

## Common misconceptions about ESOP Fiduciary responsibility.

Adapted from Owners At Work

One of the most misunderstood ESOP concepts is that of fiduciary responsibility. Fiduciaries - and all employee-owners and ESOP participants - should have no misconceptions about what it means to have fiduciary responsibility. They should have confidence that they are complying with the requirements accompanying their position.

**Misconception ... Management selects/hires the ESOP trustee.**

*Generally, no. Management may assist in the process - for example by soliciting and reviewing proposals and making recommendations to the Board. But the responsibility usually falls on the Board of Directors unless the plan document provides otherwise.*

**Misconception ... Management hires the ESOP stock appraiser.**

*No. The ESOP stock appraiser works for the ESOP and therefore should be hired by the ESOP trustee.*

**Misconception ... The appraiser sets the price for ESOP shares of company stock.**

*No. The appraiser's role is as a financial advisor. It is usually NOT a fiduciary role. The ESOP trustee has the responsibility to determine the price of shares of company stock. The valuation report is merely a recommendation. The Trustee can either accept or reject that value.*

**Misconception ... Only MBAs and/or CPAs are qualified to be trustees, and, certainly, non-management employees do not qualify to be ESOP trustees.**

*A committee of people can be the trustee. While someone on the trustee committee must be able to read and understand financial statements, there is no requirement that everyone serving as an ESOP trustee be financial experts. However, it is advantageous for anyone serving as a trustee to receive training on the responsibilities of being a trustee.*

*"The only place you'll find success before work is in the dictionary."*

*- May B. Smith*

## Changes for consolidated financial statements.

by Greg Carlson, Vice President

In yet another issue created by the Enron debacle, accounting rules have changed regarding the consolidation of financial statements. Previously, stock ownership and voting rights were the determining factor for presenting combined statements for multiple entities. Now a complicated set of rules covering many factors apply. For privately held firms, the new rules are effective 12/31/05 year end.

Entities that were previously considered as "brother/sister" relationships may now have to be consolidated. A common situation in many ESOP companies is the establishment of a real estate company which leases facilities to the operating company. This, too, could be a candidate for consolidation.

**If your CPA firm makes any consolidation changes to your financial statements, please make sure we are aware of the facts and circumstances.** This could create valuation issues for us since your financial statements may no longer represent the entity in which the ESOP has ownership interest.

Should you have any questions, please contact us at (262) 646-6490.



**Check out ESI's updated website!**

We recently spent some time doing an overhaul of our website. If you have a chance, log on and take a look. We hope that you'll find the site useful and informative.

[www.esi-enterprise.com](http://www.esi-enterprise.com)

# Ways to educate for ESOP success.

Adapted from The ESOP Report

Quite often, ESOP success is hindered when people lack a basic understanding of their company's ESOP and feel they are unable to make a difference.



Below are several approaches which can be taken to educate employees and thus pave the way for a successful ESOP culture.

**1** Share financial information regularly, on a monthly and quarterly basis, utilizing visual aids. Be sure to hand out copies of the company's financial statements prepared in layman's terms.

**2** Organize frequent meetings and classes. Perhaps provide a social gathering with food such as a luncheon. Try playing games to break the ice. Plan to include families in as many events as possible. And be prepared to follow up employees' questions with answers.

**3** Publish a quarterly ESOP newsletter. Include an ESOP dictionary, pictures, fun facts, giveaway contests, and the names of employees who are newly eligible for and invested in the ESOP.

Educating employee owners about their ESOP helps foster communication and builds a true ESOP culture.

## Create a theme for your next meeting

→ **Maybe** Shakespeare can announce the share price: "Friends, Romans, countrymen, lend me your ears!"

→ **Use** scrolls on parchment for invitations or announcements.

→ **Use** period dress and quotes/language to create a fun environment.

→ **Remember** be creative: "All the world's a stage."

## Q&A



Greg Carlson  
Vice President

*This question and answer section is intended to provide answers to some of your most frequently asked questions.*

*Watch for it in each issue and let us know if you have anything you'd like to contribute.*

**Q:** Why does ESI request industry data from us when preparing our annual valuation?

**A:** For us to properly value your company, we need to have an understanding of the general economic conditions which you are operating under. You have a better feel for the trends and specific issues in your business arena than we do. You also have access to information from trade associations and other industry groups that we do not. Please forward any information which you deem helpful when it's time for us to do your valuation.

## Our newest team member.



As part of ESI's continued effort to provide timely, quality service for our clients, we have added a new associate to our team. Toni Kildow joined ESI in October, 2005 and has been working on annual valuation updates for many of our clients. In the future, she will also be working on original report assignments.

Toni comes to us with significant experience in operational and financial analysis. Her background is from industry and her family owns its own manufacturing business; these aspects certainly help her understand our clients - closely held companies.

Toni holds an undergraduate degree from Loyola University and she received her MBA from DePaul University. We are very pleased to have her on our team and know that you will enjoy working with her.