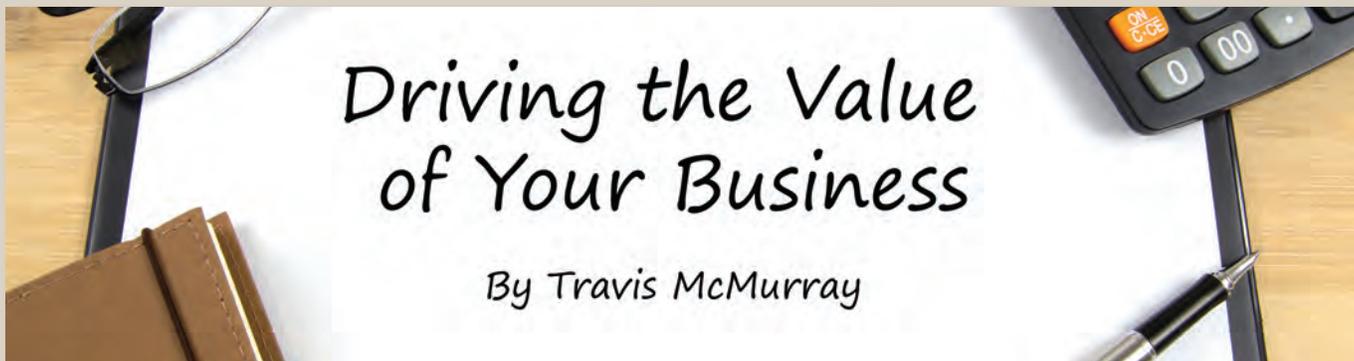


# Client Tell

Blackburn, Childers, and Steagall, PLC  
Certified Public Accountants and Consultants

Volume XX No. 2 Summer 2014

Blackburn, Childers & Steagall, PLC Quarterly Newsletter



## Driving the Value of Your Business

By Travis McMurray

As a business grows in size, it logically follows that it also grows in value – the larger it is, the more it is worth. Well, not necessarily. A company may increase in total revenues, but this does not mean that it increases the economic benefit to the owners. So, what does drive value or how much a company is worth?

There are two primary factors that determine how much a business is worth: the economic benefit stream (net income or cash flow) and the risk associated with the investment. Obviously the higher the annual net income or the greater the cash flow generated, the higher the value of the business. At a basic level an investor would be willing to pay 10X more for a company that produced \$1,000,000 in annual cash flow versus a company that produced \$100,000 in annual cash flow.



*Continued on page 5*



## Healthcare Reform Update By Chuck Randolph

Whether we agree or disagree, love it or hate it, the Affordable Care Act (ACA) is currently the law of the land. Because almost everyone will be affected in some manner, it will behoove us to know what we can anticipate.

Effective January 1, 2014 all United States (U.S.) citizens working legally in the U.S. and have an income must buy health insurance. Presently, those exempt from the requirement include people who are neither a U.S. Citizen, a U.S. National, nor an alien lawfully present in the U.S., prison inmates, members of federally recognized Indian tribes, those who have household income which is below the threshold for filing an income tax return, religious objections or members of a health care sharing ministry.

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# Had a Check-Up Lately? Hire a Professional

By Tommy Greer

Are you treating your business or your personal finances in the same manner you treat your own body? Many times we live in pain or wait too long to have a regular check-up, and most of the time it is to our long term detriment.

Well, the exact same is true for most small businesses. Most owners spend so much time in the business that they fail to spend the proper time managing the business for maximum results and efficiencies.

Just as you would go to your doctor, dentist or perhaps even a personal trainer for the best results, the best results are achieved through letting your accountant help you with a small business check-up. This will provide you with an outside, independent and honest assessment of your business and then a plan for future success. Someone who is removed from the business can provide a different perspective by taking a step back, looking at the bigger picture and gaining a fresh, new perspective.

Here's an overview list that should be considered as a part of this process:

- Why did you start your business?/Are you still on target with your vision, mission and strategy?
- How many hours are you working every week? Finding the proper work/life balance is many times the #1 challenge for small business owners.
- Is anything being shared, delegated or outsourced, or are you running the whole show?
- How have actual results from prior years compared to your budget? Do you even have a budget?
- How have results compared to industry standards?
- What is your plan to grow revenues?
- Where are dollars being wasted?
- Do you have a plan to manage cash flow or is cash always

a problem?

- How good are you at collecting receivables?
- Have you done an analysis for growth and profitability opportunities?
- Are your employees fairly paid, well trained and happy?
- Is your work environment/culture attractive to prospective customers and employees?
- Are you ahead, current or behind in regard to technology and your business?
- Who is your go to person for support, brainstorming and counsel?
- Is there someone to hold you accountable?
- What is the marketing plan?/Is there a plan?
- When was the last time you updated your goals?
- What's your plan for future success?
- Do you have a succession plan?

If your answers were not positive for over half of these, you may even want

to schedule a full day planning retreat to focus just on your business.

Don't underestimate how valuable it is to receive guidance from someone who has insight and knowledge across other businesses and industries and best practices that are working for other businesses. If we can help you with your exam, please let us know. We would love to help you be even more successful.

**Your accountant can provide your business with an outside, independent and honest assessment and a plan for future success.**

# Personal Lines



**Amanda Clay** BCS welcomes Amanda to the audit team in Johnson City. Amanda has a Bachelor degree in Business Administration from UT and will complete her Master's degree in Accounting in December. Amanda and her husband Bradley are active with Grace Fellowship and St. Mary's.



**Tyler Williams** Congratulations to Tyler, who passed the Certified Public Accountant Exam in March. Tyler is a member of the audit staff in the Johnson City office.



**Lorrie Hale Olinger** Lorrie Hale married Josh Olinger on April 26th at Boones Creek Christian Church. Lorrie and Josh are now living in Kingsport. Lorrie is the Small Business Coordinator in the Johnson City office.



**Rachel Squibb** Congratulations to Rachel and Wesley, who welcomed their baby girl, Caroline Elizabeth Squibb on March 25th. Caroline weighed 7lbs., 2 oz. and was 20 inches long. Rachel is a manager in the Audit Department in the Johnson City office.



**Ryan Owens** Congratulations to Ryan and Elyse, who welcomed their baby girl, Riley Marie Owens on February 5th. Riley weighed 6 lbs., 8 oz. and was 19 inches long. Ryan is part of the IT team in the Johnson City office.



**Lindsey Rollins** Congratulations to Lindsey, who graduated in May from East Tennessee State University with a Bachelor degree in Business Management. Lindsey is the administrative assistant in the Greeneville office.

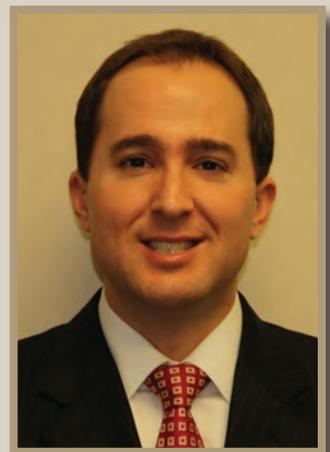
## BCS Wealth Management Introducing Service to the *Kingsport* Area

While BCS Wealth Management has always had a presence in the Tri-Cities out of our office in Johnson City, we now have a permanent team in the office of our partner company, Blackburn, Childers & Steagall PLC, at 1361 South Wilcox Drive in Kingsport.

All of our wealth management and insurance services are available at both locations. Nathan Goodwin, JD, Financial Advisor is

available for a complimentary consultation to new clients. Please call 423-283-9821 to schedule an appointment with him. You can read more about Nathan and the rest of our team at our website, BCSWealth.com

We regard your referrals as the highest compliment, and if you know someone in the Kingsport area in need of wealth management services, Nathan would be happy to meet with them.



**Lauren Olander** Lauren is a new intern with BCS Wealth Management in the Johnson City office. She graduated *magna cum laude* with a Bachelors and a Masters in Finance and Consumer Economics with a focus in Family Financial Planning from the University of Georgia. She is a Certified Retirement Counselor and has co-written three estate planning publications.

## Retirement Plan Benchmarking

If you offer a retirement plan to your employees, our recommendation is to review your plan annually and have your advisor benchmark your plan. You will be able to review some important items that you are charged with overseeing, including:

**Employee Behavior** – Are your employees saving an appropriate amount?

**Operations of the Plan** – Do you have the correct and most effective plan design?

**Investments** – Are the investment options applicable to the current invest-

ment landscape? Do your employees have appropriate options to choose from?

**Costs** – What are the total costs of the plan, to the business and the employees?

Another benefit is seeing where your plan falls into line compared to other businesses of similar industry, geography, size and scope.

If you are interested in this service, we are happy to help. We can do a complimentary Plan Benchmark Study for you with only a small amount of time and information from you. Just give us a call!

## *Driving the Value of Your Business*

*Continued from cover*

However, equally important is the level of risk associated with the investment. As risk increases, value decreases. This is why two companies in the same industry with the same annual cash flow won't be worth the same amount of money. Risk and return drive the value of a company. In order to increase the value of a company, management must continually assess risk and strive to eliminate or minimize it. Generally, risk factors fall in to the following broad categories when determining the value of a company:

### **Management/Key Personnel**

One critical risk factor is the depth of management. If business success depends on the knowledge and ability of one person, then the overall business risk is greater. In order to reduce the risk of reliance on one or even two key people, a company would ideally have a strong management team in place which would continue to function beyond a transfer of ownership. These key individuals should have employee contracts with non-compete covenants in place.

### **Stability of Industry**

Another key element related to risk is the overall industry in which it operates. There is a normal product/industry life-cycle which occurs overtime. While some products plateau at a level of market maturity, others move quickly to the market decline phase. Companies must adapt to changes in the marketplace (technology/customer demands) in order to remain relevant. For example, the home entertainment movie industry is as strong as ever, but Blockbuster video was very late to adapt to market trends and went from a company worth \$4.8 billion at its initial public offering to being worth only \$24 million just ten years later – a decrease of 99.5% in value.

### **Diversification**

Diversification includes not only products and service offerings, but also diversification of customer base and suppliers. This covers diversification in products, customers and suppliers. A company that generates \$5 million in revenue from 100 different customers is much less risky than a company that generates \$5 million in revenues from 2 customers. The more diversified, the less risk and therefore the higher the company value. Just as important as products and customers, supplier diversification can also greatly impact the value of a company. Even if a company has thousands of customers and dozens of products; if it all comes from one supplier, then there is substantial inherent risk. Some of these risks can be dealt with contractually; however, if your sole supplier is wiped out by a natural disaster, your company may suddenly be out of business.

### **Financial Structure**

The key issues surrounding financial structure are liquidity, leverage, and stability. Liquidity relates to a company's ability to access working capital. This dictates a company's ability to pay the current obligations. The concept of leverage deals with a company's debt and equity positions. If a company carries a significant debt load, the associated risk related to loan covenants could dramatically affect the value of the company. Finally, the more stable the earnings stream has been, the less risk is associated with the investment. High volatility in revenues and cash flow will negatively impact a company's value.

While these broad categories identify some potential major risk factors related to a business, they are by no means all-inclusive. Each business is unique and should be analyzed carefully to identify factors that affect value negatively. By reducing or eliminating the real and perceived risks associated with a business, the price a potential buyer is willing to pay can increase significantly. If risk is reduced while simultaneously increasing the economic benefit stream, then the value of the company will increase dramatically.

## Client Feature

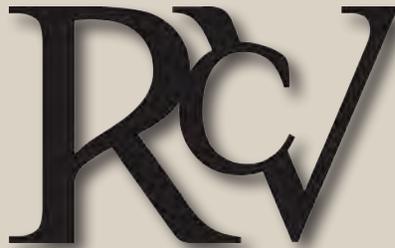
# Reedy Creek Vineyards & Cellars

Reedy Creek Vineyards is one of the largest vineyards in the Mid-Atlantic region, and the largest in the state of Tennessee. They grow and supply grapes for large wineries in Tennessee, North Carolina and Virginia, and started making their own wine in 2012. Mike Reedy, the owner and operator of Reedy Creek Vineyards & Cellars says “This region has almost perfect viticultural conditions, and we’re seeing a rise in demand for locally produced wines, especially as the farm-to-table movement gains more popularity.”

Reedy Creek has already garnered awards for their label. “Frost” won a gold medal for white wines at the Sonoma Grand Harvest Awards, the first wine made completely in Tennessee to win that award. Their Shiraz won best red wine in the Wines of the South competition out of 1,400 others. You can find Reedy Creek Wines served in restaurants throughout Tennessee and Virginia.

This summer, Reedy Creek will have a grand opening for their tasting room at MeadowView Resort in Kingsport, the only Marriott property in the world with a winery on the grounds. “It’s exciting to be a part of not just a growing business, but the start of a growing industry in the region,” said Mike.

The wine industry brings in billions of dollars in tourism money for Virginia and North Carolina, and Mike believes the Tennessee wine industry is poised for tremendous growth. “We want to see this grow into a destination for tourists, but also show people in the region that this is a fun place to eat out, enjoy a glass of wine on their large new patio, and listen to live music.”



“The City of Kingsport, Marriott, Eastman, and the Kingsport, Bristol and Johnson City Chambers have all been so supportive in partnering with me and helping me make contacts,” said Mike. “We’re all excited for our vision for the

future of Reedy Creek Vineyards and wine-based tourism in Tennessee.”

To learn more about Reedy Creek Vineyards & Cellars, please visit [ReedyCreekWines.com](http://ReedyCreekWines.com) or drop by the winery for a tour.



## *Healthcare Reform Update*

*Continued from cover*

Those who do not obtain medical insurance coverage will be subject to a penalty. For 2014, the penalty will be the greater of \$95 per person (\$47.50 per child under 18 years of age) or 1% of taxable income. In 2015, the penalty will increase to the greater of \$325 per person or 2% of taxable income and for 2016; the penalty will be the greater of \$695 or 2.5% of taxable income. After 2016, the penalty will be recalculated based on a cost of living adjustment.

Health insurance can be purchased through federal or state run marketplaces or through private insurance companies. A marketplace can be a website, call center or a physical location established to help those selecting coverage. Marketplaces primarily serve individuals buying coverage on their own and small businesses. It is not mandatory to purchase insurance coverage through a marketplace.

Seeking coverage through a marketplace provides information to determine if financial assistance in the form of government subsidies is available to the individual. Many are finding that there are fewer plan options and limited networks through marketplaces.

The next open enrollment period is proposed to be November 15, 2014 – January 15, 2015. Coverage cannot be purchased between these open enrollment periods to prevent an individual from waiting until they need medical services. There is a special enrollment period available to individuals who experience a qualifying event. Examples of a qualifying event are loss of essential coverage, new dependent such as a birth or adoption, marriage, death, divorce or change in job status that affects coverage. Generally, the health insurance coverage must be acquired within 31 days following the qualifying event.

Small employers can seek coverage for their employees through Small Health Options Program (SHOP) on the marketplace. Effective January 1, 2014, the Small Business Health Care Tax Credit is only available to employers who utilize SHOP from the marketplace and have fewer than 25 full-time equivalent employees. Small employers must also cover at least 50% of the

cost of individual (not family) health care coverage for each of their employees. Those employees must have average wages of less than \$50,000 (as adjusted for inflation) per year.

Originally, under ACA, businesses with more than 50 full-time equivalent employees were required to offer health insurance or be subject to penalty. That mandate has been delayed until 2015.

For 2015 and after, any business that employs 50 or more full-time equivalent employees will be subject to the Employer Shared Responsibility (ESR) provisions. A full-time employee is an individual employed on average at least 30 hours of service per week. Under the ESR provisions, if the employer does not offer affordable health coverage (please refer to the websites below for more information about the meaning of “affordable health coverage”) or offers coverage to fewer than 95% of its full-time employees, and does not provide minimum value, the employer may be subject to a payment if at least one of its full-time employees receives a premium tax credit for purchasing individual coverage on a marketplace. The Employer Shared Responsibility provision is not effective until January 2015; therefore, no payments will be assessed for 2014. Information about the number of employees a business employs and their hours of service during 2014 determines whether a business employed enough individuals to be classified as a large employer.

An employer that does not offer coverage or offers coverage to fewer than 95% of its full-time employees and their dependents owes a payment equal to the number of full-time employees (for calculation purposes, a full-time employee does not include a full-time equivalent) employed for the year (minus up to 30) multiplied by \$2,000, if just one employee receives the premium tax credit.

Affordable Care Act has no effect on personal life insurance or long term care insurance. It only affects major medical insurance coverage. It also does not offer Medicare supplements.

For more detailed explanations and FAQs regarding the Affordable Care Act and Employer Shared Responsibility, IRS.gov and Healthcare.gov are great resources for these answers, or call us.

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## BCS Blast from the Past!

