



Business

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Acquiring & Consolidating Death-Care Firms?

Don't Overlook the Importance of Trust Reconciliation

The acquisition and consolidation of death-care firms is becoming increasingly prevalent in the industry. Parties ranging from experienced death-care consolidators to outside investment firms are keen on purchasing several funeral homes or cemeteries at once and operating them under one entity or multiple entities.

Whether you are buying or selling in this scenario, one critical error that is often made is failing to examine the selling firm's trust

records to determine whether the funds within trust are properly reconciled. For both the buyer and seller, opportunities and threats to their respective financial futures are regularly overlooked.

Based on our experience reconciling trust records for the acquisition and consolidation of death-care firms, we will explain the important lessons and actions professionals should remember when they are exploring and negotiating these types of deals.

The Buyer

Lesson No. 1: Reconcile the Trust as Early as Possible.

The cliché, “people have a different way of doing things,” is very applicable to the death-care industry. If you plan to consolidate firms with different owners and operators, which is a virtual certainty, you can bet that most of the firms will have various accounting systems and methods. “Consolidating” those various systems and methods in the fashion in which you wish to operate

them is critical, or you will likely face organizational chaos.

Perhaps even more importantly, the seller will often issue a representation that its trusts are kept in accordance with its respective state laws. Are you willing to trust him or her and risk just one small detail being incorrect?

At Funeral Services Inc. it's a practice we like to call, "trust, but verify." The sooner you audit and ensure the trusts are properly reconciled, the more opportunity you have to identify issues and potentially renegotiate with the seller. That's because the value of a death-care business can often be lessened if its trusts are not fully funded or out of regulatory compliance, and you will be left to spend money and time getting them in order.

In the case in which you are unable to collect more money from the seller but are still left with reconciliation issues within the trust, you should notify the appropriate state regulator immediately. That way, when it is time for your next trust examination, you are not held responsible and penalized for discrepancies and any underfunding.

Lesson No. 2: Consistency Is Not Always the Solution.

During a significant acquisition and consolidation, consistency across all assets can often be a sign of a successful purchase. However, consistency can be detrimental when applying it to the recordkeeping of your trusts.

Death-care laws, rules and regulations vary widely state-by-state, so if part of your purchase included firms in different states, you should avoid assuming that consistency in your trust accounting and opera-

tions is an effective strategy.

Having an in-depth understanding of each state's laws is paramount, as requirements for how you manage or reconcile trust records in one state could differ from another.

For example, some states' laws obligate trustees to oversee the recordkeeping of trust assets. In others, trustees have no legal obligation to do so, and therefore, the responsibility falls entirely on the owner or operator.

This scenario can happen fairly regularly if you are in the business of acquiring and consolidating firms across the country. Depending on the seller's accounting methods, the accuracy of its recordkeeping and the state's death-care laws, you could set yourself up for an unexpected regulatory nightmare.

Lesson No. 3: Accuracy Is Everything.

It should be obvious that the most important aspect of recordkeeping is that the records are accurate. However, whether it be because of poor accounting, lack of understanding of state laws or oversight of the seller's errors with reconciliation, accuracy continues to be a major issue for death-care trust records.

For example, many states have a different requirement for trusting. If the seller was trusting at 89.6% but the state required trusting at 90%, that small of an error can result in a significant trust shortfall. Without proactive reconciliation, you likely won't uncover the issue until you are penalized by that state's regulator during your next trust examination.

The Seller

For the seller, there is really only one lesson to learn: if you properly reconcile your trust records in advance of negotiations, you can make yourself more money!

As explained earlier, trusts records that are in order can often increase the value of your firm, as the buyer will not have to manage – and pay for – the reconciliation process after the sale. Instead, that money can be in your pocket.

In addition, when reconciling the trust records, firms will often identify earnings and contract fulfillments in the trust they would not have otherwise uncovered, which enable them to withdraw more money from trust before transitioning it to the buyer.

Instead of rushing to sell, take a step back and do your due diligence on your trust. You will have more money to gain and less reason to worry.

You Aren't on Your Own

Trust reconciliation can be especially complicated in the death-care industry due to its wide range of laws, rules and regulations that vary by state. But, if done correctly, a properly reconciled trust will save time, money and regulatory issues for both the buyer and seller.

If you are considering buying or selling soon, now is the perfect time to get smart on auditing trust records, as April is National Records & Information Management Month. Whether you are a seasoned death-care professional or new to the industry, there are experts in the profession who specialize in trust reconciliation and can help ensure your next deal is a success. •