need to understand that it does not relieve them from the Form 5500 filing requirement on most other welfare benefit plans. According to the notice, only pure cafeteria plans, say for medical reimbursements, along with education assistance plans and adoption assistance plans are precluded from filing Form 5500. If a plan has other benefits attached to a cafeteria plan, such as a medical, dental, or disability insurance plan, than the employer is only relieved from filing Schedule F as an attachment to Form 5500. The actual Form 5500 would still need to be filed.

Employers also need to be aware that this notice does not effect the annual reporting requirements under Title I of the Employee Retirement Income Security Act of 1974 (ERISA), or relieve administrators of employee benefit plans from any obligation to file a Form 5500 and any required schedules (other than Schedule F) under that title. In other words, if your plan falls under the guidelines of ERISA, than you will still need to file a Form 5500.

NEW FACES

Peter McPartland has joined RKO as a Senior Accountant. He is a CPA licensed to practice in Maine (2001). He graduated from the University of Massachusetts in 1998 with honors with a Bachelor of Business Administration degree in Accounting and Information Systems. Peter brings to the firm over four years experience in governmental and non-profit auditing and came from a Big Five Firm in Georgia. Peter is married to Jenna McPartland who is also a CPA working at RKO.

Amy Jo Brown has joined RKO as an Assistant Accountant. She is a resident of Cape Elizabeth, Maine working out of our South Portland office.

Melissa Perkins - Melissa Perkins joined RKO in January as an intern in our tax department, and is now on board as a full-time Assistant Accountant. She will be working primarily in the non-profit and tax departments, and is a recent graduate of Thomas College where she earned a Bachelors' degree in Accounting.

Maggie Skelly has joined RKO as an Assistant Accountant. She graduate from Pennsylvania State University in August. She is a resident of Belfast, Maine working out of our Augusta office.

Robert S. Craig Jr. has joined the firm as a Senior Valuation Consultant. Rob is a CPA and CBA (Certified Business Appraiser) and will be heading up the firm's business valuation practice.

Angela Hayden recently joined RKO as our receptionist in South Portland. Angela just moved back to Maine from North Carolina.

She's originally from Bangor and is now living in Biddeford.

Pamela Munn is RKO's new Office Manager. She is a native of Maine who grew up in Saco and now resides in Hollis. She graduated from Endicott College in 1985 with an Associates degree in Merchandising. After college Pam spent 12 years in Boston working. Following her return to Maine she served as the Office Manager for Cloudhawk Management Consultants, LLC. When RKO purchased the tax and financial planning services of Cloudhawk in January of 2002, Pam joined RKO as our Office Manager. Pam is married and has two kitties and a dog.

RKO IN THE COMMUNITY

Almalee Foote - Almalee is a current member, and former Executive Board member, of the Augusta Business and Professional Women's Organization. She currently serves as Vice President of Public Relations of the Kennebec Valley Toastmasters and as a member of the Kennebec Valley Chamber Business to Business Committee. Almalee is a former member of the Board of Governors of the Maine Society of Certified Public Accountants and the Board of Directors of the Kennebec Valley Humane Society.

Jaimee Watts from our South Portland office participated in the Coastal Journey bike trek to benefit the United Way of York County and the United Way of Greater Portland on September 8th. She completed a 50 kilometer bike ride and the event raised $20,000.

CONGRATULATIONS

Recently RKO was pleased to announce the promotion of **Almalee Foote** from Supervisor to Manager. Almalee began her career in public accounting in 1986. She joined RKO in January, works out of our Augusta office, and serves primarily non profit clients.

Congratulations to **Melissa Perkins** (formerly Bragg) on her marriage to Jeffrey S. Perkins on May 25, 2002 and to **Amy Jo Brown** who was married just before starting at RKO.

Congratulations to **Peter and Jenna McPartland** on the birth of their first child, Patrick Michael McPartland, born April 7, 2002 and to **Don and Kristen Gaudet** on the birth of their second child, Ava Elizabeth Gaudet, born May 13, 2002.

Runyon Kersteen Ouellette

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