

SPRING 2011

# Leading EDGE

PUBLISHED BY



ALPERN ROSENTHAL  
INSPIRING OPPORTUNITIES FOR 50 YEARS

ADVICE & INFORMATION TO HELP YOU MANAGE YOUR BUSINESS



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Politics and work | Cash balance retirement plans

## Looking forward to the next 50 years

On behalf of our shareholders, I would like to express our deepest appreciation to loyal clients, referral sources, employees and other friends of the firm. Alpern Rosenthal has enjoyed the past 50 years of growth and success because of the relationships that have been developed with all of you. We look forward to the next half century of opportunities.

Today, Alpern Rosenthal continues to grow in numbers and breadth of services at our offices in Pittsburgh, PA; West Palm Beach, FL; and Philadelphia, PA. We offer cutting-edge services, expertise and industry knowledge in accounting & auditing, tax and business consulting services, and business valuation and litigation support services, as well as financial planning and other services. In addition to our numerous internal resources and expertise, we are part of a global network of regional accounting firms, The Leading Edge Alliance, with representative firms in most major cities around the world. This network allows us to work with our clients, no matter where their business takes them; and provides us with sources and capabilities beyond the 200-plus members of our organization.

I have had the pleasure of being a part of Alpern Rosenthal since 1983, surrounded by countless numbers of dedicated employees and fellow shareholders and clients. We are committed to innovative and creative solutions, rewarding relationships, and the professional and personal evolution of our team members. We look forward to serving you for many years to come.

Thank you for being a part of the success of Alpern Rosenthal.



Alexander Paul

## Alpern Rosenthal Promotions

Alpern Rosenthal has promoted three senior managers to shareholder in the firm's Pittsburgh, Pennsylvania office. "Our new shareholders are leaders who have demonstrated outstanding service to our clients and the firm", says Alex Paul, President and CEO. "All of our promotions are a sign of the firm's growth and our ongoing commitment to offering clients the best talent."



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The Leading Edge Alliance is an international professional association of independently owned accounting and consulting firms. The Leading Edge Alliance enables member firms to access the resources of a multibillion-dollar global professional services organization, providing business development, professional training and education, and peer-to-peer networking opportunities nationally and globally, around the corner and around the world.

Members are top quality firms who are very successful, have deep client relationships, and strong ties to the community. The Alliance provides members with an unbeatable combination: the comprehensive size and scope of a large multinational company while offering their clients the continuity, consistency and quality service of a local firm.

Member firms have access to the best and brightest teams of business advisors—a peer-to-peer connection that provides the right business solutions for clients.

To find out more about the Alliance, contact Karen Kehl-Rose, president, at (630) 513-9814 or [kkrr@The-LEA.com](mailto:kkrr@The-LEA.com).

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## contents



## features

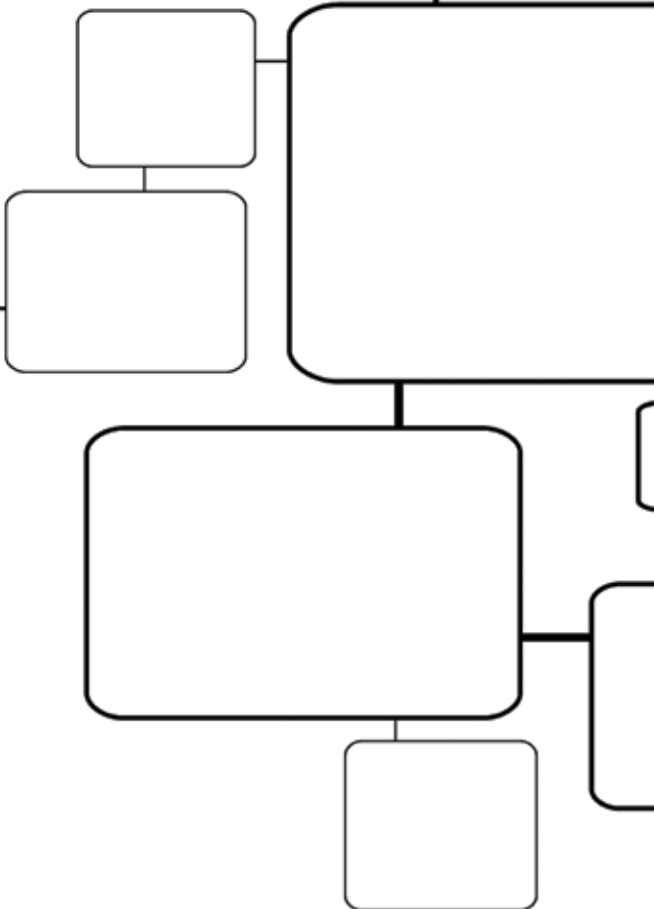
- 4 Value of partnerships**
- 13 Cash balance pension plans:  
Boost tax deductions, build retirement  
savings**
- 18 Communicate successfully on a  
not-to-be-discussed topic in business  
– politics**

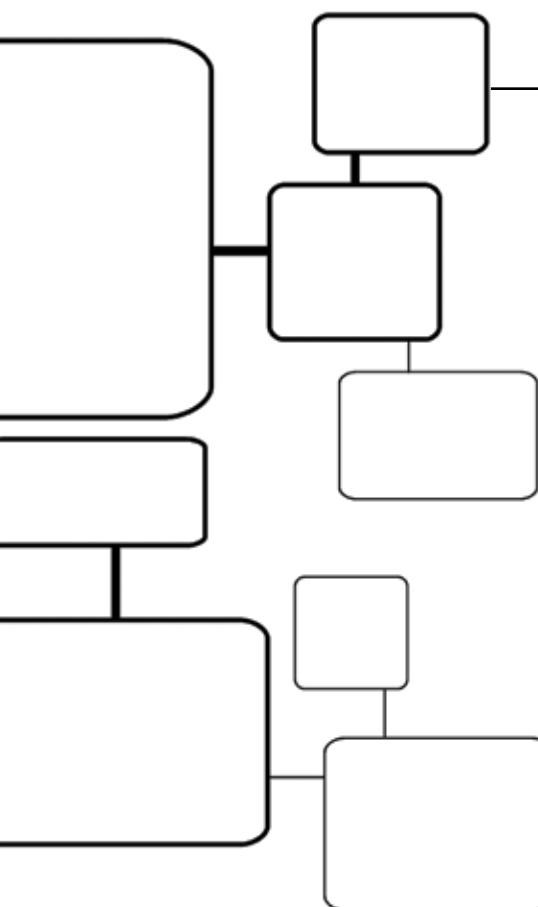
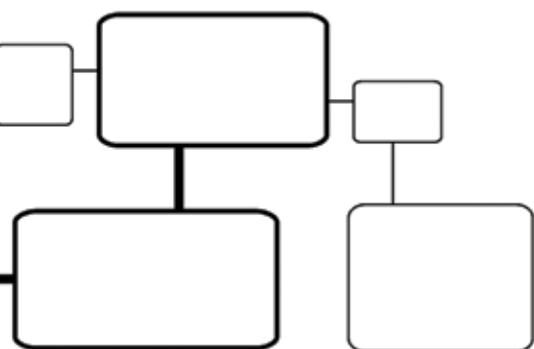
## departments

- 9 News and information  
from our firm**
- 14 Bits & Pieces**
- 16 Top 12 things about doing  
business in ... Mexico**

# value of *partnerships*

*for*  
**YOUR**  
*business*





## Work strategically to form bonds that strengthen business

By Danielle Toth

In today's technology-driven world, instantaneous communication and multiple avenues for networking in person or behind a desk open up the opportunities for partnership exponentially.

Other businesses, trade associations, informal contacts, nonprofits and even freelancers all serve as potential partners for growing and developing a business, even if the benefit is not immediate. Though being successful starts with a business-centric, old-fashioned approach.

"Partnerships work when the people or organizations entering into them are strategic and thoughtful in what they want to accomplish," says Ron Hanser, president and principal at Hanser & Associates, a national public relations firm. "You have to be willing to be open and transparent because if you can't trust someone, it's very difficult to be able to do business with them effectively."

*Continued on page 6*

Continued from page 5

### Broaden client assistance

Hanser's firm is a member of Pinnacle Worldwide, an international organization of independent PR firms that operate as partners. Hanser, who has served as Pinnacle's global chairman and a member of the executive committee, says firms selected as members of Pinnacle share a superior reputation in the industry, enabling the members to be confident when making referrals.

"The benefit to our firms and our clients is they know they're going to get quality service," he says. "If I refer something from a client here in the Midwest to our Pinnacle partner in New York City, for example, I know they're going to get taken care of very well."

The Pinnacle partnership enables one of the member firms to establish a client relationship then work with other member firms to serve the account. As Hanser explains, he has worked with a Pinnacle

partner to assist with New York news conferences for Hanser clients.

"Another real benefit is we don't have to maintain the larger staff that would ordinarily be necessary to provide these services," Hanser says. "So there's a cost effectiveness to servicing a client ... We reach out to these other firms and use them on an hourly basis."

Hanser & Associates does not limit itself to the Pinnacle membership. It's also a member of the Council of Public Relations Firms, a trade association composed of more than 100 invited, recommended and sponsored U.S. firms.

"We know these people can be trusted to do the right thing every day," Hanser says. "That's an ideal partner. You don't have to worry about them doing the right thing for your clients, and you can be almost certain a client referred to you is good because it comes from somebody you know and trust."

### Unite without physical meeting

Corey Bornmann and David Ford first met through Bornmann's AffPortal.com, a subscription-based website offering tools for Internet marketers. Ford, a site member and founder of Internet marketing forum PPV Playbook, asked Bornmann to help him coach other marketers on pay-per-click programs.

Soon after, Bornmann received an offer he felt was too big a commitment and asked Ford to assist him. The two partnered to create a new webinar product offered at offervault.com, a site that aggregates offers, training and payout offers related to CPA data.

Through that collaboration and their ensuing conversations, Bornmann and Ford realized their Internet-marketing-focused members could benefit from each other's strengths. Bornmann's AffPortal.com subscribers wanted a forum but he found the upkeep tedious. Ford's PPV Playbook members wanted tools but he wasn't sure of the mechanics. So Bornmann and Ford

## Cultivate partnerships

Businesses often overlook the opportunity to boost their bottom lines by cultivating relationships with other firms, says Jeanne Callahan, director of the Center for the Advancement of Business Leadership and Entrepreneurship for Women at the Women's College of the University of Denver. However, developing successful partnerships is not always easy. Callahan shares some tips for nurturing and keeping partnerships:

**Find an audience.** Identify a list of businesses that target similar customers. Schedule time to meet the business' sales and development staff to understand and determine the goals and needs of their clients.

**Consider an incentive.** Businesses are constantly looking for new ways to gain revenue. Firms with established clients may feel more comfortable providing referrals if there is a financial incentive. Pay partners back by offering a referral compensation fee, in-kind services or similar business referrals. Keep track of the referrals exchanged and continually look for ways to keep the relationship balanced.

**Set clear goals.** Start small. Creating one new partnership each month is a good initial goal. When making any new contact, send a thank-you message via e-mail or personal note to build the relationship, even if it doesn't result in new business right away.

united their efforts and granted membership to both sites, giving birth to a more formal partnership.

Now Bornmann and Ford tally their subscriptions monthly, subtract expenses and split the profit down the middle. The partnership works well, despite the fact that Bornmann lives in Pennsylvania, Ford lives in California and the two have never met.

“We built up our trust with each other by talking quite a bit,” Bornmann explains. “But the final thing was when we created the webinar series. We made a lot of money really fast, and David (Ford) trusted me.

“He never doubted that he would see his share of it ... I really think I wouldn’t be where I am right now if it weren’t for David and our partnership together.”

The two have plans to eventually meet. And while Bornmann and Ford’s story has a happy ending, Bornmann admits it can be dangerous to trust someone in an online/ phone-exclusive relationship.

“If you’re thinking of partnering with somebody you haven’t met, take it slow and talk a lot,” he advises. “There are a lot of people out there that will scam you and run off. I would also suggest doing a combined project together, something small, to see how you work together. You can use that as a launch point for a full partnership.”

### Lend a helping hand

Wayne Pinnell, managing partner of Haskell & White, a member of the Leading Edge Alliance, has developed many partnerships simply by meeting people through community involvement. All of the CPA firm’s partners and many of the senior managers serve on at least one board for a community organization.

“I always encourage people to get involved in an activity and to do it because they have a real interest,” he explains. “They should never do it just to get business from it. If you do it with that guise, sooner or later you’ll lose interest, and then the organization will lose interest in you and the firm that sent you there. Maybe there are referrals and business that come out of it, but those things take a while to cultivate.”

Pinnell has served as chairman of Laura’s House, a domestic violence shelter that also provides education and advocacy, and has

been vice president of the Boys & Girls Club of Santa Ana, Calif.

In 2010, he was named one of the seven Pink Tie Guys, businessmen who devote time to advocate breast cancer awareness and fundraising, by the Orange County affiliate of Susan G. Komen for the Cure. Pinnell didn’t stop at wearing a pink tie, he decked out his 40-foot RV in bright pink with photos and headlines promoting the race and drove it around three months prior to the event.

“Through serving on various boards, I have met members over the years who have referred business,” Pinnell says. “I have recruited board members over the years with whom I have joint clients. And right now, we’re doing a capital campaign to rebuild a shelter program, so that’s another avenue to meet with business leaders in the community.”

He says everyone who comes together for these organizations has a shared common interest, but it doesn’t take long to find out more about the people at the table and share what they do. “And partnerships flow from there,” Pinnell says.

### Team up for government

Businesses that team up can earn 50 percent more government contracts versus going it alone, says Lourdes Martin-Rosa, an American Express OPEN advisor.

“Government contracts may combine a variety of products and services under a single bid,” she explains. “If one business can’t provide all of what’s required in the contract, teaming enables businesses to partner with one another to qualify and meet the contract requirements. Teaming can significantly reduce the lead-time and investment required to enter the market. For many companies, it is the only practical way to enter the market.”

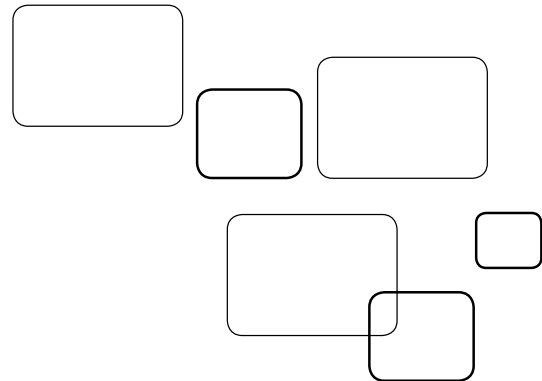
A woman-owned business, for example, may be expertly qualified for all but one part of a government contract. To fill that missing component in its proposal, that business brings in another company to fill that void. That company, which isn’t minority- or woman-owned, benefits because it could not have competed on the project if not for its inclusion in the woman-owned business’ proposal. The partnership is mutually beneficial, Martin-Rosa says.

Businesses can search for partners based

*Continued on page 8*

*“I always encourage people to get involved in an activity... because they have a real interest. They should never do it just to get business from it.*

– WAYNE PINNELL



*Continued from page 7*

on industry, geography and other specific attributes by visiting TeamingUSA.com, a website created by Business Matchmaking and American Express OPEN, or the U.S. General Services Administration's eLibrary at [gsaelibrary.gsa.com](http://gsaelibrary.gsa.com).

Using sites like these to partner with an experienced government contractor can help novice government contractors build a past-performance history, thus improving their chances to win future contracts, Martin-Rosa says.

"Teaming businesses offering the government the best combination of performance, cost and delivery for the system or product being acquired has contributed to some of the best partnerships," she says. "The government recognizes the integrity and validity of contractor team arrangements, provided the arrangements are identified and company relationships are fully disclosed."

### Think freelancers and vendors

Partnering with other companies is certainly a vital way to gain business. However, partnering with freelancers and vendors is also an excellent way to save money and ensure work is coming from the best possible source.

David Langton, principal and co-founder of Langton Cherubino Group, a communication design firm, has developed a network of partnerships with writers, illustrators, photographers, video producers, programmers, and marketing and communications experts. The firm partners with freelancers for much of its work, allowing it to focus on design and art direction while using the artists who excel at their specialties.

"We start with an honest description of services, with fees and schedules defined upfront," Langton says. "We also do not pretend to be everything to everyone. We're very transparent about what our expertise is

and what is done by one of our trusted partners. We are the experts in design communications. They are the experts in their specialties. Our clients are the experts in their service or industry. It is the combination of everyone's expertise that makes for the most successful partnerships."

Partnerships like this are especially important for smaller firms, Langton says, because it gives them the reach of a larger entity without spending the time and resources to keep their employees busy. Langton Cherubino Group also partners with PR firms, printers, e-mail marketing providers and web firms for many of its business needs.

"I would argue that we can get better artists to work for us because the really talented ones are not satisfied by 'staff' work at the bigger agencies," he says. "Like any networking situation, one thing leads to another. These partnerships mean people are out there looking for work for us. It is the best way to expand our sales without adding salesmen to our company." **LE**



## INSIDE:

- SAS 70 to SSAE 16 ...
- Transition to IFRS?
- Baby boomer business owners and retirement



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# Sales tax exemptions – Oil & gas drilling equipment

By Stephen Blair, CPA, JD  
Tax Manager (Pittsburgh, PA)

With all of the excitement and publicity surrounding the development of the Marcellus Shale gas fields recently, many people are interested in purchasing and/or leasing well-drilling machinery and related equipment. Since this equipment typically represents a substantial economic investment, the question may arise: are these purchases subject to sales tax? The short answer is: it may not be taxable. The full answer really depends upon the specific facts and state in which you are doing business.

Pennsylvania, West Virginia and Ohio all offer some form of an exemption from sales and use tax on machinery, equipment, supplies and materials, etc. which are directly used in oil and gas drilling and production. The rules, however, are different in each state.

## Pennsylvania

A person engaged in the business of gas and oil drilling in Pennsylvania may make tax-free purchases of machinery, equipment, parts and supplies that are predominantly used directly in the production of oil and natural gas. This exclusion from tax does not apply, however, to vehicles required to be registered or items outside the scope of the production process.

Pennsylvania recently issued an official ruling regarding the taxability of equipment and supplies used in fracturing, which is an essential part of the production process in the

Marcellus Shale formation. See Legal Letter Ruling No. SUT-10-003, dated Sept. 15, 2010. This ruling stated that fracturing machinery (such as pumps, mixers, data acquisition and control equipment, etc.) as well as supplies used in fracturing (such as sand, cement, etc.) would be exempt from tax. Of course, since all such equipment and supplies must be transported to the well site, it is important to remember that trucks, trailers, and all other licensed vehicles are still subject to tax.

## Ohio

Ohio provides a tax exemption for sales in which the purpose of the consumer is to use or consume the property directly in the production of oil and natural gas for sale. This sales tax exclusion also includes the furnishing of services for those engaged in the exploration for and production of crude oil and natural gas. Machinery and equipment used to repair or maintain drilling machinery and equipment is also exempt.

The Ohio courts have held, however, that this exemption is limited to the actual drilling process; and the exempt activities begin with the drilling of the well and end with the termination of drilling. The following items, therefore, have been specifically ruled to be taxable because they are not used during the drilling process: pit liners and kiln dust that remove waste product from the drilling process and are used to reclaim drilling sites; slag used to build roads to drilling sites and to



EQUIPMENT TYPICALLY REPRESENTS A SUBSTANTIAL ECONOMIC INVESTMENT. THE QUESTION MAY ARISE: ARE THESE PURCHASES SUBJECT TO SALES TAX?

support drilling rigs; paint and maintenance supplies; and ladders, stairs, and platforms attached to oil storage tanks. Also, bulldozers used to clear and maintain access roads, grade drilling sites, etc. were held to be taxable because they were not directly used in the actual drilling of the well. While Ohio does not tax all licensed vehicles as Pennsylvania does, trucks and trailers used solely to transport equipment to the drilling site are not exempt because they are not directly used in the drilling process itself.

## West Virginia

Sales of services, machinery, supplies, and materials (except gasoline and special fuel) directly used or consumed in the production of oil and natural gas are exempt from West Virginia consumers' sales and service tax, and use tax.

There is one catch, however; this is a refundable exemption, meaning that purchasers must pay the tax on the purchase and apply for a refund (unless they have a direct pay permit). **LE**

You can reach author Stephen Blair at [sblair@alpern.com](mailto:sblair@alpern.com) or (412) 281-2501. For more information on Alpern Rosenthal's Energy Services, contact Celeste Suchko, Tax Shareholder, at [csuchko@alpern.com](mailto:csuchko@alpern.com) or Emanuel DiNatale, Tax Shareholder, at [edinatale@alpern.com](mailto:edinatale@alpern.com).

# From SAS 70 to SSAE 16 ...

## Is your organization ready for the change?

By Brian Kirkpatrick, CIA  
Senior Manager, Business  
Advisory and Risk Services  
Group (Pittsburgh, PA)

Service auditor reports on controls at a service organization are getting a makeover. If your organization issues a Statement on Auditing Standards No. 70 (SAS 70) report, you need to know that the SAS 70 is being replaced with a new service organization standard. The AICPA's Auditing Standards Board issued a new standard in April 2010 to replace the current SAS 70 with an attestation standard, Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This new standard is effective for service auditor reports with periods ending on or after June 15, 2011.

One may ask why make the change to an attestation standard and what exactly is the difference between a Statement on Auditing Standards and a Statement on Standards for Attestation Engagement? The Statement on Auditing Standards primarily relates to the conduct of an audit as well as the reporting responsibilities of auditors. The attestation standards primary focus is to provide guidance and establish a broad framework for a variety of attest services (besides expressing an opinion on historical financial statements). In an attestation report, the auditor attests to an assertion or subject matter other than the fairness of the presentation of historical financial statements. When conducting a SAS 70/SSAE 16 review, the service auditor is reporting on the service

organization's description of controls and its system that are relevant to a user entity's financial statements. As this review is not an audit of the financial statements, the Auditing Standards Board believed that the new service organization standard should be located within the attestation standards.

In addition to the service auditor report now being governed by the attestation standard, there are two major provisions that have been added within the guidance.

1. Management of the service organization is required to provide a written assertion about:
  - the fairness of the presentation of the description of the system,
  - the suitability of the control design, and
  - if the report is a type II, the operating effectiveness of the controls.
2. In a type II report, the service auditor's opinion on the description of the service provider's controls and systems will now cover a period of time, the same period covered by the service auditor's test's of operating effectiveness, of the service organization's controls.

The fundamental premise of the service auditor report has not changed. Both types of reports, type I and type II, will be available for the service auditor to provide. The SSAE 16 report should not be used by the service organization as a marketing tool and as with the SAS 70 report,

there is and will be no such thing as being "SSAE 16 certified."

The SSAE 16 report will remain a "service-auditor to user-auditor" report with the primary intent to provide information on the controls at the service organization relevant to the user organization's financial statements, and is not intended to address controls on nonfinancial information. The AICPA is currently developing a new guide, Reporting on Controls at a Service Provider Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy, which will address issuing a report on a service provider's system and control environment for nonfinancial information.

While the new standard will require some changes to the service auditor's report, as noted above, it does not significantly change the practice and overall process of reporting on controls at a service organization. As this new standard was built upon the SAS 70 standard, many believe that the transition to SSAE 16 will be relatively easy. **LE**

Information from the following site was used in the preparation of this article: FAQs – New Service Organization Standards and Implementation Guidance. Available: [http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/SOC/DownloadableDocuments/QAs\\_Serv\\_Orgs\\_Apr\\_26\\_2010.pdf](http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/SOC/DownloadableDocuments/QAs_Serv_Orgs_Apr_26_2010.pdf).

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# Is your organization prepared for the transition to IFRS?

By F. Jeffrey Kovacs, CPA  
Director of Quality Control  
Accounting & Auditing  
Shareholder (Pittsburgh, PA)

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are working on nine joint projects designed to improve both U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). This joint effort is commonly referred to the convergence of U.S. GAAP with IFRS.

Through these projects the boards intend to improve financial reporting information for investors while also aligning U.S. and international accounting standards. These projects are a significant move toward achieving a common accounting framework, a necessary step in the globalization of business and investment.

The following projects were identified as most important under a memorandum of understanding between the FASB and IASB:

- *Financial instruments*
- *Revenue recognition*
- *Leases*
- *Statement of comprehensive income*
- *Fair value measurement*
- De-recognition
- Consolidations
- Financial statement presentation
- Financial instruments with characteristics of equity

The first five projects (italicized) are considered priority because of the existing divergence of U.S. GAAP and

IFRS and the need for improvements in the standards they are meant to replace.

The following projects are additional joint projects between the FASB and IASB:

- Balance sheet – netting
- Discontinued operations
- Post-employment benefits
- Insurance contracts
- Emissions trading schemes

## The Impact

The effects of these pronouncements will create a fundamental shift in how transactions are created, measured and recognized in the financial statements of public and nonpublic companies. Furthermore, the proposed changes in financial statement presentation will have a profound impact on how financial statements are created and how the users of financial statements understand and interpret financial information.

As the FASB and IASB work toward convergence with these proposed standards, the Securities and Exchange Commission is wrestling with the issue of whether to convert U.S. GAAP to IFRS and require public companies to report their financial information using IFRS or to continue to report their financial information using U.S. GAAP with the converged accounting standards. The decision to convert U.S. GAAP to IFRS is not an easy one for the SEC. For many years, U.S. GAAP has been viewed as the “gold standard” for financial reporting. Therefore, many believe that the SEC is wary of moving away from a set of accounting standards that are primarily rules

based to a set of primarily principle-based standards. The concern exists that much more judgment may be required when reporting financial transactions that may result in a lack of consistency and comparability among companies, industries and even geographic jurisdictions.

In addition, the SEC, as a regulator, currently has a one-to-one relationship with the FASB, as the standard setter. If the SEC were to permit the use of IFRS for public company registrants, the SEC now becomes part of the international regulatory community and its ability to influence GAAP may become less influential.

Finally, any movement by public companies toward the adoption of IFRS begs the question, what does GAAP become for nonpublic companies in the United States. Recently, a blue ribbon panel released its recommendation that the timing is appropriate for the development of a separate standard setting body for nonpublic companies. In addition, the blue ribbon panel has put forth a proposed model for nonpublic company GAAP in the future. Stay tuned for developments in this area as well.

The effects of these projects are not just accounting related. Many of the standards may have significant business and operational implications and may require significant lead time to analyze and implement, especially for larger companies. When the tentative decisions become final, they will influence shareholder communications about the business, affect



contractual agreements and prompt a reassessment of the adequacy of systems and operations, including human and other capital resources. Training and budgeting considerations also will need to be addressed.

## Recommendations

Because of the expected significance of changes emanating from these projects, we recommend companies begin studying the implications on their business and mapping out a course of action:

- Develop a complete understanding of each project and its impact to your business.
- Consider the lead time necessary to adopt each standard.
- Establish a multidisciplinary approach to effectively analyze the implications of the standards and plan for implementation.

Now is the time for companies to engage and begin to digest all the changes on the horizon. As the global shift to IFRS continues, Alpern Rosenthal is helping companies address the challenges and opportunities. **LE**

For more information on the convergence of U.S. GAAP with IFRS, contact author Jeff Kovacs at [jkovacs@alpern.com](mailto:jkovacs@alpern.com) or (412) 281.2501.

## Baby boomer business owners and retirement: Nest eggs may be cracking

By Richard Gray, CPA/ABV, CVA, ASA  
Senior Manager, Business Valuation  
& Litigation Services (West Palm Beach, FL)

**B**aby boomer business owners in the United States are looking to turn their years of sweat and toil into cash for retirement; but recently the economy has faltered and with that, the sellers' market of just a few years ago has rapidly turned into a buyers' market.

Adding to their woes, the large number of baby boomers who want to sell their businesses will result in a glut of businesses on the market in the coming years, further depressing prices. Finally, most business owners wait too long to begin exit planning, and delays can be costly in time and money. With a well-planned strategy implemented sooner rather than later, some business owners can still realize their dream of life on a tropical beach.

According to a recent survey conducted by Orion Capital Group LLC, 47 percent of middle-market business owners are considering selling their businesses within three years, and surprisingly, more than 90 percent of those business owners have not initiated a planning process. By waiting for the last minute to make a decision to sell, these owners may be missing significant opportunities and not realizing the optimal value of the businesses they worked so hard to build.

What can the baby boomer business owner do? First and foremost, start early. Experts suggest that small firms get organized three to five years (some even say seven years) before they even start to think about transitioning out of their business. This long lead time is necessary for two primary reasons: first, prospective buyers have become more sophisticated and are looking for a long history of the business that includes good financial records and operating documentation; and second, it may take some time for the business owner to implement changes that can enhance the value of his or her business.

Business professionals such as CPAs (including tax specialists), financial planners, valuation professionals and attorneys can orchestrate a comprehensive exit plan that will benefit the business owner in a number of ways, including minimizing taxes and legal

fees related to the sale or transfer of a business to maximizing the price received for a business. Adequate planning that includes a transition period can eliminate the buyer's risk and result in a greater price for the seller.

Well-documented financial information is an important consideration in the planning process. Many small and middle-market businesses look upon formally prepared financial statements as an unnecessary expense, but buyers gain a greater sense of comfort in looking at a financial statement that has been audited or reviewed by a reputable accounting firm than one that has simply been printed off the business' computer. And what goes in those financial statements is extremely important. If the owner is running a large amount of personal expenses through the business, this has a negative impact on operating profitability and cash flow, two key factors examined by a potential buyer.

Another consideration for the business owner is what my business is worth and what can I do to maximize that value before I sell? Many business owners have unrealistic expectations of the value of their business and this can make it difficult for the sale of the business. Valuation professionals can advise the business owner what his or her business is worth and, through their analysis, suggest ways in which that value can be increased.

Although this article addresses the issue of business owners and retirement, it should be noted that an exit-planning strategy should be developed by all business owners, whether facing retirement or not, in order to prepare for unexpected events, such as disability or even death. Exit planning should be a normal part of the business planning process. **LE**

For more information, contact author Richard Gray at [rgray@alpernfl.com](mailto:rgray@alpernfl.com) or (561) 689-7888.

### How Post-mortem planning can result in better payout options for beneficiaries of traditional IRAs

By Michael S. Leone, CPA, J.D., LLM (Tax) Shareholder, Tax Director (West Palm Beach, FL)

If you inherited a traditional IRA (or a share of it), you should know that you may be able to improve your tax picture by taking timely action and "reshaping" the method of sharing and distributing the IRA. The right kind of post-death planning for an IRA depends on how the IRA owner directed that its proceeds be shared. Here are two examples:

Dad named Mom and the children as equal beneficiaries of his IRA, but the children don't need the income now. If they disclaim their interest in the IRA on a timely basis, Mom will be treated as the sole beneficiary and can elect to treat Dad's IRA as her own. This way, she can name the children as beneficiaries of the IRA, defer commencement of payouts from the IRA until April 1 of the year after the year in which she attains age 70-1/2, and then begin taking payouts over a longer period than she'd be entitled to as a beneficiary. After Mom dies, the balance remaining in the IRA will be paid out to the children. If the children don't disclaim their interests on a timely basis, Mom can't treat Dad's IRA as her own, and during her life will get only part of the payout from Dad's IRA. And payments to the other beneficiaries will be made over Mom's life expectancy.

Ted named his niece and his favorite charity as equal beneficiaries of his IRA. Ted died at age 69 this year. If the charity's interest in the IRA is paid out in full before Sept. 30 of next year, the niece's share of the IRA can be paid out over her life expectancy. Otherwise, the niece's share will have to be paid out no later than the end of the year containing the fifth anniversary of Ted's death.

Note however, that the rules for inherited IRAs are complex and may have other tax implications that must be considered, such as estate taxes. **LE**

You can contact author Mike Leone at [mleone@alpernfl.com](mailto:mleone@alpernfl.com) or (561) 689-7888.

# Cash balance pension plans: Boosting tax deductions and building retirement savings for business owners

By David A. Pitts, EA, FSA, MAAA, MSPA

As the economy rebounds and company revenues improve, many businesses will look to increase tax deductions, especially with the threat of tax rate increases. Also, business owners will try to rebuild their battered retirement savings after the market losses suffered in 2008 and 2009. Cash balance pension plans are an excellent means of achieving both goals, and the retirement plan industry expects to see an increase in the number of new plans. Of course, business owners need to understand the pros and cons of these arrangements to determine if they are a good fit.

The big tax deductions provided by cash balance pension plans are the primary driver of their popularity. The maximum deductible contribution to an individual's 401(k) profit sharing accounts in 2011 is \$49,000 (or \$54,500 for individuals older than 50). A cash balance pension plan, alone or in combination with a 401(k) profit-sharing plan, can dramatically increase the deductible contributions.

As an example, the owners of a dental practice wanted to set up a retirement plan to allow them to make large tax deductible contributions while minimizing additional staff costs. The example in the chart below was created to compare a 401(k) profit-sharing plan to a 401(k) profit-sharing plan with a cash balance pension plan.

From these proposals, two advantages of the combined 401(k) profit-sharing and cash balance plan are clear to the dental practice owners. Adding a cash balance pension plan increases their annual deductible contributions by approximately \$206,000 with only \$8,000 in additional staff costs. This also means that their annual retirement savings increased by about \$200,000 or 200 percent over having only a 401(k) profit-sharing plan. And while the focus of the proposed plan design is maximizing the owners' benefits with minimal staff costs, staff members would receive meaningful benefits that were higher than the 401(k) profit-sharing only plan.

Another appeal of cash balance pension plans is their simple look and feel compared to other pension plans. Benefits accumulate in a (hypothetical) account that receives annual allocations or "pay credits," and investment earnings on their prior year's balance or "interest credits." Employees can see benefits accumulate on their annual statements like their 401(k) profit-sharing plan balances. And benefits are highly portable—employees are allowed to roll over their cash balance account from the plan into their IRA when they leave employment.



Of course, cash balance pension plans are not right for everyone. As required for all pension plans, employers are responsible for providing the promised benefit at retirement and they must make minimum annual contributions toward that goal. Therefore, good candidates for a cash balance pension plan will have a fairly stable income stream and available cash flow. In addition, employers should desire to contribute more than \$49,000 annually toward their retirement, have a fairly stable employee group and generally be older than most of their staff (or plan demographics may limit the owner's contribution). To learn more about whether a cash balance plan could benefit your business, contact your Leading Edge Alliance firm or me to illustrate the estimated contribution range for the desired benefit design. **LE**

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EXAMPLE: DENTAL PRACTICE PLAN DESIGN PROPOSALS ANNUAL EMPLOYER ALLOCATIONS				
Employees	Annual Compensation	Design 1: 401(k) Profit Sharing Only	Design 2: 401(k) Profit Sharing & Cash Balance	Design 2: Increase in Contributions from Design 1
Owner 1	\$245,000	\$54,500	\$154,950	\$100,450
Owner 2	\$245,000	\$54,500	\$152,500	\$98,000
Subtotal: Owners	\$490,000	\$109,000	\$307,450	\$198,450
Staff Members	\$439,826	\$15,981	\$23,752	\$7,771
Total	\$929,826	\$124,981	\$331,202	\$206,221

# bits & pieces

## DECREASE IN BUSINESS TRAVEL NEGATIVELY AFFECTS BUSINESS

Three of 10 companies cut back on business travel last year and even though some experienced negative effects, they don't plan to boost travel this year, according to a survey by CareerBuilder.com.

Of those companies that cut back, more than one-third (37 percent) say the decrease in travel negatively affected their business.

The poll dove deeper into the effects: 12 percent had less effective internal communication, 11 percent had fewer sales, 10 percent had less effective execution on internal business initiatives and 8 percent had decreased customer loyalty.

The national survey was conducted among more than 2,400 U.S. employers and more than 3,900 U.S. workers between Nov. 15 and Dec. 2, 2010.

For 2011, the majority of companies (77 percent) say their business travel will remain the same as last year, while 11 percent plan more trips and 13 percent expect a drop in business travel.

"Business travel is an important part of many companies' operations as it lets them stay connected with clients and employees across the globe," says Rosemary Haefner, vice president of human resources for CareerBuilder. "Some companies are revisiting their policies, though, to ensure they're maximizing the effectiveness of their business travel initiatives."



## TIPS FOR CREATING 'GREEN TEAMS' IN THE WORKPLACE

Sustainability is a growing trend especially within businesses across the United States. Many companies are creating specific "green" teams to create and implement sustainable practices.

"Sustainability is not a one-size-fits-all concept," says Dedee DeLongpre Johnston, director of sustainability at Wake Forest University. "Organizations tend to be more willing to embrace community-wide goals when they have had a hand in creating the plans to implement them."

Johnston provides five tips to help businesses launch a successful green team initiative:

- **Include higher-level executives.** Change doesn't always come from the top down, but it's important to have input from all departments and management levels.
- **Prioritize a list of changes.** Organize by the level of impact first. Then evaluate the likelihood of each change happening. The most impact may not be the best to tackle right away. Taking on smaller projects can lead to bigger changes down the road.
- **Identify employees who would make good leaders.** The most respected employees will be able to advocate the most change.
- **Empower employees with solid information.** Facts and figures are more influential than political opinions.
- **Be patient.** Change takes time.

Institute a 360-degree feedback and performance review. Constructive feedback from peers and junior team members can be just as valuable as that from superiors for the new generation of leaders.

## ONLINE PROFILES MAY REPLACE RESUMES

More than one-third of surveyed human resources managers say replacing resumes with an online profile is "at least somewhat likely," according to a recent survey by administrative staffing service OfficeTeam.

The survey was conducted by an independent research firm and is based on telephone interviews with more than 500 HR managers at companies with 20 or more employees.

"The resume continues to be an important job-hunting tool, but it's also useful for professionals to create online profiles that highlight their expertise and qualifications," says OfficeTeam executive director Robert Hosking. "As hiring managers turn increasingly to the Internet for information about prospective hires, job seekers should keep their online profiles current and behave professionally in the digital space."



## BUSINESSES BOOST USE OF TABLET COMPUTERS

Apple's iPad has been popping up in workplaces around the globe since its launch a year ago, and iPad2 recently hit the shelves.

Companies have embraced the popular mobile device, which allows employees to access their work anywhere at anytime through wireless or 3G networks. Nearly half of chief information officers say their companies will increase their use of tablet computers in the next two years, according to a recent survey developed by Robert Half Technology, a leading IT staff provider.

The survey was conducted by an independent research firm and is based on telephone interviews with more than 1,400 CIOs from companies with 100 or more employees across the United States.

"With more companies moving to Internet-based file sharing and data storage, along with an emphasis on portability and mobile productivity, it's no surprise CIOs anticipate wider use of tablet computers," says John Reed, executive director of Robert Half Technology. "The challenge for IT departments will be providing adequate support and security."

As tablet computers encourage a more mobile workplace, Reed says companies will need IT professionals who can assist with application development and security issues.

## ECONOMIC REBOUND REQUIRES STRONG LEADERSHIP



Cultivating a renewed sense of motivation among employees is a priority for businesses positioning themselves for growth as the economy recovers.

Sixty-five percent of finance and accounting professionals say their business is emphasizing leadership development this year, with 26 percent reporting an increased commitment to the initiative, according to a recent poll by Accounting Principals.

The survey, conducted during a recent webinar with the Institute of Management Accountants, polled more than 850 finance and accounting business leaders.

"Strong leaders are always in demand, but they're especially important to finance and accounting teams this year because impending regulatory changes from the Dodd-Frank Act could significantly impact their day-to-day operations," says Laurie Chamberlin, senior vice president at Accounting Principals. "A star leader can navigate teams through the uncharted financial reform territory while discovering new ways to drive value within the business."

She offers these tips for businesses looking to provide leadership development opportunities:

- Create a development plan. Make it available to all employees. Future leaders can more effectively make decisions that align with the direction of the company.
- Establish a mentoring program. Pairing senior-level professionals with junior staff not only allows the less-experienced employees to enjoy pearls of valuable wisdom but builds future talent.

## MOTIVATE WITHOUT RAISES

The most valuable commodity at any business is its staff. However, many executives are unsure how to approach motivating their employees, especially while the economy is recovering and resources are still slight.

"The bottom line is to follow one simple commandment: Know your people," says Tom Rogers, president of The Rogers Group, a coaching and consulting firm. "The better you understand them, the easier it will be to motivate them."

What motivates one employee may not work for another, he says. It is important to appeal to each person's motivating factors and recognize each person as an individual.

Rogers provides several potential motivators for employees:

- **Paid days off.** It is easier to operate shorthanded at some businesses than others. However, many companies are now offering employees extra vacation days rather than monetary incentives. Employees enjoy this reward because it gives them time to catch up on errands or simply relax.
- **Recognition.** This is one of the top motivators at any company. Most employees want to feel their work is valued and important. Recognition can come in the form of an award, a restaurant certificate, sporting event tickets and more. There is an opportunity to be creative here.
- **Company involvement.** Employees feel more invested when they are more involved. Host monthly meetings on the status of the company and highlight upcoming projects. Keep an open dialogue with employees to let them offer suggestions and ideas and tap employees for help when implementing them.



# Top 12 things to know about Doing Business in Mexico



## 1 What company type is the best for doing business in Mexico?

Most of the companies coming to Mexico choose an “S de RL de CV” or an “SA de CV.” Choosing which type of company formation does not depend on what is the best in Mexico, it depends on what is the best “out” of México. For example, most U.S. companies coming to Mexico decide to use a S de RL de CV because this figure lets them “check the box” in the United States. Companies coming from some other countries do not have this check-the-box opportunity and decide to work as an SA de CV. In Mexico, taxes are the same for either company type.

## 2 What is the corporate tax in Mexico?

Mexico applies two corporate taxes, the Impuesto Sobre la Renta (ISR or income tax), and the IETU (flat tax). The income tax rate is 30 percent for 2011 and 2012, 29 percent for 2013 and 28 percent for 2014. The flat tax rate is 17.5 percent.

Companies do not pay both income and flat taxes. They pay tax at the higher amount between the two. At first thought, you may think the 30 percent income tax rate would be higher. However, the base is different, so sometimes even though the 17.5 percent rate is higher, a higher base might mean the flat tax is a higher amount.

## 3 How are accounting record books done in Mexico?

For financial issues, of course, a company needs to follow Mexico’s Generally Accepted Accounting Principles (GAAP), which are similar to but not exactly like the International Financial Reporting Standards. In Mexico, the problem with doing the books is not the standard but the taxes because the flat tax (IETU) is calculated on a cash-flow basis and income tax (ISR) is calculated on an accrual basis. Then, if you include the value-added tax (IVA), payroll taxes, Social Security, etc., the company is more likely to make a poor tax entry in its records than an accounting standard mistake. The Mexican government requires companies to pay for tax-reporting errors even if it’s simply an entry mistake. So the knowledge of accounting has to be combined with the knowledge of taxes. The recommendation on this matter is to hire a Mexican accountant who can handle the taxes too. Your Leading Edge Alliance firm professional has access to these resources.

## 4 How often do taxes has to be paid?

Every month, companies have to file some tax returns, including:

- Income tax, except the first year, which is annually
- IETU
- IVA (value-added tax)
- DIOT, informative tax returns that include all transactions with IVA, one by one, all the suppliers, vendors, expenses, etc. This way Mexico authorities can determine who sells, who buys and who has to pay taxes.
- Companies that pay individuals as contractors or rent offices have to withhold ISR and IVA taxes and remit those monthly.

- Companies with employees must withhold income taxes and remit monthly.
- Employees’ Social Security has to be paid.
- State payroll taxes also are due. Employee benefits such as retirement and house funds must be paid every two months.

## 5 What about the annual tax return?

All companies have to file annual tax returns, and not just one form. The forms to be filed include: salaries and withholding informative tax return, the ISR tax return, the IVA tax return, the IETU tax return, other withholdings and the Social Security work risk return. Of course, these all are due just once a year.

## 6 What is the first thing to do if I want to start a company in Mexico?

Contact your Leading Edge professional or your attorney, who should work closely with your accountant. The accountant starts the process to obtain an RFC (a Mexican tax identification) as well as other processes needed for Social Security, employees, state taxes, etc. It is very important that the company has a power of attorney in Mexico (Mexico citizen or someone with Mexican migration documents in order) to conclude the process on time.

## 7 Are Mexico’s taxes similar to those of other developed countries such as the United States?

On substance, they can be, but in form they are not. As I stated, Mexico believes in “form over substance.” If there is a bad entry on the books, the company will be required to pay more taxes. That is why it is very important if you come to Mexico and want to do business that you hire a local accountant with tax knowledge, and let him or her do the “tax books.”



### Are labor costs high?

That depends on what you're comparing them to. A work week in Mexico is 48 hours. The salary can vary depending on the employee level, the knowledge, languages spoken, etc. A company must pay 30 percent of the base salary for Social Security, retirement fund, house fund and payroll taxes for an employee who earns \$12,000 (USD) gross annually. The company would pay 20 percent of the base salary for those benefits on behalf of an employee who earns \$30,000 (USD) gross annually. The percentage can vary, depending on the activity of the company, the city, etc., but a percentage should be used for budget purposes.

### Are exchange controls tight?

There are actually no restrictions on the repatriation of earnings, capital, royalties or interest. Repatriation payments can be made in any currency. Of course, once the company has paid all taxes in Mexico, and in accordance with all regulations, as transfer prices, thin capitalization, etc., companies can operate bank accounts in any country. The regulations only require that the company properly enters the financial information in

All companies have the obligation to "share" 10 percent of the profit with the employees. Employees don't have the obligation to "share" the losses.

its books and uses an official exchange, not a transition exchange rate.

All companies need to do their books in Mexican pesos. It doesn't matter where bank accounts or transactions happen, every entry has to be converted into pesos.

### How are deductible expenses handled in Mexico?

This is a very important issue to consider. Some expenses cannot be deducted for tax issues but are expenses for financial recordkeeping such as dining, leasing vehicles, benefits to employees, car

deductions. In some cases the moment of the deduction can be different. For example, an account payable to an individual contractor is an expense for financial records and deductible until the company pays it. Freight expenses are similarly regulated. So the financial books can vary from the tax books and of course, the company needs to combine a cash-flow basis with an accrual basis.

### How does Mexico treat losses?

Companies can carry forward losses no more than 10 years, but cannot carry back losses.

### What about profit sharing?

All companies have the obligation to "share" 10 percent of the profit with the employees. Employees don't have the obligation to "share" the losses. Most companies control their employee share obligations by hiring an outsourcing payroll/employee company, which helps to minimize or control this profit share. **LE**

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# Communicate successfully on that not-to-be-discussed topic in business

By Danielle Toth

**“N**ever discuss politics in business.” The popularly uttered caveat, though, is difficult to follow in the everyday business world.

In 2010, AT&T was one of the top contributors to political campaigns, donating more than \$3.5 million, according to the Center for Responsive Politics, a nonpartisan research group. Microsoft came in at more than \$2 million, while Home Depot donated almost \$1.5 million.

Even if you don't have the ability or desire to donate the big dollars, it's inevitable that politics will impact a business at one time or another, says Chris Sinclair, partner at Cornerstone Solutions, a public affairs, political consulting and strategic communications firm that advises corporate executives and business owners on politics.

“When we sit down with corporations or businesses, we always tell them, ‘If you're in business, you're in politics,’” he says. “We tell them to learn how to play the game so they don't get run over.”

Analyze your company's political goals and objectives, Sinclair says. A business that wants to see increased funding for transportation in its community should join the local chamber of commerce or a transportation-specific organization. The business could donate money to spur transportation lobbying or run a public information campaign.

“There's much more activism in government now, and, inevitably, corporations and businesses are going to get caught up in it,” Sinclair says. “As long as they remain strategic and have a keen understanding of the process, they're going to be in good shape. And they don't have to do it alone. They should seek assistance, whether it's through an association or a chamber. There's strength in numbers.”

Barry Maher, a leadership, sales and motivational speaker and consultant, agrees that businesses can raise political issues—as long as they directly affect the business.

Beyond that, he says, sharing personal political views is, in most cases, counterproductive.

“I was hired to give the opening keynote at a conference for a company's most important clients,” Maher says. “A corporate vice president got up to introduce me, but before going into the introduction, he slipped into a political diatribe. While a number of the people in the room agreed with him, a good number didn't, and many of these top customers became uncomfortable. That VP cost the company at least two clients and several million dollars worth of business, at a minimum, that day.”

Dave Hatter, founder and owner of Libertas Technologies, a professional services and consulting firm, has successfully mixed business and politics for years. He is serving his seventh term on the Fort Wright, Ky., City Council. He is also a member of the Kenton County Republican Party Executive Committee and serves on the board of the Northern Kentucky Chamber of Commerce.

Living in Fort Wright, a small community of about 6,000 residents near the Ohio border, has made his involvement in both politics and business easier, he says, because the area shares mostly conservative beliefs. He has, however, experienced some criticism.

“I THINK IT'S IMPORTANT TO BRING BUSINESS UNDERSTANDING INTO POLITICS.” — DAVE HATTER

“I've lost Facebook friends and LinkedIn connections as a result of commentary I've made,” Hatter says. “But I go into it knowing what I'm doing. I don't have any false assumptions that the things I'm saying are private, and I accept the consequences when they come along.”

He advocates for businesspeople to get involved in politics at any level.

“Many people who hold political office have never run a business and have no idea what it's like to live under the policies they create,” he says. “I think it's important to bring business understanding into politics.”

Mark Zaifman authors a blog on the website of the company he founded, Spiritus Financial Planning. While not all posts are political, the self-defined progressive makes no bones about what side of the political spectrum he's on.

“The marketing and PR pros we've hired in the past say this will alienate potential clients, and they're right,” Zaifman says. “Yet eight years after starting the practice, I have attracted exactly the kind of people I want to work with.”

Zaifman says his financial planning business lends itself to clients who are looking for advisors with similar values.

“If a prospective client is going to open up to me and share their deepest desires and fears around money, it's essential they know who I am and where I'm coming from,” he explains. “Expressing my political views is not only refreshing for clients to hear, it also opens the door to a trusting and long-lasting relationship.” **LE**





# Leading EDGE

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