

# Lagniappe

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A Publication for  
LOUISIANA  
CERTIFIED  
PUBLIC  
ACCOUNTANTS

PRACTICE  
MANAGEMENT  
ISSUE

## Success in the Balance

Topics to Help Firms Prosper

- ▶ Tracking Referrals Is Marketing ROI
- ▶ Economy Brings Fee Issues to the Forefront
- ▶ Emotional Intelligence Is Critical to Firm Success
- ▶ You Are Always Selling
- ▶ Business Valuation – To Discount or Not to Discount
- ▶ Avoid Added Liability from Strategic Alliance Agreements



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2550 Coteau Rd.

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Prairie Elementary  
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1627 Weinstock Street

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Wednesday, April 28

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Thursday, April 29

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Friday, April 30

Dr. Martin Luther King Charter School  
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Monday, May 3

**CPA and non-CPA volunteers  
are welcome to join us!**

# Lagniappe

The Member Magazine for the  
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CERTIFIED PUBLIC ACCOUNTANTS**

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Pursuant to IRS Circular 230 and IRS regulations we inform you that any federal tax advice contained in this publication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties imposed under the Internal Revenue Code.

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# Highlights

## LDR Bulk Extension Filing Online

Individual Income and Corporate Tax Bulk Extensions for the 2009 tax year can now be submitted through the Louisiana Department of Revenue's (LDR) website under the tax preparer section, [www.revenue.louisiana.gov](http://www.revenue.louisiana.gov).

In order to use the bulk e-file for extensions you must have an EFIN number registered with LDR or a current Louisiana Account Number listed with LDR. You must have an LDR user account or you must register for one. The user account you register may be used to access different LDR applications. To check on the status of your return, payments or refund online, you will need to use this LDR user account information.

## Department of Revenue Discontinues Contractor Registration Program

The Louisiana Department of Revenue (LDR) has discontinued a program to certify the residency of contractors performing jobs in Louisiana. "The Contractor Registration Program was not serving to increase compliance with Louisiana's tax laws, which is the mission of the Department of Revenue," said LDR Assistant Secretary Jarrod Coniglio. Resident contractors previously certified by LDR are no longer required to renew those certifications. Nonresident contractors are no longer required to pay the \$10 application fee per contract or post a bond with the Department of Revenue. However, every resident or nonresident contractor performing jobs in Louisiana must register with the Department of Revenue for Louisiana general sales tax in addition to any other applicable taxes, including income and withholding. Contractors must submit proof of tax registration to the permitting office with jurisdiction over any jobs they perform. All contractors remain subject to the laws and regulations administered by the Louisiana State Licensing Board for Contractors. For more information, contact: Jarrod Coniglio Assistant Secretary Louisiana Department of Revenue (225) 219-2150.

## Economic Recovery Payment (ERP) IRS Online Verification Tool

The IRS developed the "Did I Receive an Economic Recovery Payment?" online verification which gives taxpayers an easy way to determine if they received the one-time ERP payment and which agency made the payment.

Taxpayers can call (866) 234-2942 and select Option 1 to access the automated verification service. The Web application is expected to be available in late March on [IRS.gov](http://IRS.gov).

Taxpayers who had earned income in 2009 or are government retirees and received an Economic Recovery Payment need to report whether or not they received an ERP and the amount when they prepare their *Schedule M, Making Work Pay and Government Retiree Credits*.

The one time \$250 ERP was paid to individuals in the following categories:

- ▶ Retirees, disabled individuals and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration,
- ▶ Disabled veterans receiving benefits from the U.S. Department of Veterans Affairs, and
- ▶ Railroad Retirement beneficiaries.

Using the IRS verification tool, taxpayers are required to enter three pieces of information to determine if they received an ERP: social security number, date of birth, and zip code from the last filed return.

A separate telephone call or Web inquiry must be made for each taxpayer, even if filing a joint tax return.

## IRS Will Require Disclosure of Uncertain Positions for 2010 Tax Years; Extends Comment Period

The Internal Revenue Service (IRS) has announced that in early April it will release a draft schedule for businesses to report uncertain tax positions and will require the use of the schedule for 2010 tax years. Also, in response to the AICPA and others, the IRS has extended the deadline for commenting on the proposal from March 29 to June 1. The AICPA is developing a response to IRS Announcement 2010-9 on companies disclosing uncertain tax positions in their annual filings. CPAs who would like to share their thoughts and concerns on this matter should email comments to [MemberinputonAnnouncement2010-9@aicpa.org](mailto:MemberinputonAnnouncement2010-9@aicpa.org). ❖



Join Us for FETCH! Financial Literacy Saturday  
**LOUISIANA CHILDREN'S MUSEUM**  
**April 24 from 11:00 am – 3:00 pm**  
**420 Julia Street, New Orleans**

Volunteers are needed to facilitate hands-on activity stations that will teach young children about the value of money. From paint-your-own piggy bank, to making groceries on a budget, to storytime and more, come be a part of this fun community service event.

Two shifts are available: 11:00 am to 1:00 pm and 1:00 to 3:00 pm.

To Volunteer contact Ann Lupo  
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# Tracking Referrals Is Marketing ROI

By Glenn Hunter

Marketing ROI is a common oxymoron in business. It ranks behind “Agree to Disagree,” but ahead of “Approximately Equal.” The problem with Marketing ROI stems from the uncertainty implied by marketing and the certainty implied with ROI, or Return on Investment. ROI is an explicit financial calculation determined by “dividing the monetary benefits by the money spent on developing or revising a system.” On the other hand, marketing is communication. Successful communication is subjective by nature. How do you measure communicating at level ten? And, how is it different from what happens when you communicate at level nine?

In order to accurately measure a marketing campaign, a meaningful metric must be established. Because marketing is a multi-faceted discipline, identifying what to quantify can be tricky. For example, advertising is marketing since a broadcast campaign tells the virtues of a product or service across the airwaves. Likewise, printed brochures are marketing in the sense that they communicate features and benefits directly to prospects who read it. However, in these cases it may not be clear exactly who receives the marketing message. John Wanamaker, the retail pioneer, pointedly expressed the problem with advertising (and many other forms of marketing) when he said that “half of all advertising is wasted. I just don’t know which half!” To solve the mystery of quantifying marketing results, let’s focus on a marketing tactic that can be counted.

Marketing by referrals is a proven practice. It is similar to word-of-mouth advertising, but more powerful. Both rely on the trust that one individual transfers to another regarding your service. A bonus benefit of marketing by referral is that trust and goodwill is typically transferred by an actual client, and the positive communication is intentionally directed toward the business. Word-of-mouth advertising could simply be someone relaying a good reputation. Referrals involve an endorsement based on personal experience and the expectation of driving

business toward someone that deserves the benefit.

Because referrals are direct and intentional, the results are easier to trace. Either new business is realized based on a client speaking on your behalf, or it’s not. Furthermore, new business is quantifiable. Marketing by referral connects a buyer and a seller, then the sale consummates the marketing effort. The revenue is the “return” in “return on investment”!

The “investment” piece of “return on investment” still must be captured from the marketing exercise. Although pursuing referrals is a low cost practice, it is not free. Lunches, gifts, and special events are important parts of business entertainment. Their costs represent the “investment” part of the equation. The time spent communicating by phone or email to cultivate relationships reflects additional costs associated with marketing by referral. Because results from referrals depend on intentional action from the endorser, let’s not believe that the service provider does no work. But with relatively little effort, you get golden opportunities for warm prospects similar to your referring client that will potentially yield new business.

To track marketing by referral effectively, create a simple spreadsheet that uses columns showing the initial date of the prospect introduction, the referral contact, the prospect they offer, any entertainment costs, the service involved, the revenue potential, the revenue realized, and the date closed. You can add additional columns that specifically benefit you. Perhaps you want to identify where the connections are cultivated that yield the best clients. You can set up a column tracking whether the referral source connected you to the prospect at the golf course, the wine tasting event, the professional sporting event, or the youth soccer game. You may want to identify the industry in which the prospects participate. The possibilities are numerous. The system can be as sophisticated or straightforward as you find comfortable. But most importantly, the tracking tool must be

Marketing by referral connects a buyer and a seller, then the sale consummates the marketing effort. The revenue is the “return” in “return on investment”!

convenient and easy to update. Marketing by referral is not designed to create another report to generate. In fact, it should only require a simple method to monitor what you spend to realize new business that others want to help you earn. Upon determining the amount of new revenue over a given period and the costs invested in time, entertainment expenditures and specific marketing collateral, the ROI calculation is simply new revenue divided by these costs.

Realize that your marketing efforts are tangible when measurable results are captured. Tracking referrals is great marketing. It is based on communicating your service benefits through someone that the prospect already likes and trusts. The results can be easily measured by determining whether a sale is made. Marketing by referral works because it features activities that deliver measureable results, is easily replicated and is a marketing tactic where ROI can be calculated. Marketing ROI is no longer an oxymoron. By implementing marketing by referral, businesses can quantify how well these marketing efforts are performing. Best of all, you can measure, then repeat these successes by working strictly with clients that you choose! ❖



**Editor’s Note:** Glenn Hunter is the Director of Member Development for The APA/Enterprise Network Worldwide, a division of Five Star 3, LLC. Glenn focuses on connecting certified public

accountants to resources and other professionals to get the most value from their association membership and to contribute to their firms’ performance improvement activities.

# Economy Brings Fee Issues to the Forefront

By Michael Davenport, J.D.

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recession, and that activity includes CPAs having difficulties in recouping fees. The economy-wide trend of clients having business problems also affects cash flow and the payment of bills, including the bills owed to CPAs.

With financial problems come going-concern issues and bankruptcies, causing CPAs to deliberate whether it is worth trying to pursue payment from a struggling or belly-up client. If there's no money left, it's of course futile. Otherwise, the firm gets in line with the other creditors. If the CPA firm has allowed fees to build up to the point where the firm can no longer walk away from them, that's a problem that the firm can usually avoid, along with having a collection problem in the first place.

The following Q&A provides some of CAMICO's wisdom gained from over 23 years of dealing with the issues of billing, collecting and suing for fees.

## How can I avoid having a collection problem in the first place?

The best way is to communicate your billing and collection policies in your engagement letter, including stop-work and/or disengagement provisions that can be enforced if a client doesn't pay you in accordance with the engagement letter. Bill on a timely basis, and do not allow fees to build up to the point where you can no longer walk away from them. When unpaid fees become too large, they provide an incentive for the client to sue for malpractice, especially when the CPA has sued to collect fees.

## Is there a better option than suing to collect fees?

Claims experience shows that simple fee disputes are better resolved through mediation and arbitration than through litigation. That's why mediation is effective for all disputes as a first step, the exception being when the cost of a mediator exceeds the amount of the fees in dispute. Binding arbitration – for fee disputes only – is an effective

second step, again depending on the amount of the fees in dispute.

## How do I get the client to agree to this?

The best way is to have a mediation clause for all disputes, and a binding arbitration clause for fee disputes only, in your engagement letter, which should always be signed by the client.

## What are the first steps to take when a client is not paying?

Good communication with a non-paying client will either spur payment or set up circumstances that will make a potential demand for arbitration more effective. This may eventually involve sending a series of three letters requesting payment and communication from the client:

1. The first letter politely notes the nonpayment of fees owed, requests payment, and asks if there is any reason for the delay in payment.
2. The second letter is a reiteration of the first letter.
3. The final letter notes the continued nonpayment, and it requests a call to discuss payment arrangements by a specified deadline date, stipulating that if no call is received by the date, the result will be a demand for arbitration concerning the fee dispute, effective as of that date.

The purpose of the letters is to show that the client, by not responding to them, did not have any valid basis to claim that the fees were not owed. Had there been any dissatisfaction with the work, the client would have communicated it when given the opportunity.

## Why are mediation and arbitration better than suing to collect fees?

CAMICO claims experience clearly shows that suing for fees creates a high probability of a counter-suit by the CPA's client, usually alleging malpractice during the engagement in question. This escalates the situation from a simple fee dispute to a malpractice lawsuit.



Good communication with a non-paying client will either spur payment or set up circumstances that will make a demand for arbitration more effective.

## Why is it a good idea to first consult with my professional liability carrier before suing to collect fees?

The consultation enables the risk adviser to assist the policyholder in weighing the risks and consequences of suing for fees. Lawsuits and counter-suits almost always result in the CPA spending far more in attorney fees and in lost billable time than is warranted for the fees owed to the CPA. CPA firms should be aware of all of the potential costs and consequences before committing to a lawsuit. ❖



**Editor's Note:** Michael Davenport, J.D., has been a professional liability claims specialist with CAMICO (www.camico.com) since 1988. He has managed claims since 1983 and has handled accounting

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Mike earned his bachelor's degree from the University of Hawaii-Manoa, and his Juris Doctor from Southwestern University School of Law.

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# New Compilation and Review Standard Addresses Many Small Firm Issues

At its final meeting of 2009, the AICPA's Accounting and Review Services Committee (ARSC) approved Statement on Standards for Accounting and Review Services (SSARS) No. 19, a new compilation and review standard that includes the most significant changes to the SSARSs since 1978. An over-arching goal of the new standard was to address issues that had emerged over years with small CPA firms and their small business clients.

For example, one of the major changes reflected in the new standard is to allow, but not require, CPAs to disclose in the compilation report the reason(s) why they are not independent when performing a compilation service. CPAs always had been permitted to perform compilations when not independent but were prohibited from including in the report an explanation regarding the lack of independence. The standard is effective for compilations and reviews of financial statements for periods ending on or after December 15, 2010, with the exception of the new provision on the compilation reporting option which may be implemented early. With SSARS No. 19's issuance on December 30, 2009, the compilation reporting option became available.

"This change has long been supported by many CPAs from small firms, as well as by those who use their compilation reports," says Hazel, CPA, executive director of the LCPA. "Allowing CPAs to explain the reasons why they are not independent will provide transparency to users and flexibility for CPAs."

## Other Changes

Another important change made by SSARS No. 19 is that the new standard separates the compilation guidance from the review guidance. For the large number of small firm practitioners who perform compilations but not reviews, this makes the compilation guidance much easier to use. Other significant changes include:

- A discussion of how the accountant obtains limited assurance through the performance of review procedures.

- Introduction of the term *review evidence* to the review literature.
- A discussion of tailoring the review procedures based on the accountant's understanding of the client's industry, knowledge of the client, and awareness of the risks that he or she may unknowingly fail to modify the review report on materially misstated financial statements.
- A discussion of materiality in the context of a review engagement.
- A requirement that an accountant document the establishment of an understanding with management through a written communication (e.g., an engagement letter) regarding the services to be performed.
- The establishment of enhanced documentation requirements for compilation and review engagements.

## New Standard Differs from Exposure Draft

There are a couple of differences between the exposure draft released for comment in April 2009 and the final standard that was issued. Most notably, the proposal to allow an accountant to perform a review engagement when the accountant's independence was impaired due to the performance of internal control services to the client was deferred. Based on comments on both sides of the issue, the ARSC decided to conduct additional outreach with key stakeholders to glean more insight on such review engagements.

More information about the recent changes to the SSARSs, including an Executive Summary of *Compilation and Review Engagements – SSARS No. 19* and guidance on the compilation reporting option, can be found at [www.aicpa.org/reliability](http://www.aicpa.org/reliability). ♦

## Tax Planning for Real Estate Investors

In general, Section 1031 of the Internal Revenue Code allows an owner to exchange one property for another and defer payment of state and federal capital gains taxes, as long as both properties are of "like-kind".

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# Avoid Added Liability from Strategic Alliance Agreements

By Suzanne M. Holl, CPA

There can be a number of advantages and disadvantages to establishing a strategic alliance with another CPA firm or a provider of financial services and/or products. Some of the advantages include access to back-office custodial and support services, which in turn can help enhance the image, reputation and revenue of the firm.

On the downside, an alliance may change the firm in ways that can defeat such advantages. Consider these disadvantages:

- ▶ More hidden costs than anticipated
- ▶ A change in the firm's fundamental character from relationship driven to transaction driven
- ▶ An erosion of the firm's independence and objectivity
- ▶ Exposure to additional liability risks

## Due Diligence

A thorough due diligence process is crucial. Some of the steps would include:

- ▶ determining the specific expectations of potential alliance partners (i.e., what they need from the firm in terms of referrals, mailing lists, business plan execution, etc.),
- ▶ interviewing other CPA firms that have entered into similar alliances to learn from their experiences,
- ▶ spending time with potential partners to determine whether you are comfortable with their style of practice and whether your business

plans and philosophies are compatible, and

- ▶ researching and studying what is needed to execute the business plan; hidden costs may include software, training, licensing, marketing and fee-sharing.

## The Alliance Agreement

Especially critical is the alliance agreement, which typically contains legal language and caveats. Before contractually binding your firm to an alliance, it is important to understand all of the implications of the legalese. For example:

- ▶ Some agreements attempt to shift liability from service providers to the CPA firm, *even for errors and omissions committed by the service provider.*
- ▶ Some agreements have clauses that require the firm to add the service provider as an additional insured under the CPA's professional liability policy.

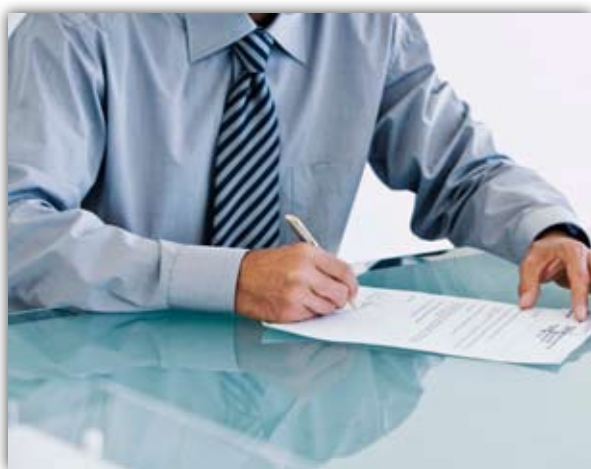
## Risk Management

Follow these risk management steps before entering into an alliance agreement:

- ▶ Assess whether or not the culture and values of the service provider are a good match for your firm. An alliance may negatively impact the fundamental characteristics of the firm.

- ▶ Consult with a qualified attorney to review the agreement, especially an attorney comfortable with assessing professional liability risks as well as contract terms.
- ▶ Contact your professional liability carrier regarding the liability risks and coverage implications associated with the agreement. Your carrier's advice would be supplemental to, but not replace, appropriate legal review.
- ▶ Push back. You do not have to accept the terms as they are written in an agreement, pre-printed or not.
- ▶ Develop quality control measures and loss prevention strategies to manage the added liability exposures.
- ▶ Determine whether the potential strategic alliance partner has its own professional liability insurance.

Some firms have defined the nature of their relationship with the alliance partner in the agreement. If the partner is to be more of a back-office custodian and service provider than an equal partner, make sure this is spelled out. Also, when considering issues regarding your firm's independence and objectivity with respect to a potential alliance, be sensitive to the impact of the public's perceptions and expectations of CPAs. ❖



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**Editor's Note:** Suzanne M. Holl, CPA, is vice president of loss prevention services with CAMICO ([www.camico.com](http://www.camico.com)). With more than 18 years of experience in accounting, she draws on her

Big Four public accounting and private industry background to provide CAMICO's member-owners with information on a wide variety of loss prevention and accounting issues.

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# You Are Always Selling

By Lisa Benson

The accounting field may appear at first to be almost the opposite of sales. After all, you're not trying to get a hospital to buy the latest x-ray machine. But the truth is: If you're in business, you're in sales. That's the only way you can sustain and grow your accounting practice.

This reality can, of course, be very uncomfortable for accountants, but if you think of sales as *persuasion*, you'll realize that you've been practicing sales techniques since childhood. Every time you try to convince someone to see the movie you want to see, for example, you're *selling* or *persuading*. It's also true that every time you talk to someone about your business, you are selling your service. It doesn't mean that you have to be at all pushy or manipulative about it. In fact, the old image of the fast-talking, overbearing salesperson is just that ... *old*. Most of the best techniques avoid that stereotypical salesperson persona entirely.

As you are spending time with clients and prospects, here are some ways to sell your accounting services with confidence and tact:

**Listen to potential clients.** One of the common negative beliefs about salespeople is that they talk and talk without letting anyone else get a word in edgewise. The truth is that an excellent business developer knows how to listen. This is how you find out what your client needs so that you can specifically address how you can fill those needs.

Just as you should network for your business, so should all of your employees. This means that everyone needs to have a clear understanding of the strong points of your firm, and they should be trained in how to talk about your business.

**Show that you understand the problems of your clients.** If you listen to your client's needs, you have the opportunity to empathize with that client's problems. This allows your potential client to develop trust in you quickly. For example, when a client describes an issue to you, tell a story about how you resolved a similar issue for another client. This is a way of communicating your experience without the old-fashioned sales pitch.

**It's all about them.** Never forget that for a potential client, it's all about what you can do for them. Your credentials are great, but what's the bottom line? Any potential client wants to know what benefits they will receive from working with you. How can you help them improve their business? How can you make their financial operations more efficient? How can you decrease their expenses? That's what they want to know.

**Do your homework.** When you find a prospect whose business you want to attract, do some research to see if you can determine what that prospect needs. Of course, review the company's website, but that's just the tip of the iceberg. Search online for press releases, annual reports, articles about the company, articles by key executives, and articles quoting key executives. When you meet with your prospect, he or she will be impressed with what you already know about the company. It demonstrates your interest in truly serving the needs of an organization.

**Don't miss sales opportunities.** While you don't want to push your business on everyone you meet in social situations, learn to watch for opportunities. Networking really is as important as everyone says it is. You never know when you might meet someone who needs your firm's services. Never leave the house without business cards, and feel free to speak proudly about your firm when someone asks you, "What do you do?" Let's say someone responds by saying, "I run an interior design firm." If you've worked with an interior design firm before, mention it. If you genuinely find it to be an interesting field, say so.

If you know anything about specific accounting issues that might arise in that field, mention that as well.

**Know your strong points.** If you aren't sure what distinguishes your firm from your competition, it's time to sit down and figure it out. Just being an accounting firm isn't enough. You need to establish something that is special and unique about what you can offer clients.

**Remember that everyone at your firm represents you.** The truth is that everyone on your team is in sales, and all of them represent your firm's brand when they're out and about. Just as you should network for your business, so should all of your employees. This means that everyone needs to have a clear understanding of the strong points of your firm, and they should be trained in how to talk about your business.

**Pay attention to your current clients.** Many businesses focus so much on getting new clients that they forget to cultivate the clients they already have. But the truth is that it's easier to maintain a client than to gain a new one. Still, just because someone has hired your firm in the past doesn't mean they'll continue to do so unless they feel they're valued as a client. This means that you need to stay in touch with your existing client base and constantly add value to your services. What can you do that will make your firm even more attractive to your current clients, and how can you show them that they're important to you?

**Build long-term relationships.** When you pay attention to your existing clients, you build long-term relationships. When you always deliver what you promise, you build long-term relationships. That's how you sustain your business for many years. When your firm makes a mistake or is unable to meet a deadline, offer to make it up to the client. When you show your loyalty by going the extra mile and taking responsibility for errors, your clients will show their loyalty in return.

**Learn how to "close" a sale.** You've probably heard about the art of "closing" a sale, and the idea may make you cringe. But there is no "fast talk"

(Continued on page 10)

# Business Valuation – To Discount or Not to Discount

By Michele Avery, CPA/ABV

The application of discounts when valuing a company has been a source of much discussion, study and court rulings. The computation and application of these discounts is one of the most important and sometimes controversial steps a valuation analyst takes in arriving at a conclusion of value.

Business valuation discounts, primarily refer to two separate discounts which are applied to entity values determined using the three Approaches to valuation (Income, Asset and Market Approach). These discounts are commonly referred to as a Marketability Discount and a Minority Discount.

The Marketability Discount captures the illiquidity of closely held businesses. An owner of stock in a publicly traded company such as Exxon, General Motors, etc., can sell their stock over the phone or the Internet and within three days receive cash payment for this sale. In a closely held business it could take months if not years before an owner of a closely held business could sell his/her ownership interest. The Lack of Marketability Discount accounts for the lack of a market or illiquidity of closely held business interests.

A Minority Discount or Lack of Control Discount captures the diminished value associated with ownership of a non-controlling interest in a business. A non-controlling interest is considered to have less value than a controlling interest based primarily on the fact that a non-controlling owner typically has no control over the management, capital structure and payment of distributions to shareholders. Additionally, a minority interest does not have the power to force a liquidation of company assets and thereby realize their value.

## Applying Discounts

The standard of value used by the valuation analyst will impact whether discounts are applied and to what extent. The most commonly used standards are: fair market value, fair value and investment value. Fair market value is the standard required in almost all federal and state tax matters. The

American Society of Appraisers defines this standard as “the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts.”<sup>1</sup> Discounts, if warranted, are typically applied when valuing a company under this standard.

The term “fair value” has several definitions depending on the context within which it is used. In the Business Valuation context, the fair value standard is a standard which has been created statutorily and through case law, on a state by state basis. It is the standard most often used in civil matters such as divorce, shareholder disputes and minority oppression actions. The driving concept behind the “fair value” standard is that both parties receive a fair value for their interests and that neither party realize a windfall due to the application of discounts. Typically, the fair value standard has been interpreted by states to preclude the use of discounts.

Finally, the investment value standard is the value to a particular investor based on individual requirements and expectations.<sup>2</sup> This standard is most applicable in a merger and/or acquisition context. Since a sale is usually being contemplated, a marketability discount may not be warranted under this standard. However, if the ownership interest being sold/purchased is a non-controlling interest, a discount for lack of control may be warranted. Conversely, if a controlling interest is being purchased, the application of a control premium may be warranted.

## Discounts in Louisiana Civil Matters

When valuing a business in civil matters in Louisiana the applicability of discounts has not always been clear. The term fair value has not been used or defined in statutes or case law in the context of business valuation, rather the terms fair market value, book value, asset value and cash value are used. In regards to the application of discounts, the courts have provided guidance in the following cases.

The standard of value used by the valuation analyst will impact whether discounts are applied and to what extent. The most commonly used standards are: fair market value, fair value and investment value.

► **Shopf v. Marina Del Rey Partnership 549 So. 2d 833 (La. 1989).** This case involved valuing the ownership interest of a withdrawing minority partner in a real estate development company. In this case the Louisiana Supreme Court applied a reduction of the share value from fair market value to arrive at the value of the withdrawing minority partners’ interest. This case created a general presumption for the use of minority discounts.<sup>3</sup>

► **Head vs. Head 714 So.2d 241 (La. App. 2d Cir. 5/22/98).** Next, the Second Circuit ruled that in community property partitions that fair market value “without discounts” is the lowest value in the trial courts discretion.<sup>4</sup> Furthermore, in its opinion the Second Circuit stated that if a sale of a company “is not contemplated, the value of the stock should be determined without discounting for lack of a marketability.”<sup>5</sup>

► **Cannon v. Bertrand, 2008 – 1073 2009 WL 130341 (La).** Recently, the Louisiana Supreme Court clarified the Court’s opinion in Shopf stating that the discount applied in the Shopf case did not represent a minority discount but rather a “majority discount” which the Court defined as a discount applied to the “unique value placed on property by majority owners in order to reach fair market value.” The Court went on to state that discounts “must be used sparingly and only when the facts support their use.”

(Continued on page 10)

Even after the Cannon decision and depending on the purpose of and standard of value used in a business valuation, the question still remains to discount or not to discount. ❖

Footnotes:

- <sup>1</sup> Pratt, Shannon P. and Alina V. Niculita. Valuing a Business: The Analysis and Appraisal of Closely Held Companies. 5th ed. New York: McGraw Hill, 2008. p.42
- <sup>2</sup> Pratt, Shannon P. and Alina V. Niculita. Valuing a Business: The Analysis and Appraisal of Closely Held Companies. 5th ed. New York: McGraw Hill, 2008. p. 1072
- <sup>3</sup> Durio, Steve G. "Buzz". "Discounts in Business Valuations After Cannon v. Bertrand." *Louisiana Bar Journal* 24 (June/July 2009): 10
- <sup>4</sup> Durio, Steve G. "Buzz". "Discounts in Business Valuations After Cannon v. Bertrand." *Louisiana Bar Journal* 24 (June/July 2009): 6-7
- <sup>5</sup> Durio, Steve G. "Buzz". "Discounts in Business Valuations After Cannon v. Bertrand." *Louisiana Bar Journal* 24 (June/July 2009): 6-7



**Editor's Note:** Michele Avery, CPA/ABV, is Manager of Business Valuations and Litigation Services for LaPorte Sehr Romig Hand. She is a member of the LCPA's Business Consulting Committee.

involved. "Closing" is simply about clarifying what will happen next. If you feel that a prospect is very interested in your firm, you can simply say, "I'd love to arrange for our firm to take care of your accounting needs. Can we set up a meeting to discuss the details next week?" If you feel that your prospect is lukewarm, you can simply ask, "Can I call you next week to talk about it some more? I think we could really help your company decrease your tax burden." If that still feels like too much for the circumstances, you might simply want to try to schedule a lunch where you will intermingle business talk with small talk. Again, it's all about cultivating long-term relationships – whether with an existing client or prospective client.

For many accountants, the idea of closing a sale or speaking with pride about their firm is simply uncomfortable. In order to network and build your business, however, it's necessary to overcome some of your shyness. Learn about body language so that you can read the responses of others. This will help you to feel more confident as you try to step beyond your comfort zone. Then, think about how you like to be treated when someone is offering you their services, and you'll act appropriately. Simply remember that you aren't a salesperson per se, but you are always selling. ❖



**Editor's Note:** As a shareholder at The Growth Partnership, Lisa Benson guides the strategy and operations of the Lead Generation Services Division. Using a sophisticated nurture-marketing model, she and her team of experienced marketing and business development professionals help firms achieve a delicate balance between short-term results and long-term relationships. Contact her at lbenson@thegrowthpartnership.com.

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# Emotional Intelligence Is Critical to Personal and Firm Success

By Jeffrey Pawlow

As businesses seek to turn information into knowledge, CPAs will assume more advisory roles by combining traditional services with consulting services. Accountants must have the sales and presentation skills not traditionally used in the profession. They must be able to explain financial data in non-financial terms and offer clear and concise recommendations that lead to business results.<sup>1</sup>

One of the biggest paradigm shifts in 21st century management is the unmistakable need to develop non-technical competencies in both current and future leaders. Study after study has shown it is the non-technical skills that distinguish star performers in every field, from entry-level to top executive positions. Even in the accounting profession, it is now commonly accepted that simply being technically excellent is not enough to successfully lead a firm, service line, niche area or department. In order to thrive, today's accountant must also develop a strong foundation of "non-technical" skills in addition to being highly trained in the technical competencies of their trade.

Non-technical skills such as personal, interpersonal, managerial and organizational capabilities play a key role in making or breaking a firm's success as clients are demanding more accountability and seeking "the right fit" both technically and personally. Firms that adopt a learning culture that supports both technical and non-technical competencies are able to fully develop their most important asset – their people – and confront the challenges of the profession confidently.

Perhaps one of the greatest recent discoveries connecting non-technical skills development to overall firm profitability is the concept of Emotional Intelligence. Since 1990, Peter Salovey and John D. Mayer have been the leading researchers on emotional intelligence. In their influential article "Emotional Intelligence," they defined emotional intelligence as, "the subset of social intelligence that involves the ability to monitor one's own and others'

feelings and emotions, to discriminate among them and to use this information to guide one's thinking and actions" (1990).<sup>2</sup>

Today's professionals are being evaluated by their employers not just by how smart they are, or by technical training and experience, but also by how they handle themselves and each other. Emotional intelligence refers to the ability, capacity, skill or even self-perceived ability to identify, assess and manage the emotions of one's self, of others and of groups.<sup>3</sup>

Emotional intelligence is a way of recognizing, understanding, and choosing how we think, feel, and act. It shapes our interactions with others and our understanding of ourselves. It defines how and what we learn; it allows us to set priorities; it determines the majority of our daily actions. Research suggests it is responsible for as much as 80 percent of the "success" in our lives.<sup>4</sup>

Emotional intelligence skills can be further developed and nurtured within an individual, while in contrast, a person's IQ cannot be changed.<sup>5</sup> Furthermore, a recent study found that firms which successfully develop emotional intelligence skills among their current and future partners (i.e. the kinds of competencies developed through non-technical training) enjoy 390 percent more incremental profit when benchmarked against an average firm. In addition, a study of 15 global companies showed seven skills differentiated the "stars" from average executives – six out of those seven skills were emotional or non-technical.<sup>6</sup>

Finally, it is critical to understand that emotional intelligence is not the opposite of technical knowledge, it is not the triumph of heart over head – it is the unique intersection of both.<sup>7</sup> It is not nature versus nurture, but a combination of the two. One is a constant while the other is learned behavior. What type of "smart skills" training are you providing for your staff? As the most-trusted business advisor, we know you're technically proficient; but what is your level of emotional intelligence?

Emotional Intelligence refers to the ability, capacity, skill or even self-perceived ability to identify, assess and manage the emotions of one's self, of others and of groups.

Take this quiz from *About.com: Psychology* to find out:  
[http://psychology.about.com/library/quiz/bl\\_eq\\_quiz.htm](http://psychology.about.com/library/quiz/bl_eq_quiz.htm). ❖

#### Footnotes:

- <sup>1</sup> Robert Half International Study
- <sup>2</sup> Kendra Van Wagner; *What Is Emotional Intelligence?*
- <sup>3</sup> Wikipedia
- <sup>4</sup> Freedman et al.; *Handle With Care: Emotional Intelligence Activity Book*
- <sup>5</sup> Daniel Goleman, Annie McKee and Richard E. Boyatzis; *Primal Leadership: Realizing the Power of Emotional Intelligence*
- <sup>6</sup> Mary C. Werner, CPA, MOD; *Emotional Intelligence: Discover the (Not-So) Secret Weapon for Accounting Firm Success*
- <sup>7</sup> David Caruso; *Emotional What?*



**Editor's Note:**  
Jeffrey Pawlow is the CEO and Managing Shareholder of The Growth Partnership, Inc. and The Partner Institute™. The Partner Institute™ is a two-year, multi-disciplinary program for accountants. The curriculum and coaching are designed to build a participant's personal, interpersonal, managerial and organizational skills.

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# Blue Ribbon Panel May Lead U.S. to Different Accounting Standards for Private Companies

The AICPA and the Financial Accounting Foundation (FAF), with support from the National Association of State Boards of Accountancy, have formed a blue-ribbon panel to explore the future of standard setting for private companies, including whether separate, standalone accounting standards for private companies are needed. The FAF is the parent organization of the Financial Accounting Standards Board (FASB). The panel is expected to make recommendations this fall.

Most of the recent discussions concerning financial reporting standards have centered on International Financial Reporting Standards (IFRS), specifically on whether the Securities and Exchange Commission (SEC) will endorse the proposed roadmap released under the previous administration that could lead to all U.S. public companies being required to use IFRS on a phased-in basis beginning as early as 2014. Yet even if the SEC eventually mandates the use of IFRS to replace U.S. generally accepted accounting principles (GAAP), the requirement would apply only to the approximately 15,000 public companies in the United States.

But what about the 29 million *private* companies that will continue using U.S. GAAP?

"We need to take a fresh look at how U.S. accounting standards can best meet the needs of private company financial statement users, and that's what this blue-ribbon panel will do," said LCPA Executive Director Grady Hazel, CPA. "I expect the panel's recommendations to be an extremely positive development for our state's many private companies and the CPA firms who serve them."

In early January, Rick Anderson, CEO of Moss Adams LLP, was named chairman of the panel. Anderson currently serves on the FAF Board of Trustees, was a member of the AICPA governing Council for three years and is the immediate past chair of the AICPA Major Firms Group. The panel's other members will represent a cross-section of financial reporting constituencies,

including lenders, investors, owners, preparers and auditors.

According to the U.S. Small Business Administration, small businesses employ more than half of all private sector workers and are responsible for 44 percent of the private payroll in the United States. They also have produced 64 percent of the new jobs created during the past 15 years. Many of these companies are small and medium-sized organizations that report to a narrow range of financial statement users, such as lenders, venture capitalists and insurers.

"Small business has also been instrumental in creating new innovations and are an important element in our economic recovery," says Robert R. Harris, CPA/CFF, chairman of the AICPA Board of Directors. "We need a financial reporting system that provides financial statement users and small business owners with information they can truly use and understand. We CPAs know full well that the financial reporting needs of our private company clients or employers and their financial statement users are different from those of public companies. It's time for accounting standards to reflect this difference, where appropriate."

In recent months there have been many calls within the accounting profession for a new and comprehensive evaluation of private company accounting. Included in those calls was the voice of the Private Company Financial Reporting Committee (PCFRC), a joint initiative of the AICPA and the FASB. For the past

several years, the PCFRC has been monitoring standard setting and speaking out on behalf of the needs of private companies and the CPAs who serve them.

"The goal is to bring valuable information to the users of private company financial statements without burdening those companies and their CPAs with requirements that have no relevance to their investors, lenders and other financial statement users," says Harris. "By doing this, we should also be able to help control financial reporting costs, something I know our members in business and industry will appreciate."

"The time has come to address accounting standards for the majority of America's businesses at the policy level and the recently created blue-ribbon panel will do just that," said Hazel. ❖



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# Managing Your Weight for a Healthy Future

Obesity is defined as having a body mass index (BMI) of 30 or greater, and over one third of American adults are considered obese. BMI is a calculation of a person's weight in relation to height and provides a reasonable indicator of potential future health problems.

Waist measurement is also an important indicator for future health risks. If most of your body fat is around the middle, then you could be at a higher risk for heart disease and diabetes. Women and men with a waist measurement of 35+ inches and 40+ inches respectively, have an even higher risk.

Obesity is one of the major risk factors for a variety of conditions, including cardiovascular disease, certain types of cancer, and type 2 diabetes.

## Exercise

Physical activity is one of the best ways to help keep weight issues at bay. Daily activity

also helps offset the risks associated with high blood pressure, type 2 diabetes, heart attack, stroke, and many cancers.

## Set Goals

Setting goals to increase physical activity is, more often than not, easier said than done. With so many activities to choose from, it can be difficult to know where to start.

Changing the way you approach weight loss can help you be more successful. Set small goals like eating more healthy foods, becoming more active, and learning how to change your behavior. Over time, these changes will become habit and a part of your everyday life.

## How Much Activity Is Right?

Everyone is different, but to see overall health benefits

and to reduce your risk of disease, it is recommended that you exercise a minimum of 30 minutes per day, most days of the week.

If your goal is to help manage body weight and prevent weight gain over time, then you should strive to get 60 minutes of moderate to vigorous activity most days of the week. To maintain a weight loss, aim for at least 60-90 minutes of daily physical activity.

Maintaining long-term weight loss can be difficult, but if you set realistic goals, follow a sensible diet, and increase your daily activity most days, you will see the benefits of all your hard work! ♦

*Editor's Note: Information was provided by Gilsbar, Inc., exclusive administrator of the LCPA Members Insurance Program.*



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# Audit Committees: An Often Overlooked Resource

By Dan Crumb, CPA

Audit committees by nature are not glamorous and seem to have earned the status of “necessary evil” in most companies that have them. However, an audit committee can be a very effective tool to ensure proper and consistent financial reporting if used effectively. Whether your company has an audit committee or is thinking of forming one, now is a good time to consider the advantages and effective operation of an audit committee. This article examines basic provisions of an audit committee charter, selection of audit committee members, and how to use these resources to benefit financial reporting and ultimately contribute to the success of a company.

## Audit Committee Charter Provisions

### ► Adopting a Committee Charter

The first step in creating an audit committee is to adopt an audit committee charter. Audit committee charters can range in length, detail and content but there are basic provisions that should be contained in your audit committee charter. The charter should determine how many members will serve on the audit committee and also mandate that members be independent. This is critical to the mission of the committee to ensure that an impartial objective committee is reviewing the financial statements and related audit report, as well as any other reporting issued by the company, and that there are no potential conflicts of interest. The charter should also address how many times per year the committee will meet which will vary depending upon the size and complexity of the company. Smaller, less complex companies will likely meet fewer times per year than larger, more complex companies.

### ► Overseeing Internal Controls & Risk Management

An essential function of the audit committee is to oversee the internal controls and risk management procedures of a company. Key components of the charter that address internal controls and risk management include: reviewing and evaluating the perfor-

mance of independent auditors, inquiry of management and independent auditors about significant risks or exposures facing the company and what steps are taken to reduce these exposures, as well as review with management and independent auditors about the adequacy of the company’s internal controls.

### ► Applying Accounting Standards

The audit committee charter must also address the application of accounting and regulatory standards. The charter should include provisions that require review with management and independent auditors the effect of any regulatory and accounting initiatives, all critical accounting policies and practices and any alternative treatments of Generally Accepted Accounting Principles. Proper review should also include examination of written communications between the independent auditors and management.

### ► Reviewing Financial Statements

The next area the audit committee charter needs to address is the review of the company’s financial statements themselves. The charter should include provisions to review with management and independent auditors the company’s annual financial statements, audit report, and related footnotes. The charter should also address review of the independent auditor’s judgments about the quality of application of accounting principles, any significant changes to the audit plan, any serious difficulties or disputes with management that were encountered during the audit, and matters that are required to be discussed by *Statement on Auditing Standards No. 114, Communication with Audit Committees*.

### ► Legal & Compliance Matters

The final area that the audit committee charter should address relates to legal matters and compliance with internal codes of conduct. In order to address these issues properly, the audit committee charter should include review with general counsel and management any legal and regulatory matters

that would have a material impact on the financial statements. The charter should also cover periodic review of the company’s code of conduct to ensure its adequacy and applicability, review of procedures for receipt, retention and treatment of complaints received by the company regarding accounting or internal controls, and review of procedures for confidential submission by employees of concerns regarding questionable accounting or auditing matters.

## Selection of the Audit Committee

The audit committee should be composed of an odd number of people in order to avoid ties on matters requiring a vote. It is very important to select the right mix of members for the audit committee. Ideally, the audit committee should include members from the banking, legal and accounting professions. Having members with these backgrounds will ensure that all areas of the audit committee charter; risk management, internal controls, accounting and regulatory procedures and compliance are properly addressed by members with proficiency in those areas.

## Conclusion

An audit committee can be a critical oversight mechanism especially during difficult times when the level of scrutiny is much higher and requires more oversight. Having an audit committee does not have to be a burden to your company. It can be a very effective and useful tool to ensure that your company is properly and consistently applying accounting and regulatory principles, effectively managing risk exposure and creating a strong culture of internal control. ❖



**Editor’s Note:**  
Dan Crumb, CPA is the Chief Financial Officer for the New Orleans Hornets Basketball Team. He received his B.S. in Finance from the University of New Orleans and an MBA from Tulane University. He is a member of the LCPA.

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