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Understanding Financial Documents & Working With Your Expert

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Learning Objectives

- Overview of financial statements
- Overview of tax return concepts
- Overview of business valuation approaches and methodology
- Overview of business valuation reports.
- Tips on working effectively with valuation and financial experts



The Basic Financial Statements

Balance Sheet

Assets, liabilities, and owner's equity at a point in time, all at book value (original, historical cost less depreciation and other non-cash charges) in accordance with accounting principles.

Income Statement

Revenues, expenses, and income over a period of time (fiscal period), usually a year.



Balance Sheet Concepts

■ Common Equity

- At book value equals paid in capital plus retained earnings. In XYZ Corporation it is: \$1,000,000 from the balance sheet.

■ Invested Capital

- Equals equity plus interest-bearing debt. For XYZ Corporation invested capital at book value is:

Long-term debt	\$3,000,000
Common equity	<u>1,000,000</u>
Book value of invested capital	\$4,000,000



Balance Sheet Concepts, contd.

■ Capital Structure

- Relative proportions of the various elements of invested capital. In this case, at book value:

Long-term debt	\$3,000,000	75%
Common equity	<u>1,000,000</u>	<u>25%</u>
Book value of invested capital	\$4,000,000	100%

■ Book Value per Share

- On a per-share basis, the book value is the value of common equity divided by the number of shares outstanding. For XYZ Corporation, it is:
 $\$1,000,000 / 1,000 \text{ shares} = \$1,000 \text{ per share}$



Balance Sheet Concepts, contd.

- Net Working Capital

- Current assets minus the current liabilities. For XYZ Corporation it is:

Current Assets	\$3,000,000
Less: Current Liabilities	<u>1,000,000</u>
Net working capital	\$2,000,000



Expense Concepts

■ Owner's Compensation

- Includes all elements of compensation, including salary, bonuses, retirement benefits, life and health insurance benefits, discretionary expenses and value of stock options. For XYZ Corporation owner's compensation is \$950,000.

■ Non-cash Charges

- Expenses on the income statement that do not require a cash outlay. For XYZ Corporation the only non-cash charge is depreciation of \$250,000.



Levels of Economic Income

- Sales (Net Revenues)

- For XYZ Corporation it is: \$10,000,000 from the Income Statement

- Owner Cash Flow

- Earnings of a business enterprise prior to the following items: income taxes, non-operating income and expenses, non-recurring income and expenses, depreciation and amortization, interest expense or income, and owner's total compensation.

Pre-tax operating income	\$1,300,000
Plus: Depreciation	250,000
Plus: Owner's compensation	<u>950,000</u>
Owner Cash Flow	\$2,500,000



Levels of Economic Income

- Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA)

- For XYZ Corporation:

EBIT (operating income)	\$1,300,000
Plus: Depreciation	<u>250,000</u>
EBITDA	\$2,500,000

- Gross Cash Flow (cash flow to equity)

- Net income plus non-cash charges. For XYZ Corporation:

Net income	\$700,000
Plus: Depreciation	<u>250,000</u>
Gross Cash Flow	\$950,000



Levels of Economic Income

■ Debt-Free Net Income

- What net income would be if there were no debt. It is interest expense, net of the tax effect (income taxes saved because the interest is a tax-deductible expense) to the net income. For XYZ Corporation it is:

Net income	\$700,000
Plus: Interest expense (net of taxes)	
(\$300,000 x (1-30%))	<u>210,000</u>
Debt-free net income	\$910,000

■ Debt-Free Cash Flow

- Debt-free net income plus non-cash charges. For XYZ Corporation:

Debt-Free net income	\$ 910,000
Plus: Depreciation	<u>250,000</u>
Debt-Free Cash Flow	\$1,160,000



Levels of Economic Income

■ Pre-tax Income

- Income after all expenses except income taxes. For XYZ Corporation it is \$1,000,000 from the Income Statement.

■ Net Income

- Income after all expenses, including interest, owner's compensation, non-cash charges, and income taxes. For XYZ Corporation it is \$700,000 from the Income Statement.



Levels of Economic Income

■ Net Cash Flow to Invested Capital

- Amount of cash available to distribute to owners and stakeholders of all components of the capital structure (equity and interest-bearing debt) after leaving enough for the capital expenditures and working capital necessary to sustain projected operations. For XYZ Corporation it is:

Net income	\$700,000
Plus: Depreciation	250,000
Less: Capital expenditures	300,000
Less: Additions to net working capital	200,000
Plus: Interest expense (net of taxes)	<u>210,000</u>
Net cash flow to invested capital	\$660,000



Levels of Economic Income

■ Net Cash Flow to Equity

- Cash available to equity owners to withdraw from or distribute from the business after leaving enough for the capital expenditures and working capital necessary to sustain projected operations. For XYZ Corporation it is:

Net income	\$700,000
Plus: Depreciation	250,000
Less: Capital expenditures	300,000
Less: Additions to net working capital	<u>200,000</u>
Net cash flow to equity	\$450,000



Variables Affecting Net Cash Flow

■ Capital Expenditures

- Amounts paid for assets expected to have a long-term economic life (usually more than one year), recorded on the balance sheet at the amount paid, and usually depreciated over time as expenses on the income statement and reductions to book value on the balance sheet. For XYZ Corporation they are approximately \$300,000 per year from Other Financial Data.

■ Changes in Net Working Capital

- Amounts added to or subtracted from the net working capital needed to support the operations of the business.
Expected sales growth (10% x \$10,000,000) = \$1,000,000
Percentage of sales needed as additional net working capital
(% of incremental sales from Other Financial Data) = 20%
Expected additions to net working capital = \$200,000



Variables Affecting Net Cash Flow

■ Changes in Debt

- If the company increases its long-term debt, the increase is an addition to the net cash flow to equity. Conversely, repayments of the long-term debt are a deduction when calculating the net cash flow to equity.



Cash versus Accrual Basis Accounting

■ Accrual Basis Accounting

- Revenues and expenses are recorded when they are earned or incurred. This is based on the accounting principle of matching costs with related revenues.
 - Example: A company sells goods and bills the customer for later payment, the revenue is shown on the income statement when it is earned and the account receivable becomes an asset on the balance sheet.

■ Cash Basis Accounting

- Revenues and expenses are recorded when they are received or paid.
 - Example: A company sells goods and bills the customer for later payment, the revenue is shown on the income statement when it is collected and the account receivable is never shown on the balance sheet.



Tax Returns – Broad Overview

- Wages, Salaries, Tips, and Other Income
 - Compare to W-2s and 1099s

	d	Total number of exemptions claimed		Add numbers on lines above	4
Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7		78,960
	8a	Taxable interest. Attach Schedule B if required	8a		25,065
	b	Tax-exempt interest. Do not include on line 8a	8b		

- Interest and Dividend Income

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7		78,960
	8a	Taxable interest. Attach Schedule B if required	8a		25,065
	b	Tax-exempt interest. Do not include on line 8a	8b		
	9a	Ordinary dividends. Attach Schedule B if required	9a		87,967
	b	Qualified dividends (see page 22)	9b	480	

- Schedule B – List of sources
 - Can reveal the existence of bank accounts, money market accounts, and stocks and bonds
- Tax Refunds
 - Request information about the current year's tax payments and how any refunds will be split



Tax Returns – Broad Overview

- Alimony or Child Support Received or Paid
 - Child support received or paid is not deductible for tax purposes nor does it count as income

W-2G and 1099-R if tax was withheld.	10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10	8,905
	11	Alimony received	11	

■ Pensions and Annuities

15a	IRA distributions	15a		b	Taxable amount (see page 24)	15b	
16a	Pensions and annuities	16a		b	Taxable amount (see page 25)	16b	

■ Other Income

17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	1,032,643
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation in excess of \$2,400 per recipient (see page 27)	19	
20a	Social security benefits	20a	
		b	Taxable amount (see page 27)
20b		20b	
21	Other income. List type and amount (see page 29) SEE STATEMENT 1	21	



Tax Returns – Broad Overview

■ IRAs and Other Retirement Contributions

■ Confirm deposits to retirement accounts

Adjusted Gross Income	23	Educator expenses (see page 29)	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses. Attach Form 3903	26	
	27	One-half of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction (see page 30)	29	3,256
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid b Recipient's SSN ► _____	31a	
	32	IRA deduction (see page 31)	32	
	33	Student loan interest deduction (see page 34)	33	
	34	Tuition and fees deduction. Attach Form 8917	34	
	35	Domestic production activities deduction. Attach Form 8903	35	69,213
	36	Add lines 23 through 31a and 32 through 35	36	72,469

- Can indicate the existence of such things such as health insurance, student loans, and receipt of funds held in savings accounts



Tax Returns – Broad Overview

■ Tax Credits

- Credits can indicate the existence of other income not yet disclosed (can't have a foreign tax credit without foreign income such as from foreign stocks)

47	Foreign tax credit. Attach Form 1116 if required	47		
48	Credit for child and dependent care expenses. Attach Form 2441	48		
49	Education credits from Form 8863, line 29	49		
50	Retirement savings contributions credit. Attach Form 8880	50		
51	Child tax credit (see page 42)	51		
52	Credits from Form: a <input type="checkbox"/> 8396 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 5695	52		
53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53		
54	Add lines 47 through 53. These are your total credits			54



Tax Returns – Broad Overview

■ Tax Payments

- All payments reported – whether estimated or withheld – should be accounted for.

Payments	61	Federal income tax withheld from Forms W-2 and 1099	61	5,886	
	62	2009 estimated tax payments and amount applied from 2008 return	62	387,200	
	63	Making work pay and government retiree credits. Attach Schedule M	63		
	64a	Earned income credit (EIC)	64a		
		b	Nontaxable combat pay election <input type="checkbox"/> 64b		
	65	Additional child tax credit. Attach Form 8812	65		
	66	Refundable education credit from Form 8863, line 16	66		
	67	First-time homebuyer credit. Attach Form 5405	67		
	68	Amount paid with request for extension to file (see page 72)	68		
	69	Excess social security and tier 1 RRTA tax withheld (see page 72)	69		
70	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 4136 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	70			
	71	Add lines 61, 62, 63, 64a, & 65 through 70. These are your total payments	▶ 71	393,086	

If you have a qualifying child, attach Schedule EIC.



Tax Returns – Broad Overview

- Schedule A (Form 1040) – Itemized Deductions
 - Home mortgage interest deduction and deductible mortgage points
 - Should be matched to 1098's provided by the lender; if more is being deducted could indicate there is additional property owned by a spouse that has not been disclosed
 - State and Local Income Taxes
 - Real Estate Taxes



Tax Returns – Broad Overview

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see page A-1)	1		
	2 Enter amount from Form 1040, line 38	2		
	3 Multiply line 2 by 7.5% (.075)	3		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4
Taxes You Paid (See page A-2.)	5 State and local (check only one box):	5	20,853	
	a <input checked="" type="checkbox"/> Income taxes, or			
	b <input type="checkbox"/> General sales taxes			
	6 Real estate taxes (see page A-5)	6	8,246	
	7 New motor vehicle taxes from line 11 of the worksheet on back. Skip this line if you checked box 5b	7		
	8 Other taxes. List type and amount	8		
	9 Add lines 5 through 8			9
				29,099
Interest You Paid (See page A-6.)	10 Home mortgage interest and points reported to you on Form 1098	10		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-7 and show that person's name, identifying no., and address	11		
	12 Points not reported to you on Form 1098. See page A-7 for special rules	12	2,880	
	13 Qualified mortgage insurance premiums (see page A-7)	13		
	14 Investment interest. Attach Form 4952 if required. (See page A-8.)	14		
	15 Add lines 10 through 14			15
			2,880	
Gifts to Charity If you made a gift and got a benefit for it, see page A-8.	16 Gifts by cash or check. If you made any gift of \$250 or more, see page A-8	16	6,399	
	17 Other than by cash or check. If any gift of \$250 or more, see page A-8. You must attach Form 8283 if over \$500	17		
	18 Carryover from prior year	18		
	19 Add lines 16 through 18			19
			6,399	
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See page A-10.)			20
Job Expenses and Certain Miscellaneous Deductions (See page A-10.)	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-10.)	21		
	22 Tax preparation fees	22	1,124	
	23 Other expenses—investment, safe deposit box, etc. List type and amount	23		
	24 Add lines 21 through 23	24	1,124	
	25 Enter amount from Form 1040, line 38	25	1,165,448	
	26 Multiply line 25 by 2% (.02)	26	23,309	
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27
			0	
Other Miscellaneous Deductions	28 Other—from list on page A-11. List type and amount			28



Tax Returns – Broad Overview

- Schedule B (Form 1040) – Itemized Deductions
 - Match all interest and dividends to statements showing their existence
- Schedule C – Business Income

Part I Income							
1	Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here <input type="checkbox"/> ▶	1	231,897.				
2	Returns and allowances	2					
3	Subtract line 2 from line 1	3	231,897.				
4	Cost of goods sold (from line 42 on page 2)	4					
5	Gross profit. Subtract line 4 from line 3	5	231,897.				
6	Other income, including federal and state gasoline or fuel tax credit or refund (see page C-3)	6					
7	Gross income. Add lines 5 and 6 ▶	7	231,897.				
Part II Expenses. Enter expenses for business use of your home only on line 30.							
8	Advertising	8	11,524.	18	Office expense	18	
9	Car and truck expenses (see page C-4)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see page C-5):		
11	Contract labor (see page C-4)	11		20a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		20b	Other business property	20b	78,671.
13	Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	4,781.
16	Interest:			24	Travel, meals, and entertainment:		
16a	Mortgage (paid to banks, etc.)	16a		24a	Travel	24a	
16b	Other	16b	4,000.	24b	Deductible meals and entertainment (see page C-6)	24b	
17	Legal and professional services	17		25	Utilities	25	8,605.
28	Total expenses before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	186,372.	26	Wages (less employment credits)	26	
29	Tentative profit (loss). Subtract line 28 from line 7	29	45,525.	27	Other expenses (from line 48 on page 2)	27	78,791.
30	Expenses for business use of your home. Attach Form 8829	30					
31	Net profit or (loss). Subtract line 30 from line 29.	31	45,525.				

• If a profit, enter on both **Form 1040, line 12**, and **Schedule SE, line 2** or on **Form 1040IR, line 13** (statutory employees, see page C-7). Estates and trusts, enter on Form 1041, line 3.
 • If a loss, you **must** go to line 32.



Tax Returns – Broad Overview

Schedule F – Farm Income

Part I Farm Income - Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1		
2	Cost or other basis of livestock and other items reported on line 1	2		
3	Subtract line 2 from line 1	3		
4	Sales of livestock, produce, grains, and other products you raised	4		1,652,255.
5a	Cooperative distributions (Form(s) 1099-PATR)	5a	1,723,064.	5b Taxable amount 51,787.
6a	Agricultural program payments (see instructions)	6a	36,657.	6b Taxable amount 36,657.
7	Commodity Credit Corporation (CCC) loans (see instructions):			
a	CCC loans reported under election			7a
b	CCC loans forfeited	7b		7c Taxable amount 7c
8	Crop insurance proceeds and federal crop disaster payments (see instructions):			
a	Amount received in 2010	8a		8b Taxable amount 8b
c	If election to defer to 2011 is attached, check here <input type="checkbox"/> 8d Amount deferred from 2009	8d		8d
9	Custom hire (machine work) income	9		9
10	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) SEE STATEMENT 9	10		19,948.
11	Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part III, line 51	11		1,760,647.

Part II Farm Expenses - Cash and Accrual Method.

Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expenses (see instructions). Also attach Form 4562	12	7,625.	25	Pension and profit-sharing plans	25	
13	Chemicals	13		26	Rent or lease (see instructions):		
14	Conservation expenses (see instructions)	14		a	Vehicles, machinery, and equipment	26a	210,434.
15	Custom hire (machine work)	15		b	Other (land, animals, etc.)	26b	233,254.
16	Depreciation and section 179 expense deduction not claimed elsewhere (see instructions)	16	497,261.	27	Repairs and maintenance	27	62,844.
17	Employee benefit programs other than on line 25	17		28	Seeds and plants	28	189,047.
18	Feed	18		29	Storage and warehousing	29	
19	Fertilizers and lime	19	160,569.	30	Supplies	30	9,875.
20	Freight and trucking	20		31	Taxes	31	11,904.
21	Gasoline, fuel, and oil	21	2,051.	32	Utilities	32	
22	Insurance (other than health)	22	85,360.	33	Veterinary, breeding, and medicine	33	
23	Interest:			34	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	23a	5,994.	a	SEE STATEMENT 8	34a	13,946.
b	Other	23b	8,205.	b		34b	
24	Labor hired (less employment credits)	24		c		34c	
				d		34d	
				e		34e	
				f		34f	
35	Total expenses. Add lines 12 through 34f. If line 34f is negative, see instructions	35		35		35	1,498,369.
36	Net farm profit or (loss). Subtract line 35 from line 11. Partnerships, see instructions.	36		36		36	262,278.

- If a profit, enter the profit on both Form 1040, line 18, and Schedule SE, line 1a; on Form 1040HR, line 19; or on Form 1041, line 6.
- If a loss, you must go to line 37.

Tax Returns – Broad Overview

- Schedule D – Capital Gains and Losses
 - Capital loss carryovers
 - Separate disclosure for capital gains and losses realized through partnerships, S corporations, estates and other entities

Part I Short-Term Capital Gains and Losses – Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1 BANK OF AMERICA	03/19/09	04/09/09	5,778	5,045	733
CITIGROUP, INC	03/20/09	03/23/09	6,334	5,043	1,291
GENERAL ELECTRIC CO COM	03/20/09	11/02/09	14,220	10,063	4,157
GENERAL ELECTRIC CO COM	04/30/09	11/02/09	3,055	2,728	327
2 Enter your short-term totals, if any, from Schedule D-1, line 2			2		
3 Total short-term sales price amounts. Add lines 1 and 2 in column (d)			3	29,387	



Tax Returns – Broad Overview

- Schedule E – Rental Properties, Partnerships, and Other Arrangements
 - Information from K-1s – show pass through income in addition to distributions made to the owner
 - Question if there are any leases in place on the rental property. Important to consider the net cash flow to the owner and financial condition of the renter.





Overview of Business Valuation Approaches, Methods, and Procedures

Basic Appraisal Approaches

■ Income Approach

- Valuing the business or business interest on the basis of some form of expected economic income stream; in real estate appraisal usually called “capitalization.”

■ Market Approach

- Valuation of the business or business interest by reference to other transactions; in real estate appraisal usually called the “comparable sales approach.”

■ Asset-based Approach

- Valuation of the business on the basis of assets and liabilities; somewhat analogous to the “cost approach” in real estate appraisal.



Methods Used within the Approaches

■ Income Approach

- **Discounted Cash Flows Method:** Projecting the expected economic income over the life of the investment and discounting each increment of that expected income back to a present value at a rate of return known as a discount rate.
- **Capitalization of Earnings Method:** Observing or estimating a single period's economic income and dividing it by a rate of return adjusted for expected growth known as a capitalization rate.



Methods Used within the Approaches

■ Market Approach

- **Guideline Public Company Method:** Derive valuation multiples from prices and financial data of company stock traded in the public market and apply the multiples to the appropriate financial data of the subject company.
- **Guideline Transaction Method:** Derive valuation multiples from prices and financial data of public or private companies that have been sold and apply the multiples to the appropriate financial data of the subject company.
- **Past Transactions Method:** Uses multiples of financial data from the company's own past transactions. (need to be arm's length)



Methods Used within the Approaches

■ Market Approach

- **Buy-Sell Agreements:** Need to be arm's length agreements and weight to be accorded is usually determined on a case by case basis.
- **Rules of Thumb:** Employs “ballpark” ranges of possible values derived from simple formulas used in an industry. (Typically not the entire basis for a valuation but can be useful “sanity checks”)



Methods Used within the Approaches

■ Asset Approach

- **Adjusted Net Asset Value Method:** Adjusts all the company's assets (both tangible and intangible) and liabilities to current value, usually fair market value, and subtracts the liabilities from the assets to arrive at the value of the equity of a business or business interest.
- **Excess Earnings Method:** Adjusts only the company's tangible assets to current value and subtracts the liabilities to obtain a net tangible asset value. Income needed to support the net tangible assets is estimated, and any excess income is divided by a capitalization rate to estimate the value of the company's intangible assets. The estimated value of the intangible assets is added to the value of the tangible assets to arrive at a total net asset value. ("hybrid method")





Overview of Business Valuation Reports

Reports - Introduction

- Who the Client Is
- Intended Use of the Valuation
- What is Being Valued
- Effective Valuation Date
- Degree of Control
- Marketability of the Interest
- Standard of Value
- Scope of Work
- Professional Standards Followed



Reports – Sources of Information

- Extent to Which the Facilities were Visited and Persons Interviewed
- Financial Information
- Economic Conditions
- Industry Data
- Other Empirical Data (industry comparable information; ratios)



Reports – Company Analysis

- Background and History
- Products and Services
- Customers and Suppliers
- Market Area
- Strategic Plans
- Various Company Risks
- Staff



Reports – Financial Analysis

- Liquidity Ratios
- Profitability Ratios
- Leverage Ratios
- Sales and Profit Trends



Reports – Adjustments

- Related-Party Transactions
- Non-recurring Items
- Non-operating assets or liabilities
- Adjustments to Generally Accepted Accounting Principles (GAAP)



Reports – Approaches and Methods

- For an opinion/conclusion of value should discuss all approaches and methods considered and explain why used or not used
- A calculation of value the appraiser uses the approaches and methods agreed upon with the client.
- Income, Market, and Asset Approaches



Reports – Discounts

- Lack of Marketability Discount
- Lack of Control Discount
- Key Man Discount
- Trapped in Capital Gains
- Control Premium



Reports – Representations of Appraiser

- Assumptions and Limiting Conditions
- Reliability of the Sources
- Restricted Use
- Fee
- Use of any Outside Specialist
- Updates



Reports – Qualifications of Appraiser

- Summary of background and qualifications of the valuation analyst should be attached to the report.





Working Effectively With Your Expert

Discovery

- **Federal Rule of Civil Procedure**
 - Complete statement of the expert's opinion
 - Basis and reasons for the opinion
 - Data and other information considered in forming the opinion
 - Qualifications of the witness
 - List of all publications authored within the past 10 years
 - The compensation to be paid
 - List of all cases the expert has testified in at trial or by deposition within the past four years
- **Recent Changes to Rule 26**
 - Expert drafts are no longer discoverable; however, facts or data provided by the lawyer and opinions and assumptions provided to the expert by the lawyer that the expert considered in forming an opinion are still open to discovery.



Involving the Expert in Discovery

- Preparing Discovery Requests
- Preparing Deposition and Interrogatory Questions
- Presence at Opposing Expert's Deposition
- Involving Your Own Expert in Depositions of Opposing Experts
- Rebutting the Opposition
 - Helping the lawyer prepare effective cross-examination
 - Providing rebuttal testimony



Questions?





Thank You

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