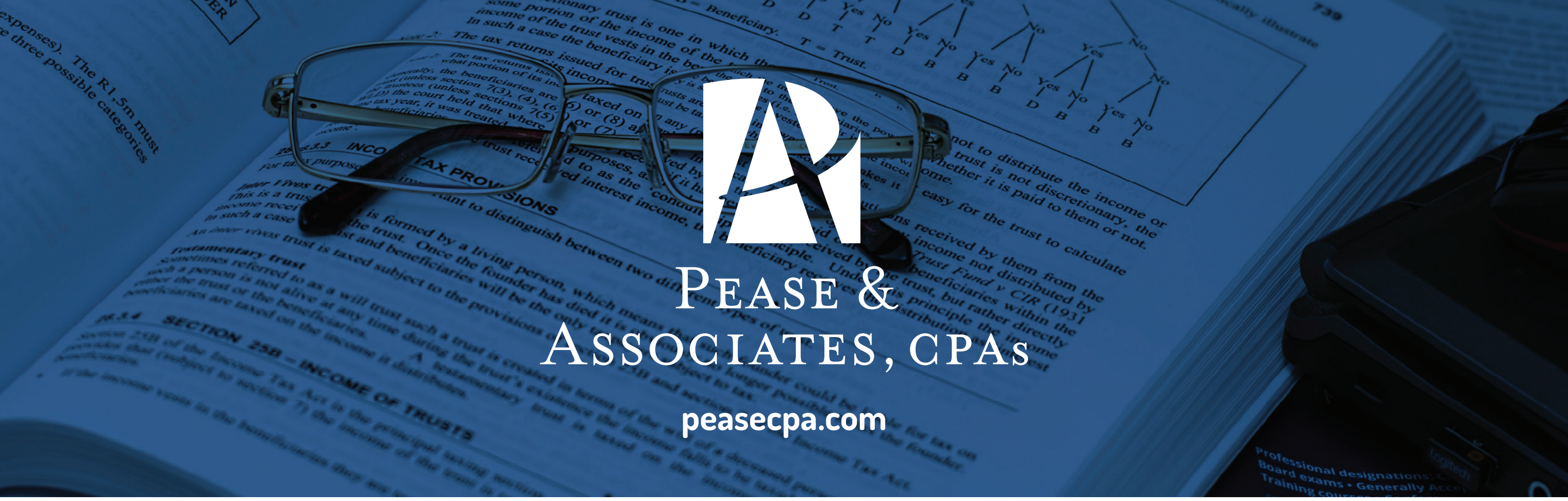


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# YES, I'M A CPA... NO, I DO *NOT* DO TAXES

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Stop me if you've heard or been a part of this riveting exchange before, or better yet keep on reading if you've been so lucky...

"So what do you do?"

"I'm a CPA."

"Oh so you're really busy doing taxes now, huh?"

"Well, I don't really do taxes. I'm actually in the Audit Department."

"Like...you audit taxes...for the IRS?"

"No, I work for a public accounting firm where we also have a tax department. But in the Audit Department, we perform different types of accounting and assurance services for our clients. For the most part we perform audits or reviews of our clients' financial statements..."

Crickets....

I need to make it very clear...I DO NOT blame any non-accountants for (1) not knowing, and (2) not caring what assurance service providers do. I'm not naïve to the fact that understanding the different types of accounting services isn't at the top of everyone's list of special interests – or maybe anyone's.

But it's almost uncomfortable when someone asks me "So what do you do?" because this is the kind of dialogue that ensues about 90% of the time. A simple question, meant to only be a few seconds of small talk, turns into about sixty seconds of confusion and discomfort. Sometimes when I get the follow-up question about taxes, I just play along and say "yeah...pretty much". I know deep down that the person doesn't really care to be enlightened about the exciting details of "assurance services". Under certain circumstances, I might expound a little, but most times it's not really the right setting. Even some of my closest friends still ask me about taxes, and I know I've explained it to them in more detail.

So here is a little Q&A to help explain what we actually do as auditors (assurance service providers):

"So what does an auditor do?"

In short, we test or review our clients' financial statements for accuracy, which provides the users of the financial statements with some level of assurance where they can rely on those numbers. More specifically, we mostly perform audit and review engagements on our clients' financial statements. At Pease, we only deal with privately-held businesses, not publicly traded businesses. These engagements are typically due 90 or 120 days after the company's year-end. So with most of our clients having a year-end of December 31st, we are extremely busy between January and April. Ultimately, our tax department needs us to approve the numbers before they prepare the required tax returns.

We also provide other accounting services such as audits of employee benefit plans, and other projects or agreed upon procedures. Sometimes we're asked to assist in projections or some due diligence work related to mergers and acquisitions. But most of our time is spent on financial statement audits and reviews.

### "What is an audit and review engagement?"

During an audit we perform different tests on our clients' numbers, including the examination of certain company records and communication with outside parties. We then sign off on these financial statements as an independent third party, providing users of the financial statements with the highest level of assurance that they are accurate, or "free from material misstatement" in accounting lingo. The financial statements include footnote disclosures which help explain more about the business and certain details behind the numbers presented in the financial statements.

During a review we essentially ask management questions and perform some analytical procedures until we gain a certain level of comfort that, in our professional opinion, the financial statements are "free from material misstatement". We then sign off on these financial statements as an independent third party, providing users of the financial statements with limited assurance that they are "free from material misstatement". Reviews also include all the same footnote disclosures required in an audit. On average, a review engagement probably takes about fifty to sixty percent of the time that it takes to perform an audit.

For the most part, our clients' financial statements are required to be reported in accordance with accounting principles generally accepted in the United States (U.S. GAAP). These are basically a set of rules or guidelines that help keep all companies on a level playing field when comparing financial results. Imagine if you were looking at the final score of a football game and saw the final score was 66 – 60. You might think that was a very high-scoring game, right? As you gather more information about the game, you realize that this was an Arena Football League (AFL) game…not an NFL game. The rules and scoring in the AFL are much different than the NFL, which on average, leads to much higher scoring. Therefore you wouldn't want to compare final scores and statistics from the AFL to the NFL…they're not on a level playing field.

## "Why would a company pay you to perform these engagements?"

Think about if you were going to invest in a company. A very simple question you might ask would be, "Is your company profitable?"…right? So they tell you how much they generate in revenues, or they tell you what their net income is, or maybe they show you an income statement. But how can you rely on that information? That's where we come in. If they provide you with audited financial statements, you would be able to rely on that information with the highest level of assurance.

If they provide you with reviewed financial statements, you would be able to rely on that information with some level of assurance, but less assurance than if they were audited.

We mostly see the audit or review requirements coming from the bank, or other lenders such as HUD or other governmental lending institutions. When a bank lends money to a business (extends a line of credit or a term loan), it will oftentimes require the business to obtain audited or reviewed financial statements from an independent public accounting firm. This allows the bank to have some level of assurance that the numbers are accurate.

Sometimes a board of directors, or business owners, will request that a company have the financial statements reviewed or audited even if they don't have significant bank debt. This provides them with assurance that the information they're receiving from their accounting department is complete and accurate. It can be a relatively small cost for the assurance it provides to an owner who might like to remain hands-off of the day-to-day operations.

## "What am I supposed to do with this information?"

I don't know what you should do with this information. But now you at least know that all CPAs are not tax accountants. Here at Pease we also have a great full-scale Tax Department and great CFO Services Group. Our CFO Services Group provides different accounting services for our clients who might need some assistance with different bookkeeping tasks during the year. They will help close the books at year-end and prepare the tax returns.

But if you ever find yourself in a position where you hear your banker, or a friend, or even a stranger just trying to make small talk, mention the need for any of these services, you'll know that we exist and you can give us a call to discuss it.

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