



Fall 2008

Business Focus

Never Give Up

How do you spell despair? Ask Diane Larimore. Without blinking an eye she'll tell you what a brainless question that is. She should know. She's the president of Air Filter Sales & Services, Inc., a Cedar Rapids business that was badly damaged from the flood waters of June, 2008.



Her whole world started coming apart on Monday, June 12. "The water came up so fast. We had most of our inventory in the basement and the second floor. The business is in Czech Village so we're on very low ground. After calling the city all of us loaded our semis, six trailers and two large trucks and moved everything we could to higher ground several blocks away. Then we sand bagged. We truly believed that would stop the water from going inside."

It didn't. As the hours dragged on the water spread rage and volume. It could not be stopped.

"We lost about \$300,000 in inventory including a \$20,000 order from the Dubuque Public Schools."

A Business Saved

The good news? "We had a long discussion about what to do with our computers. We loaded them on some first floor desks before we left the building. Later that afternoon, Mark Klein, a vice president and shareholder, had a gut feeling he should go back and get the servers. He managed to drive through water that was already hitting the bottom of his truck. He hauled the servers and printers home with him. He barely got out. Without them we wouldn't have a business today."

That day was just the beginning

Since then Diane has been spending 24/7 living and breathing in recovery mode. She works out of her home as does Mark. Because Air Filter Sales & Services has offices in Davenport and Des Moines, the company has been able to shift some product manufacturing and delivery service to those locations. But there's been an enormous cost in terms of her employees.

"Before the flood, we had 15 people in Cedar Rapids. Now we have eight. Among those I had to lay off were my own daughter who worked here for over 20 years and my grandson who had worked for me for seven. That was very difficult." Her daughter is now working temporarily out of the Davenport office but will likely never return to full employment in her mother's business. Try wrapping your mind around that.

The Residue

When Diane was finally able to get back into the building, "It was like seeing the flood all over again.

I thought of my husband who started the business over 35 years ago." She picked her way through the first floor of the building. In one office she found two chairs in exactly the same place as they'd been before the flood. But the desk had moved itself through the door and into the hall.

Mark, Diane, her kids, grandchildren and great grandchildren scoured the entire building for anything worth saving. Paper work was strewn everywhere. They spent hours separating the paper, spreading it out, coaxing it to dry. A dozen hands reclaimed what they could from the mucky remains.

Moving Forward

"I feel lucky. I'm still able to operate and didn't lose both my home and my business."

"And Gordon's been amazing. Sometimes I call him because I know he'll listen no matter what. He's just there to help. I wouldn't know what to do without him."

Hiawatha General Services Partner, Gordon Epping, CPA concurs.

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Devastation by the Numbers

- Approximately 100 Coralville and Iowa City area businesses are facing financial burdens and clean up costs from flooding from the Iowa River.
- Approximately 1,300 businesses in Cedar Rapids have physical damage related to the flood waters from the Cedar River.
- Some 24,000 people were dislocated because of the flooding; many of them will not be allowed to rebuild their homes in the flood prone areas and may not return to the area or their jobs.
- It is expected that it will take years for the Cedar Rapids area to recover.
- Elkader, Waukon, and Decorah sustained flooding from the Turkey River, and many other smaller communities along the river's banks sustained damage.



"There's been a lot of listening. Having your business literally go down river is much more devastating than having a bad year."

"It's more than just the numbers. The emotions that play into it are enormous."

"Diane's a pretty resilient person. She started in the accounting department, married Damon Larimore who started the company in 1971, then kept the business going through his death several years ago."

"Is it chaotic right now? Yeah it is, but she really hasn't missed a beat."

What about the customers?

The company has a very loyal customer base. In fact they're so loyal, not one customer has been lost. As Diane says, "Our customers are calling us all the time; they're so understanding. Many of their businesses have been flooded as well. They'll meet us almost anywhere to pick up their filters. I deliver to their house or sometimes we get together at the building."

Rebuilding

In the end it is the building that holds the tale. "I own the building so that increased my losses. Now I'm basically in limbo. I don't know what I'm going to do because I don't want to go back there unless the area is safe from future flooding. Yet I've been there for 35 years; that's difficult to walk away from."

"If we receive funding I'll have to make a choice, whether it's to rebuild or locate somewhere else. We'll do whatever makes the most business sense."

With poignancy in her voice, she added, "Who would have dreamed it would ever go to 31 feet? Even three months later I can't believe it."

The sand bags have long been swept into the river, the basement's foundation has crumbled, and the stench is starting to recede but the unknown long term effects have only begun. In spite of all that or perhaps because of it, resilience is still in charge. Asked whether she ever thought of walking away, Diane doesn't miss a beat. "You never give up."

And she won't.

New Regulations for Deferred Compensation Plans

If your business has a deferred compensation plan for your employees the United States Department of Labor (DOL) has issued new regulations concerning how their contributions and loan repayments must be deposited.

If your plan has less than 100 participants at the beginning of the year, all employee contributions must be deposited within seven business days after being withheld. Previously the DOL required that funds be deposited at the "earliest" date which could be no later than the 15th business day of the month.

Should your plan have more than 100 participants, all employee contributions must be deposited as

soon as possible after being withheld which is the date on their paycheck.

Sanctions do Apply

There are sanctions for those businesses that do not comply with these new regulations.

They include:

- Depositing a full month's worth of deferral withholdings on or after the end of the month "to make things easy" even though your payroll is not monthly.
- Depositing amounts later than seven days after the amounts are withheld from employee paychecks
- Waiting until the 15th business day of the following month to deposit employee contributions.

If you'd like more information, please call our Payroll Services Department at 563-556-1716 or 800-965-7819.

Deferred Compensation Defined



Deferred compensation plans generally include any arrangement in which a portion of an employee's income is paid out at a date after which that income is actually earned. Examples include pensions, retirement plans and stock options. The primary benefit of most deferred compensation is the deferral of tax.

Military Leave Benefits Expanded

On Monday, January 28, 2008, the President signed into law the first expansion of the Family and Medical Leave Act (FMLA). This law specifically provides additional FMLA leave for military families. This law applies to your business if you have over 50 employees within 75 miles of your work site who will work 20 or more work weeks this year or did so last year. These same rules apply each year.

Any of your eligible employees who are in the Armed Forces, members of the National Guard and the military reserves, are entitled to these benefits.

They include:

- Up to 12 weeks of unpaid leave for any spouse, son, daughter or parent who is called to active duty or notified of a qualified impending call.
- Up to 26 weeks of unpaid leave within a 12 month period for those caring for an injured service

Illinois Provides Extra Military Leave

In Illinois, small employers (those with 15 to 50 employees) must provide up to 15 days of unpaid military family leave to the spouse or parent of a soldier called to military service. Larger employers have to provide up to 30 days of leave. This is in addition to the leaves provided by FMLA.

member—a spouse, son, daughter, parent or nearest blood relative. A recovering service member is defined as a member of the Armed Forces who suffered an injury or illness while on active-duty.

Extended Leave Time

This leave is 14 weeks longer than the standard 12 weeks of FMLA leave and covers the care taking of the service member who, due to serious injury or illness is:

- Undergoing medical treatment, recuperation or therapy
- Otherwise in outpatient status
- Otherwise on the temporary disability retired list

Additionally, there can be no changes to an employee's existing employer-provided coverage, employee eligibility requirements, health insurance continuation, and reinstatement of the employee's rights when he/she returns from leave.

What this Means to Employers

If your business employs 50 or more employees who are subject to the FMLA you need to immediately revise your existing FMLA policies and procedures. Additionally, your eligible employees need to be notified of their rights and the benefits to which they're entitled. For more information on this new law, please contact Diana Moroney, SPHR, Manager, Human Resource Consulting Service at 563-556-0123 or dmoroney@honkamp.com.

Great Iowa Treasure Hunt. Not.

The Great Iowa Treasure Hunt may be good news if you're searching for unclaimed property in Iowa that belongs to you. But it's not so good if you're a tri-state business owner who hasn't kept accurate track of all outstanding obligations owed to a person, investor, employee customer, etc. Here are a few red flag items:

- Payroll and commission checks that have been outstanding for over one year
- Gift certificates that are at least three years old
- Other checks not to businesses that have been outstanding for at least three years
- Securities/dividend checks that have been outstanding for over three years
- Safe deposit box contents.

Deadline Coming Up Fast

The State of Iowa requires you to file an electronic report by November 1, 2008. Before you file the report here are some of the details you need to know.

Carefully check your records to determine whether you have any of

the aforementioned unclaimed property. If you do, you are required to send a first class letter to the last known address of the persons who received the payroll check, gift certificate, commission check, etc.

The letter must contain the type of obligation and the outstanding amount. You should include your contact address and/or phone number and the deadlines that you need to hear from them. If they do not respond to you by that deadline the law requires you to submit these obligations to the State Treasurer's Office.

If your business doesn't have any unclaimed property and is located or does business in Iowa, you must still file a "Negative Report" by the November 1st deadline. Filing this report begins the Statute of Limitations on the unclaimed property report.

Sole proprietors are not required to respond to this notice.

For more specific information on this complicated report or should you wish Honkamp Krueger to file the negative report please contact your CPA.



FAQS from the State of Iowa Treasury Dept.

Q What happens if a holder does not report unclaimed property?

A A holder who willfully fails to report and deliver unclaimed property could be assessed a 25% penalty.

Q What happens if due diligence is not performed?

A There is a \$5 penalty per name when due diligence is not performed. It's determined by the state if 35% or more of the unclaimed property is recovered within the first two years unless you can prove otherwise with your returned letters.

Q Can I charge service fees for items that are lost or misplaced?

A No charges or fees may be assessed for failure to present the instrument for payment. However, if there is a valid and enforceable written contract between the holder and the owner that allows for such charges or fees, then they may be deducted.

Q What if my business sold gift certificates have never been redeemed?

A Gift certificates and gift cards are reportable three years after the date of issuance or date last used, regardless of whether the gift certificate or gift card has an expiration date.

Q Is there a minimum dollar amount that the State of Iowa exempts from reporting?

A No. All amounts are reportable.

Q How do potential owners check for unclaimed property?

A Individuals, businesses and organizations may check for unclaimed property by visiting the Iowa State web site, www.greatiowatreasurehunt.com or by contacting the treasurer's office.

Honkamp Krueger News

■ Letter From Managing Partner

It's clear the tri-state area is resilient. Even with a summer that pummeled Wisconsin and Iowa with floods and tornados we did what we always do—pick up the pieces, gather ourselves together and move forward.

It looks like the next few weeks and months will be more of the same. Unfortunately, we're all affected by our current national financial crisis. Then there is the upcoming presidential election where the political rhetoric keeps most of us engaged, sometimes in spite of ourselves.

It's clear the economy is changing drastically which makes this fall a particularly good time to begin gathering information for year end tax planning. You should spend some extra time ensuring your books are accurate and up-to-date. And it might be a good idea to call your Honkamp CPA, particularly if you have any questions, concerns or thoughts on the tax income ramifications of each party's platform.

We've done some of our own planning recently. We like to anticipate our clients' needs so we can provide you with the services that best support your businesses. Therefore we're pleased to announce that we've added another service to our portfolio.

Karen Ridings, formerly our Director of Marketing, is now in charge of our new marketing consulting practice. In her three years with us she has strengthened our marketing programs, introduced a new logo and branding and integrated all our marketing communication materials.

Before moving to Dubuque Karen spent time in San Francisco and Seattle working at large multinational advertising agencies, McCann Erickson and Ogilvy & Mather, where she supervised advertising for Wells Fargo Bank, Honda and California First Bank. She has many years experience as an independent marketing consultant with Apple Computer, AT&T Wireless, Hewlett Packard, Nordstrom and Westin Hotels & Resorts. She also has diverse experience with smaller businesses and non profits.

We're very pleased that she will be available to discuss your current marketing plans or to develop one for you. If you're interested in better determining how effective your current marketing and advertising are and/or whether there are new opportunities for sales growth, get in touch with Karen. Her email address is kridings@honkamp.com. Her phone number is 563.542.3471.

Arnie

Nicole Gantz Moves to Director of Marketing

Nicole Gantz has become the Director of Marketing. She previously was involved in Honkamp Krueger's ID Theft program. Her marketing experience was received in the admissions department at the Milwaukee School of Engineering, Milwaukee, WI. Nicole can be reached at 563-556-0123 or by email at ngantz@honkamp.com.

Brad Ronek Returns to Honkamp

The payroll sales department has rehired Brad Ronek as Business Development Supervisor and Payroll Sales Consultant. Previous to working at Sustainable Land in Development International in Dubuque he was employed in our payroll department for six years.



Holiday closures

All Honkamp Krueger offices will be closed for the Thanksgiving holiday on Thursday, November 27, 2008 and Friday, November 28, 2008.



■ Your Business Needs Some SALT

If you're like many small business owners or managers, your resources are limited, you may be understaffed and you're certainly feeling overworked. And that's before you even started thinking about the complexities of sales and local taxes. Whether you're dealing with research and analysis, planning and compliance, tax refund or an audit, it's critical that your business complies with all your state's sales and local taxes.

Recently there have been numerous legislative, regulatory and case law changes across the country. And state governments have been sharing more amongst themselves as well, a combination

that will soon produce potentially unpredictable situations.

The Importance of SALT

Based on the evolving needs of our clients, Honkamp Krueger has created a new service –State and Local Taxes (SALT) to address these state and local tax needs. Our goal is to assist you with issues such as franchise tax, gross receipts tax, sales and use taxes and state income taxes.

Our SALT practice is dedicated to helping our clients assess their state and local tax burden. We'll make recommendations that support your overall business objectives and ensure your filing positions are

consistent with good business practices and with the state's applicable tax laws and rules.

Whether you're restructuring your business, attempting to understand other state's sales and use or income tax laws, or need advice on day-to-day developments, our SALT practice is well suited to address your state and local tax needs.

Our seasoned staff has experience across multiple industries and jurisdictions which give us the insight needed to best determine your business' state and local tax liabilities.

For more information, please call Keith Habel, CPA at 563-556-0123 or email him at khabel@honkamp.com.

■ Thinking About Selling your Business?

Every business will change ownership at some point in the future. Even yours. Most of the time people sell a business only once. This ownership change may involve a family member, an existing partner/shareholder or an outside buyer. While the financial implications of a sale can be enormous, the selling process also includes something you may not have even thought about – your emotions will be on a roller coaster ride. On top of that, in spite of your feelings, you'll have to remain on task and disciplined about the sale.

One of the most important things to remember when considering an ownership transition is the sale will probably take place several years in the future. That's a good thing because planning the sale several years in advance will help you obtain the best possible price.

A lot of Questions

If you're beginning to ponder whether a business sale is in your future, here are a few key questions to ask:

1. What are my goals after sale?
2. At what age do I want to sell?

3. Has a value for the business been determined?
4. If something happens to me, would my spouse and/or heirs be able to sell the business for the optimum value?
5. What procedures should I follow when selling a business?

If you're selling to an outside buyer, business brokers can do a good job of listing the business and handling the closing transactions. They are not, however, as familiar with your business operations as your own Honkamp Krueger CPA. We can provide you with the up-front due diligence portion as well as help you determine what your business is worth and how to value it.

We can also help you with all of the above questions and have professional contacts with business brokers when you reach that point in the sales process. Please contact us if you'd like to discuss the potential sale of your business.





HONKAMP KRUEGER & CO, P.C.

CPAs & Business Consultants

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138 First Avenue East
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740 North 15th Avenue, P.O. Box 188
Hiawatha, IA 52233
(319) 378-3370

One Insight Drive, P.O. Box 502
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Your partner in success.

■ Farm Machinery Replacement Parts

Prior to July 1, 2008, replacement parts used to repair farm machinery or equipment were exempt from Iowa sales/use tax only if the parts were “essential to” the machinery or equipment’s use in agricultural production. That meant that items such as cigarette lighters and radios did not qualify for exemption.

However, a legislative change, effective on July 1, 2008, replaced the words “essential to” with “used in.” This means that any replacement parts used in the operation of eligible farm machinery or equipment are now exempt from sales tax.

Replacement parts should not be confused with supplies, most of which are taxable. Oil and grease used in the routine maintenance of a tractor, for example, are not considered exempt replacement parts. They are considered taxable supplies.

