

IN THE CIRCUIT COURT, FOURTH
JUDICIAL CIRCUIT, IN AND FOR
NASSAU COUNTY, FLORIDA.

IN RE: THE FORMER MARRIAGE OF:
JOHN DOE,
Former Husband,

CASE NO.: XXXXXXXX
DIVISION: X

and

JANE DOE,
Former Wife.

ORDER ON PENDING MOTIONS

THIS CAUSE having come before the Court on September 24, 2020, upon the former Wife's *Motion to Compel Documents Pursuant to Request for Production* and *Motion for Contempt and Enforcement and Motion for Order to Show Cause*, and the former Wife having appeared with counsel (via Zoom application) and the former Husband having appeared and proceeding pro se (via Zoom application), and the Court having reviewed the pleadings, having heard testimony and argument of counsel, and the Court being otherwise fully advised in the premises, finds as follows:

- a. This Court has jurisdiction over the parties and subject matter hereof;
- b. Under penalty of perjury, the former Husband denied earning any additional income (other than his salary from his W2 employer) for 2019 and 2020. The former Husband further claimed that he has not earned any money from any side work in the last five (5) years.
- c. Financial records previously provided during mandatory disclosure, indicate that the former Husband's monthly spending exceeds his, and his current Wife's, monthly income by at least \$2,000.00 per month, and upwards of 3,000.00 per month. This is significant considering that there is no evidence that the former Husband is accruing debt during the same time that coincides with the mandatory discovery documents produced.

d. The husband is self-employed. The husband exercises sole discretion in his collection of income and payment of expenses. As stated in *Ugarte v. Ugarte*, 608 So. 2d 838 (Fla. 3d DCA 1992):

Florida case law has long recognized that self-employed spouses, in contrast to salaried employees, have the ability to control and regulate their income. Their testimony, tax returns, and business records accordingly may not reflect their true earnings, earning capability, and net worth.

The Court reminds the parties that self-employment income should be produced specifically. If a party is shown to be self-employed, even in part, the Court has considerable discretion to impute income to the party if they do not produce documents in their possession, custody and control. Indeed, “Florida case law has long recognized that self-employed spouses, in contrast to salaried employees, have the ability to control and regulate their income. Their testimony, tax returns, and business records accordingly may not reflect their true earnings, earning capability, and net worth.” *Ugarte v. Ugarte*, 608 So.2d 838, 840 (Fla. 3d DCA 1992). Thus, when the circumstances suggest that a self-employed spouse has not accurately reported his or her income, the court may properly assign a higher income value than that claimed by the spouse. See *Child v. Child*, 34 So.3d 159, 161 (Fla. 3d DCA 2010). This is especially true when the spouse fails to comply with discovery orders and does not disclose all pertinent financial information. See *Nadrich v. Nadrich*, 936 So.2d 15, 18 (Fla. 4th DCA 2006) (“Under the circumstances and in light of the husband's failure to comply with many discovery orders to disclose his financial information, the court had no choice but to impute some amount of income to the husband beyond what his pay stubs showed.”).” *Newman v. Newman*, 221 So. 3d 642 (Fla. 4th DCA 2017). The Court has notified the former Husband that if he continues to resist the production of documents, such refusal may establish an adverse inference that the former Husband has earned, or has demonstrated the ability to earn an

additional \$3,000.00 per month above his normal salary from his employer. Stated differently, should the former Husband fail to produce the documents requested in the former Wife's *Request to Produce*, the Court is warranted in adopting the adverse inference, referenced hereinabove, as a financial factor when calculating child support in this action.

f. The Court finds that the former Husband has failed to produce documents pursuant to the former Wife's *Request for Production*, which includes a "Schedule A" list of documents requested.

g. The former Husband testified that, in 2014, he sold a 2008 pickup truck, netting \$11,000.00. The former Husband also testified that in 2018, he sold a 2008 vehicle, for \$14,000.00. The former Husband testified that he used \$5,000.00 to purchase another vehicle, and thus netted \$9,000.00 from the sale of the 2008 vehicle. The former Husband's total net proceeds for both vehicles was \$20,000.00. The former Husband testified that he still has \$2,900.00 of the net proceeds, located within his safe at home.

h. The former Husband was previously ordered to pay attorney's fees to Jane Doe's attorney, in the amount of \$1,537.50 that were due on or before April 26, 2020. The former Husband has failed to pay the attorney's fees as ordered by this Court.

i. The former Wife has incurred reasonable attorney's fees related to her *Motion to Compel Documents Pursuant to Request for Production* and also for her *Motion for Contempt and Enforcement and Motion for Order to Show Cause*, in the total amount of \$1,725.00. There is sufficient cause to support an award of attorney's fees to the former Wife and the former Husband has the ability to pay same.

THEREFORE, IT IS, ORDERED AND ADJUDGED:

1. The former Wife's *Motion to Compel Documents Pursuant to Request for Production* and *Motion for Contempt and Enforcement and Motion for Order to Show Cause* is hereby **GRANTED**.

2. The former Husband shall comply with the former Wife's *Request to Produce*, by producing the documents requested under the Schedule "A" contained therein, within thirty (30) days from the date of this hearing, but no later than October 24, 2020. The burden of production of said documents is on the former Husband. The discovery produced shall be organized and in an effort to diffuse any disputes about the production/non-production of a document, the former Husband should send such documentation by electronic transmission and may even consider bates stamping the documents.

3. The former Husband shall pay the past due attorney's fees, in the amount of \$1,537.50, within fourteen (14) days from the date of this hearing, but no later than October 15, 2020.

4. The former Husband shall pay an additional award of attorney's fees for the bringing of these two actions on behalf of the former Wife. The former Husband shall pay the sum of \$750.00 (out of the total fees of \$1,725.00) within ninety (90) days from the date of this hearing, but no later than December 23, 2020. The Court reserves jurisdiction as to the remaining \$1,000.00, depending upon the former Husband's compliance with his discovery obligations going forward.

DONE AND ORDERED in chambers, at the Robert M. Foster Justice Center, 76347 Veterans Way, Yulee, Nassau County, Florida 32097, on this 20th day of October, 2020.

STEVEN M. FAHLGREN
Circuit Court Judge

Copies to:
Attorney for former Wife
Via e-portal

Former Husband, pro se



A Quick Start Guide to Reading Tax Returns

BY MILES MASON SR.

Mark Twain once said, “Eat a live frog first thing in the morning and nothing worse will happen to you the rest of the day.” Reading tax returns is like eating a live frog. Don’t stare at it. Just take a bite.

Why should a family lawyer love reading tax returns? Because doing so wins divorce cases. (Promise. Cross-examination is the best!) Divorcing spouses expect us to know a fair amount about tax returns.

In homage to Mark Twain’s “Tom Sawyer,” reading tax returns is great fun even for the math averse. Like Sawyer whitewashing the fence, this author asked a few friends for help.

Learn to spot the most obvious ways of hiding assets. Fit the puzzle together by reviewing Form 1040s line-by-line. Spend the time to extract clues to hidden income in every tax form, schedule, and report. The return on this investment can be huge. Not all income is taxable, but all income is needed for child support determinations as well as for spousal support purposes.

Review Multiple Years of Tax Returns

Karolina Calhoun, CPA, ABV, CFF, vice president of Mercer Capital, Memphis, Tennessee, explains: “Reviewing multiple years of tax returns and accompanying supplemental schedules may provide helpful information on trends and/or changes and could indicate the need for potential forensic investigations.”

Use the tax returns to gain insight into the couple’s married lifestyle. Taxpayer patterns may have a self-serving function, but deviations from those patterns can be equally useful to the family lawyer. Changes over time tell a more detailed story than any single year snapshot. Is there a change of pattern with income and deductions in the period leading up to the divorce? Did a spouse’s income decrease while expenses increased? A spouse’s divorce preparation could begin years before a petition is filed, possibly long before the other spouse becomes aware of an imminent breakup.

IRS Form 1040. Start with the filed Form 1040 income tax returns. Note the tax status (single, married filing jointly, married filing separately, head of household, qualified widower with dependent children).

Calhoun adds:

Form 1040 provides a general understanding of a taxpayer’s financial status and can be a guide to finding additional information about one’s finances. It can serve as a starting point to get a picture of an individual’s (or couple’s) income(s), assets and liabilities, and lifestyle. Form 1040 is supplemented with additional schedules and documentation which lend detail and insight into one’s lifestyle and financial matters.

Along with 1040s are additional forms, schedules, worksheets, records, and notes. Look for hidden income-generating assets, undisclosed transactions, unreported and underreported income, deflated asset valuation, and all sorts of shenanigans, especially in anticipation of divorce.

Conflicts Between Loan Applications and Tax Returns

People sometimes make honest mistakes on their taxes and with recordkeeping. Other times, people embellish and manipulate to hide income. Some taxpayers utilize every possible way to transfer income back and forth between their individual 1040s and their business returns. Some manipulations are lawful, others are illegal.

Here’s the best-case scenario. The opposing party’s 1040 notably conflicts with the personal financial statement she provided to a bank or mortgage company as part of a loan application. The motives are opposing. The taxpayer’s motive is to pay no more tax than legally required, which means recording as little income as possible and deducting as much as possible. On a financial statement’s income and net worth disclosures, the debtor’s motive is to list every last dime of income to show as high net worth as possible and obtain the desired loan or mortgage at the best interest rate.

There is always a reason for why those differ. With conflicting disclosures hanging over the spouse’s head, this is a great place to start. Lying on a tax return invites criminal penalty. Loan applications are submitted under oath subject to criminal penalty of perjury. Finding the discrepancy has a special effect of getting cases settled favorably. A loan

applicant's overstatement of income or net worth can be potentially devastating in the courtroom.

PRO TIP: *For real property ownership and debt documentation, locate the creditor or bank (find recorded trust deeds) and issue subpoenas demanding copies of the spouse's personal financial statements submitted with loan applications.*

Examine All 1040 Schedules

Form 1040 tax schedules are a gold mine of information. Cross-reference the descriptions and amounts on each schedule with what was reported on the 1040. Hunt for clues to tax-free investments that will not show on a Form 1040, such as Tax-Exempt Exchange-Traded Funds (ETFs), municipal bonds, and Health Savings Accounts (HSAs). Spot anomalies for further investigation.

Look at Schedule A—Itemized Deductions

Schedule A is filed when qualified itemized deductions are greater than the taxpayer's standard deduction. Review taxpayer elections—standard deduction or Schedule A—over several years for a financial picture of the marital estate and lifestyle changes over time.

Schedule A is also where the taxpayer reports medical and dental expenses, state and local income taxes paid (or general sales taxes paid), and state and local personal property taxes paid based on asset value.

Was property tax paid? Identify the property and where it is situated. Typically, the higher the real estate tax, the greater the property value—location, location, location. Does the reported property tax match the property assessment? Were property taxes paid a year or two in advance?

High personal property tax indicates high-value assets, such as a yacht or luxury vehicle.

Did the spouse pay home mortgage interest and points? When interest paid exceeds the annual amount due, mortgage prepayments are indicated. When less interest was paid than the annual amount, look for refinancing documents or a substantial payment on the principal owed.

Look for investment interest paid, charitable gifts, federal disaster casualty and theft losses, and "Other Itemized Deductions" on Form 1040. By inflating these figures, the taxpayer conceals more cash. "Other" includes gambling losses, a possible dissipation of marital assets.

Look at Schedule B—Interest and Ordinary Dividends

Schedule B offers clues to every asset that generated income. Every taxable income-generating asset listed on Schedule B should be on the parties' marital balance sheet. For every interest or dividend paid, there is an asset producing that interest or dividend. Examine each 1099-INT and 1099-DIV form. Is there a claimed dividend exemption? See 1099-DIV box 12: exempt-interest dividends.

With many mutual funds, interest and dividends can generate income that is reinvested and not distributed to the

taxpayer but still results in taxable income. Also reported on Schedule B is any income related to foreign trusts and accounts.

Look at Schedule C—Profit or Loss from Business

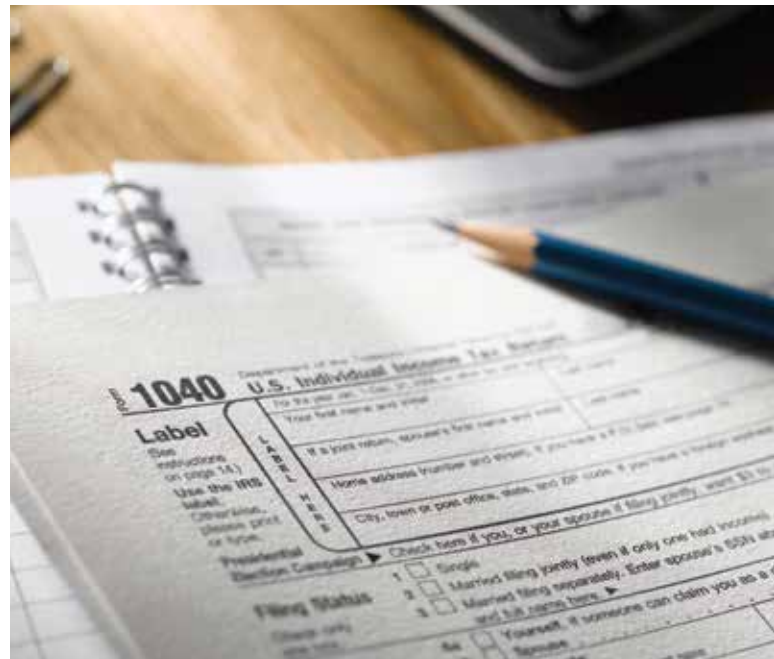
This is the taxpayer's business income. Schedule C reports income from certain types of businesses, often sole proprietorships. If the business reports annual income on a cash basis, then accounts receivable will not be reported.

Robert Vance, CPA, ABV, CFE, CVA, CFP, of Forensic & Valuation Services PLC, Memphis, Tennessee, suggests looking at the balance sheet for helpful information that may not appear on tax returns. Vance warns, "Beware the 'Loan to Shareholder/Member/Owner' account on the ledger wherein personal expenses paid by the company or lump sum payments to the owner are accumulated as if a legitimate loan to that subject."

Whenever the spouse is a business owner, at a minimum review the business balance sheets. Sole proprietors are not required to keep a balanced double-entry accounting system. A lot of manipulation can go on behind the scenes that is not reflected on the sole proprietor's 1040 return.

Joshua Shilts, CPA, ASA, ABV/CFP/CGMA, CFE, of Shilts CPA, Jacksonville, Florida, expands on how easy it is for family lawyers to miss important information:

Recognize that a business reporting a Schedule C doesn't include a balance sheet. A balance sheet is a crucial piece of information for understanding a business and its' assets, liabilities and 'net position' at any given time. A multi-year review of the balance sheets along with income statements can identify other sources of cash inflow and/or outflow.



Sources of Tax Returns Family Lawyers Can Tap



1. **The client:** Regardless of the number of years of tax returns there may be in existence, make copies of them all. If you don't copy or scan one old tax return, it seems that is always the one that is needed later!
2. **The parties' home computer:** Even if hard copies of the returns are not available, try to obtain copies of any personal tax return preparation data; all information entered into the program; and all reports, sub schedules, and worksheets generated by the program. When in doubt, ask a forensic accountant or computer consultant to assist.
3. **Discovery:** Definitely compare what documents have been provided to what was requested. In the comparison, determine whether all of the requested years are included in the production.
4. **The spouse's CPA:** If the parties' CPA prepared joint returns, either party may request copies be provided by the CPA. One strategic advantage to issuing a subpoena is that, if all financial records are requested in the subpoena, CPAs are very unlikely to shred documents before production. In cases in which the parties' CPA is a close, personal friend of the opposing spouse, consider issuing a subpoena earlier in the case than normal.

5. **The IRS:** If hiding assets is suspected, definitely request documents directly from the IRS. Obtaining a copy of the return allows for confirmation that the return produced in discovery was, in fact, the return submitted. Often, unsigned tax returns are produced in discovery. There are two options for obtaining information directly from the IRS. First, complete and mail IRS Form 4506, "Request for Copy of Tax Return," available at www.irs.gov and IRS Form 4506-T, "Request for Transcript of Tax Return." Definitely read all IRS forms' instructions to understand exactly what is required and what to expect.

Excerpted from *The Forensic Accounting Deskbook: A Practical Guide to Financial Investigation and Analysis for Family Lawyers*, 2nd Ed., by Miles Mason Sr. JD, CPA (ABA Family Law Section, 2019).

These businesses are usually on a cash basis, paying taxes through the individual. Existing inventory and existing receivables are not recorded anywhere. Would this type of business typically have inventory or receivables on account? Watch for inflated inventory values and fictitious accounts payable used to reduce income. Is the spouse pocketing unreported income? Unreported cash? A forensic accountant can examine customer invoices, cash register tapes, sales tax returns, and so on.

Work in progress on December 31 may not be reported because the income has not yet been realized (but could be realized on January 1). This is recognized income but not realized.

Sometimes there is pass-through income from an S-Corp or partnership. What about debt forgiveness that is taxable income but not actual cash flow?

Was there a leased asset? This could be a disguised asset purchase. Look for excessive expenses for travel, vehicle use, meals, and miscellaneous items. Follow up by examining receipts and bank statements.

As for the hobby income of a model train enthusiast, look directly at the 1040 and not Schedule C.

Look at the 1040 "Amount You Owe" (total tax minus fed withholding, estimated tax payments made, and credits).

Examine years of filing patterns. Did the spouse over-estimate or under-pay the estimated tax amount? Estimated taxes are based on the prior tax year's realized income, but the current year may fluctuate wildly. Dig deeper to find the reason for over-estimating or underpaying ES quarterly taxes.

Look at Schedule D—Capital Gains and Losses

Look for the sale of business assets. Selling assets prior to a divorcing year can inflate earnings. When the taxpayer transfers an asset (by sale, exchange, involuntary conversion, capital gain distribution, or non-business bad debt), money is either gained or lost on the transaction. Schedule D tells us the taxpayer owned the transferred asset, which is important for tracing assets.

Schedule D gives the asset's date of purchase and cost, transaction date (sale), and what it sold for (gain or loss). This is the beginning of the trail. Trace any sale of stock to the brokerage account.

Find capital gains and losses from activities by partnerships, S-Corps, estates, and other entities on Schedule D. On Form 1040, Karolina Calhoun adds:

Line 7: Capital Gains or Losses - Line 7 indicates capital gains or losses, which means that an asset (or

multiple assets) was sold and some sort of monies were made or lost on the transaction. Not only does this information indicate ownership of assets, it can also be important in tracing analyses as well as other forensic analyses when reviewing several years of tax returns. Details can be found in Schedule D and Form 8949.

Look at Schedule E—Supplemental Income and Loss

The 1040 Schedule E offers clues to income on rental real estate, royalties, partnerships, S-Corps, estates, trusts, real estate mortgage investment conduits (REMICs), and other entities. Does the income or loss amount on Schedule E match the Form 1040?

What to look for? Not uncommonly, the taxpayer owns the building where the small business operates (owns that, too) and collects rent from the business for use of the

building. Again, taxpayer motives conflict. In lieu of a larger draw or bigger salary, the spouse might omit reporting the rents collected, thereby reducing personal income on the 1040. However, the business reports the rent paid on Schedule E to reduce business profit and tax liability.

PRO-TIP: *Check for prepaid expenses for rent and other costs. These tax deductions can take cash out of the marital pool.*

Look for a low income draw (a small salary) while the spouse is pulling a lot of cash from the business. The owner of an S-Corp can make draws (non-reported return of capital) in place of or in addition to wages reported on the W-2. The draw amount should be on Schedule K-1. Not there? Check distributions made on the S-Corp's tax return balance sheet.

In a divorce, the S-Corp owner may attempt to conceal

What Is a Tax Return?

The term "tax return" is vaguely defined. "Schedules" and "Attachments" must be broadly defined because they can be prepared but not included with that which is filed with the IRS. Depending on the user, specific documents called "tax returns" can include:

1. Federal tax returns, also called by their form numbers: the 1040, 1120, and 1165.
2. State tax returns: Although not all states have a tax on earned income, there can be state returns that must be filed to record dividend and interest income.
3. All amended returns: If a taxpayer amended a return, try to obtain both the original and amended versions because the forensic accountant may find something interesting.
4. State excise tax returns, which have a tax on assets, for owners of businesses, such as LLCs and corporations.
5. Copies of tax checks paying estimated payments, associated forms, payment of quarterly and annual tax liability, and tax refund checks from the IRS to the taxpayer.
6. Sales tax and personal property tax returns for businesses.
7. Schedules: The 1040 may also include some of the following most commonly used schedules (which should be attached to the return and cross-referenced) including Schedules A—F.

PRO-TIP: Be on the lookout for depreciation schedules whether or not they are included with the filed return. Assets that are "fully depreciated" still may have significant financial value and should be included in the marital estate.

8. Attachments: Also make sure the federal tax return includes the following attachments:
 - a. W-2s: issued by employers to employees (Practice tip: When copying W-2s, always copy both sides of the form!);
 - b. 1099s: issued by businesses to independent contractors (later cross-reference that all projects and work-in-progress items are disclosed);
 - c. K-1s: issued by partnerships to partners and LLCs to members listing income attributable to individual partners from the partnership;
 - d. W-2Gs: income from gambling; and
 - e. Miscellaneous supporting schedules, sub schedules, reports, and worksheets: Not every piece of paper filed with a return must be on an IRS form. Often, tax professionals and tax return preparation software will create (and preparers will attach) additional schedules, reports, and worksheets. Those not attached to the return are generally kept with the supporting documents maintained by the taxpayer and/or preparer in the event of an audit.



income by leaving compensation off the W-2, or by reporting a draw on the K-1 that is less than what was reported on the S-Corp's tax return balance sheet. Check all three for income – the W-2, the K-1, and the S-Corp's tax return balance sheet.

Is the spouse a partner or LLC member? Partners and LLC members are compensated with capital draws, reported on Form 1065 (partnership income return) and on K-1s along with guaranteed payments as salary. The K-1 must match the owner's individual tax return. If the partner or LLC member's guaranteed payment is not reported on the K-1, then she avoids paying income tax on that amount.

Determine if the spouse has made loans to the business or invested capital in the business recently. Review year-to-year retained earnings or partners' equity. (Formula: Ending balance = prior year's beginning balance + net income earned – draws.)

Owners of businesses often invest money and then legally loan money back and forth between the business and themselves. A red flag goes up if a lot of capital is invested even though business operations do not require it. Dig deeper. The spouse may be hoarding cash in the business to avoid categorizing it as income in the divorce. To identify suspicious transactions, track retained earnings, partner's equity, and loans over multiple years.

Learn to love the W-2. Pick the W-2 clean of information and closely inspect for errors and omissions. That is the form employers use to report annual wages, salaries, and tips paid, but there is a whole lot more there. W-2Gs report gambling winnings. Forensic accountant Robert Vance suggests:

For employees, don't just request the W-2, request the year-end pay stub also. If the employer has a cafeteria plan and the employee participates, the subject could have thousands of dollars of higher income due to the cafeteria payroll deductions 'right off the top' that do not show up anywhere on a W-2 since those are deductible for federal taxes, and Social Security and Medicare taxes.

A Section 125 Cafeteria Plan is an employer-sponsored benefits plan that lets employees pay for certain qualified medical expenses, such as health insurance premiums, on a pre-tax basis. Examine each W-2. Critical information is reported on line 1 (wages, tips, other compensation), line 3 (Social Security wages), and line 5 (Medicare wages). Are wages and Medicare wages the same amount? Look for a 401(k) or pension. When wages differ from Medicare wages, is "retirement plan" checked on line 13? If so, then the employee has a retirement, 401(k), or another important asset. Copy and review the back of the W-2 form for identifying codes and reference information. For more

discussion about reading W-2's, see *The W-2 as Roadmap for Tennessee Child Support Guideline Income*, by Robert Vance, <https://www.forensicval.com/resources/the-w-2-as-roadmap-for-tennessee-child-support-guideline-income>. And, *The Forensic Accounting Deskbook: A Practical Guide to Financial Investigation and Analysis for Family Lawyers*.

If federal withholding (line 2) as a percentage is above the tax bracket this employee-spouse is likely in, then she could file for a large refund after the divorce. Keep in mind, the pre-divorce tax return could be amended after the divorce, claiming the correct amount of pre-paid tax liability, resulting in a meaningfully large refund post-divorce.

Line 12 offers 29 possible deferral items, from uncollected taxes to retirement plan contributions. As for line 15, did the state lack the authority to withhold income? Was too much withheld when the person neither worked nor lived in the withholding state? This could mean a large refund to the taxpayer after the divorce.

Of course, not everyone has W-2s. Independent contractors receive 1099-NECs. Income from extraordinary sources may appear on 1099-MISCs, such as royalties, rents, and non-qualified deferred compensation. Because 1099-MISCs are frequently one-offs, a taxpayer might omit reporting it on the 1040 return. Forensic analysis may be needed.

Social Security is not divisible in divorce, but it is an important income source in the gross income calculation of child support and is relevant to spousal support. Look at the SSA-1099.

Clues to Hidden IRAs, SEPs, SIMPLEs, and Qualified Plans

Is an amount listed on Form 1040 for an IRA deduction? If yes, then the taxpayer contributed to an IRA for that tax year and claimed the amount as a deduction from income. To hide an IRA, a spouse could choose not to contribute to an existing IRA in the tax year prior to the divorce. Or the spouse could contribute after the year of the tax return. Check prior years' tax returns. Confirm the balance of the IRA by reviewing the most recent monthly statement.

Look for IRA distributions. Examine 1099-Rs and asset documentation. Any withdrawal from an IRA may be dissipation of an income-producing marital asset.

Check the 1040 for Self-employed SEP, SIMPLE, and qualified plans. Investigate any amounts included on the 1040 as a "Penalty on early withdrawal of savings."

Look at Schedule K-1 – Partner's Share of Income, Deductions, Credits, etc.

Schedule K-1 (Form 1065) is packed with information. The K-1 has details about the business, percentage of ownership, whether the spouse is a limited or general partner, the entity's profit and loss, capital and liabilities, the spouse's proportionate share of taxable income or loss, and whether a decrease is due to a sale or exchange of partnership interest. If

the spouse's percentage of ownership is smaller, then investigate the transaction that reduced it.

What assets are being depreciated and amortized?

Compare Form 4562 (Depreciation and Amortization) with the business balance sheet and profit and loss statement (under expense items). Did the business claim IRC Section 179 expense deduction to write off the full value of equipment put into service during that tax year? Note depreciation of "listed Property" (Part V) is described as a "qualified business use" of property.

Was there a distribution to the partner? Was there a capital call with investment in the business? Use the K-1 to do a Partner's Capital Account Analysis.

Compare and contrast the internal financial records of the business with what was reported on Schedule L (Transactions with Interested Persons), Schedule M (Noncash Contributions), Schedule M-1 and M-2 (Reconciliation of Income (Loss) and Analysis of Unappropriated Retained Earnings per Books).

Vance suggests family lawyers should know or learn the relationship and tax return requirements for each category of business ownership. "If the subject owns the company where they are employed and it is an S-Corp. or LLC, get the K-1s and observe the S-Corp Distributions or LLC Draws/ Distributions to record the true income of the subject."

Forensic Accountants Interpret Tax Returns

Forensic accountants, and CPAs in general, can be your best friend. Ask for help. Forensic accountants will have favorite starting points. Some will create a spreadsheet for all data appearing, line by line. They know how to keep an eye on cash flow. The author prefers to assemble all the pages of multiple years' tax returns into a notebook, flip back and forth, identify what changes over time, and make notes. CPAs can also smell problems. A career's worth of staring at these documents means CPAs know what makes sense and what doesn't. The 1040, W-2s, and other income reported therein become the beginning of the inquiry, not the end. When you know what to look for, you can confidently determine whether to hire a forensic accountant to analyze the paper trail.

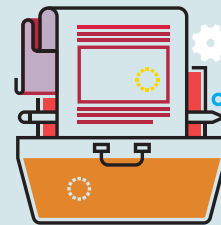
Go the extra mile to get it right the first time. Trying to fix problems later means additional lawyer fees, court costs, delay, and stress for the client and possibly for the attorney, too. **FA**

Additional Resources

The 1040 Handbook: A Guide to Income and Asset Discovery, Eighth Edition, by Jack Zuckerman and Ron E. Thompson (ABA Family Law Section, 2021).

Navigating Tax Returns Booklet (free digital publication from Mercer Capital).

The Forensic Accounting Deskbook: A Practical Guide to Financial Investigation and Analysis for Family Lawyers, Second Edition, by Miles Mason Sr., JD, CPA (ABA Family Law Section, 2019).



MILES MASON SR., JD, CPA (memphisdivorce.com) is a divorce lawyer in Memphis, Tennessee, and founder of the Miles Mason Family Law Group, PLC. A nationally recognized speaker on divorce trial practice, forensic accounting, and business valuation, he has authored four books on divorce, including *The Forensic Accounting Deskbook, 2nd Ed.* (ABA Family Law Section, 2019) and *The Tennessee Divorce Client's Handbook*. Mason previously served on the *Tennessee Bar Journal's* editorial board and as the chair of the Tennessee Bar Association Family Law Section.

DIANA MILLER-LLOYD, CPA CVA CFF

Lloyd Forensic & Accounting Services

301 W Bay Street STE – 1463, Jacksonville FL 32202
904.674.3396 – work

dlloyd@Forenzique.com
www.forenzique.com

Analytical, results driven, and detail oriented Forensic Accountant with over 23 years of experience in various industries and settings. Accomplished and equipped with a proven track record of success that include recovery of lost funds and hidden assets. Highly trained specialist that can find, analyze, and interpret facts correctly the first time thus increasing efficiency and eliminating the possibility of error. Successful at managing multiple projects and consistently meeting deadlines under pressure. Develops and enhances client relationships; discovering and mitigating risk for individuals, attorneys, and complex business.

Industry Expertise

- | | | |
|-------------------------|------------------------------------|--------------------------|
| • E-commerce | • VC, Hedge Funds & family offices | • Gourmet |
| • Professional services | • Third Party Resellers | • Oil & Gas |
| • Manufacturing | • Restaurant & Hospitality | • Shipping |
| • Healthcare | • Apparel | • Start-Ups & Non-Profit |
| • Real-Estate | • Technology | • Insurance Companies |

Education & Training

Bachelor of Business Administration in Public Accounting, Pace University, New York, NY

Professional Experience

LLOYD FORENSIC & ACCOUNTING SERVICES CORP., JACKSONVILLE, FL

2010 – PRESENT

OWNER/MANAGER/LEAD CONSULTANT

Provides strategic guidance to clients to resolve fraud and corruption, accounting irregularities, and a wide variety of compliance issues. Investigate, analyze, and assess risk to reduce economic loss and ensure the rights of clients are protected.

- Assists clients to manage risk and recuperate lost funds due to corruption, fraud, and other threats.
- Provides litigation support to attorneys in matrimonial cases to find and uncover hidden income and assets.
- Trace inappropriate disbursements involving fiduciary funds as well as illegal payments through slush funds and multi-tiered entities.
- Tracking and identifying shell companies and other entities used to divert funds for illegitimate purposes.
- Facilitate fraud investigations including the evaluation of internal controls and employee dishonesty and kickbacks.
- Data analytics & data mining: descriptive and predictive through pivot tables of advanced Excel
- Create & maintain database management systems.
- Walkthrough analysis to implement the right procedures & set up the right internal controls for system implementations.
- Simple query and reporting; statistical analysis; to analyze patterns and query for customer/client databases

Services Include:

- | | | |
|-----------------------------|--|----------------------------------|
| ➤ Bankruptcy and insolvency | ➤ Trial exhibit preparation | ➤ Wrongful termination valuation |
| ➤ Hidden asset location | ➤ Interrogatory and discovery requests | ➤ Divorce/marital dissolution |
| ➤ Fraud investigation | ➤ Economic damage calculations | ➤ Family Law Support |
| ➤ Embezzlement | ➤ Deposition Assistance | |

Major Clients and Projects

CLIENT: MUSIC INDUSTRY \$365 MILLION RECOVERED

Provided support for a large company where a whistleblower alerted stakeholders of possible financial fraud. Analyzed COGS and bookkeeping to determine possible areas of fraud. Collaborated closely with financial departments to gather necessary evidence that resulted in the recovery of over \$365 million in hidden assets. Client was eventually compensated

CLIENT: RESTAURANT INDUSTRY \$11.8 MILLION RECOVERED

Equipped with strong background in general accounting practice assisted efforts to recover lost funds that were being rerouted to fraudulent accounts. Analyzed cash delivery on two separate books and examined revenue while discovering discrepancies. Resulted in finding lost funds and pinpointing culprits within the company that were responsible.

CLIENT: MATRIMONIAL DIVORCE PROCEEDINGS

Assisted attorney to obtain an accurate business valuation as the income and expenses of said business were misstated and commingled with personal business activity. Provided a keen eye to spot out inconsistencies and irregularities in the financial statements. Was able to provide unbiased findings that ultimately resulted in a equitable settlement.



JOSH SHILTS
CPA, ASA, ABV/CFF/CGMA, CFE

Phone: (844) 850-6166
josh@shiltscpa.com

4500 Salisbury Rd., Ste. 430
Jacksonville, FL 32216

EDUCATION

Macc	Florida Atlantic University <i>College of Business, School of Accounting</i> Master of Accounting; concentration in Forensic Accounting	August 2007
BS	University of South Florida <i>Mumu School of Business</i> Bachelor of Science, Accounting	August 2005

CERTIFICATIONS

Certified Public Accountant (CPA) <i>*Licensed in FL</i>	2009
Certified in Financial Forensics (CFF)	2009
Certified Fraud Examiner (CFE)	2009
Chartered Global Management Accountant (CGMA)	2013
Accredited in Business Valuation (ABV)	2017
Accredited Senior Appraiser (ASA)	2022

EMPLOYMENT HISTORY

Shilts CPA, PLLC President/Owner	2015 - Present
<ul style="list-style-type: none">Developed Forensic & Valuation division (Shilts FVS), leading a team of professionals in providing an array of forensic and valuation services. Provide valuation and forensic services in relation to statutory fair value litigation, economic damages, forensic examinations, and related analyses.Lead Firm's tax and accounting division (Shilts TAX) and developed quality control processes to meet today's client demands.	
Citizens Property Insurance Corporation, Jacksonville, FL Director of Forensic Audit	2013 to 2016
<ul style="list-style-type: none">Developed and lead forensic audit team responsible for internal investigations and forensic audits.	

- Identified multi-millionaire fraud scheme and assisted management in recovery.

MBAF, Miami, FL 2012 to 2013

Manager, Litigation Support & Advisory Services

- Manager of litigation support providing support to expert witness and economic damage analysis
- Development of anti-fraud service lines

Royal Caribbean Cruise Lines, Miami, FL 2010 to 2012

Manager, Audit Compliance

- Worked in conjunction with compliance and ethics program to conduct internal investigations, compliance audits and anti-fraud initiatives.
- Helped enhance on-board and shoreside audits with anti-fraud initiatives to strengthen company's internal controls.

MarcumRachlin, Miami, FL 2009 to 2010

Senior Associate

- Assisted firm management with forensic accounting and analyses related to family law, bankruptcy, receivership, and fraud investigations.

Deloitte LLP, New York, New York 2008 to 2009

Senior Forensic & Dispute Services

- Provided forensic and analytical assistance in resolving accounting issues related to a large Hedge Fund's fiduciary duty.
- Team member of the Lehman Bros. liquidation.

Rachlin, Cohen & Holtz, Miami, FL 2006 to 2008

Litigation Support & Advisory Services Associate

- Assisted firm management with forensic accounting and analyses related to family law, bankruptcy, receivership, and fraud investigations.
- Lead on review of State of New York's wholesale electrical market's internal controls system.

Protiviti, Fort Lauderdale, FL 2005 to 2006

Internal Audit Consultant

- Assisted clients in wide-ranging industries on implementation of SOX 404 internal control systems.
- Developed audit, process mapping and control testing skill set.

TEACHING EXPERIENCE

Florida Atlantic University, Boca Raton, FL Spring 2013 through Fall 2015

Adjunct Professor, School of Accounting

- Instructor for online and in-person Principles of Fraud Examination, an undergraduate course.

- ▶ Course focused on identification of fraud and investigative techniques.

PROFESSIONAL AFFILIATIONS

- ▶ American Institute of Certified Public Accountants (AICPA)
- ▶ Florida Institute of Certified Public Accountants (FICPA)
- ▶ Association of Certified Fraud Examiners (ACFE)
- ▶ American Society of Appraisers (ASA)
- ▶ National Association of Certified Valuation Analysts (NACVA)
- ▶ Member, AAML Foundation Forensic & Business Valuation Division

VOLUNTEER ACTIVITIES

- ▶ American Institute of Certified Public Accountants (AICPA)'s
- ▶ Florida Institute of Certified Public Accountants (FICPA)
 - Jacksonville Chapter President ('21 to '22)
 - Jacksonville Chapter Board Member ('21 to current)
 - Valuation, Forensic Accounting & Litigation Services Committee Member ('18 to current)
 - Other Committees: UF Accounting Conference (20-21), Corporate Finance (current) and Accounting Careers & Education (current)
- ▶ American Institute of Certified Public Accountants (AICPA)'s
 - Business Valuation Committee Member ('19 to '22)
 - Chair of CARES Act Task Force
 - Member of Bankruptcy and Reorganization Task Force (Active)
 - Member of Learning Task Force (Active)
 - Member of AICPA's FVS Podcast Work Group (Active)
 - National Accreditation Commission ('21 to current)
- ▶ National Association of Certified Valuators and Analysts (NACVA) QuickRead Editorial Board Member ('20 to current)
- ▶ Florida Association of Family and Conciliation Courts (AFCC) Treasurer ('18 to '22)
- ▶ 4th Judicial Circuit Grievance Committee "C" Member ('18 to '22)
- ▶ Jax Area Legal Aid (JALA) Board Member ('22 to current)

HONORS AND AWARDS

AICPA's FVS Section BV Volunteer of the Year National organization recognizing contributions to the valuation profession.	2022
NACVA's 40 Under 40 National organization recognizing contributions to the valuation profession.	2018
FICPA's Top 26 Under 36 State CPA Society recognizing professionals and their commitments to the profession.	2015
ACFE "Second Generation" Article recognizing the future Fraud fighters.	2013

PROFESSIONAL TRAINING

Reid Technique for Interviewing and Interrogations
Reid Institute, Jacksonville, FL

Florida Supreme Court Mediation Training pursuant to 10.100(c)
Mediation Training Group Inc., Jacksonville, FL

PUBLICATIONS

- "Company Specific Risk Premia: Tests of Reasonableness," *National Association of Certified Valuation Analysts (NACVA)'s Quickread*, August 2023
- "Professional Goodwill: Identification First," *National Association of Certified Valuation Analysts (NACVA)'s Quickread*, November 2022
- "The Economic Waste Doctrine: Experts Beware...", *National Association of Certified Valuation Analysts (NACVA)'s Quickread*, June 2022
- "Competitive Strategy Assessment in Appraisals: What Forces Drive the Competition in the Industry?," *National Association of Certified Valuation Analysts (NACVA)'s Quickread*, April 2022
- "Elder Fraud: Risks in a Post Pandemic Environment," *National Association of Certified Valuation Analysts (NACVA)'s Quickread*, July 2021
- "COVID-19 and Divorce: Dealing with Financial Uncertainty in Marital "Portfolios" Part II," *The Value Examiner*, May/June 2021
- "Frequently Asked Questions When Providing Bankruptcy Services," *American Institute of Certified Public Accountants (AICPA)*, March 2021

- “Intended and Actual Losses-Briefing on Criminal Fraud Economic Loss Calculations,” *National Association of Certified Valuation Analysts (NACVA)’s Quickread*, January 2021
- “COVID-19 and Divorce: Dealing with Financial Uncertainty in Marital “Portfolios” Part I,” *The Value Examiner*, November/December 2020
- “Small Business Bankruptcy Process: Alternatives for Small Businesses,” *Attorney at Law Magazine*, August 2020
- “Deviations from Historical Cash Flow and Their Implications to Effective Discount Rates for Lost Profits Analyses,” *Business Valuation Resources (BVR)’s Business Valuation Update*, July 2020
- FAQs on Valuation Considerations Related to the CARES Act,” *American Institute of Certified Public Accountants (AICPA)*, May 2020
- “FAQs on Valuation Considerations when Valuing Distressed or Impaired Businesses,” *American Institute of Certified Public Accountants (AICPA)*, April 2020
- “Lost Profits and Loss of Business Value – Differences and Correlation in Terms of the Harmful Impact to Plaintiff’s Claims,” *National Association of Certified Valuation Analysts (NACVA)’s Quickread*, March 2020
- “Asset Valuation and Personal Goodwill,” Letter to the Editor *The Florida Bar Journal*, January 2020
- “Reasonably Certainty for New Business Lost Profit Calculations,” *Business Valuation Resources (BVR)’s Business Valuation Update*, August 2019
- “Small Business Valuations: Using Forensic Accounting,” *National Association of Certified Valuation Analysts (NACVA)’s Quickread*, July 2019
- “Law Firm Management,” *Attorney at Law Magazine*, April 2019
- “What Separates a Forensic Accountant from Others?,” *Attorney at Law Magazine*, November 2018
- “Hidden Income and Assets in Divorce: A Forensic Accountant’s Process,” *Attorney at Law Magazine*, October 2018. Republished June 2019, *National Association of Certified Valuation Analysts (NACVA)’s Quickread*
- “Florida Family Law Update: New House Bill No. 639,” *Attorney at Law Magazine*, August 2018
- “A Framework for Continuous Auditing: Why Companies Don’t Need to Spend Big Money,” *Journal of Accountancy*, March 2017
- “The Changing Investment Management Landscape,” *Florida Daily*, September 2009
- “Risk Management is a Necessity,” *WebCPA*, August 2009

PRESENTATIONS AND LECTURES

- “Strategic Forecasting: A Discussion”, *Business Valuation Institute of the United Kingdom* (“BVIUK”), February 2024.
- “Reasonable Certainty for New Business Lost Profits: Case Studies”, *Valuation Products & Services*, January 2023. Co presented with Melissa Deighan.
- “Econometric Analysis in Lost Profits”, *FICPA VFALS*, January 2024. Co presented with Brian Rohl.
- “Hardball with Hitchner”, *FICPA VFALS*, January 2024. Co presented with Jim Hitchner.
- “Most Common Issues and Best Practices: For ascertaining, valuing, and equitably dividing Property Appreciation in a Divorce...”, *Strafford Webinar for CLE*, December 2023 and *MyLAW CLE*, December 2022.
- “Solving Financial Problems in Litigation”, *Florida Institute of Certified Public Accountants* (FICPA) Collegiate Accounting Symposium, November 2023.
- “Confident Projections: Knowing & Implementing FP&A Methodology into your Analysis and Projections”, *Business Valuation Resources (BVR) Webinar*, October 2023
- “Fraud Risk: Leveraging Lessons from Past Financial Troubles Tell Us and Help Us Navigate the Current Economic Environment”, *Florida Institute of Certified Public Accountants* (FICPA) Mega Conference, June 2023.
- “Human Capital: Discussing Current and Future Constraints for Appraisers”, *Society of Share & Business Valuers*, June 2023.
- “Digital Assets in Divorce: Locating, Identifying, and Valuing Cryptocurrency and Nonfungible Tokens”, *Strafford Webinar for CLE*, February 2022, and May 2023.
- “Double, Triple County, Oh My!” *AICPA Forensic and Valuation Conference*, November 2022 and *FICPA VFALS*, January 2023
- “Personal Goodwill and Case Studies: Theory to Practice Session”, *Valuation Products & Services*, December 2022
- “Digital Assets in Divorce”, *Tennessee State Society of CPAs FVS Conference*, October 2022
- “Family Law and Finance”, Panel Discussion *Jacksonville Bench & Bar Conference*, June 2022
- “Business Valuations: Family Law Panel Discussion,” *Jacksonville Family Law Inn of Courts*, March 2022
- “Divorce Valuation: When Experts Disagree,” *Business Valuation Resources (BVR) Webinar*, January 2022
- “Forecasting: Removing Rose Colored Glasses,” *Florida Institute of Certified Public Accountants (FICPA) UF Accounting & Tax Conference*, November 2021
- “Divorce: Dividing Asset Appreciation, Proving and Valuing Passive vs. Active Efforts,”

Strafford Publications Webinar, December 2021

- “Fraud: Red Flags and Risks, a Legal Perspective,” *Florida Institute of Certified Public Accountants (FICPA) UF Accounting & Tax Conference*, November 2021

- “Removing Rose Colored Glasses,” *Business Valuation Resources (BVR) Webinar*, February 2021
- “Covid-19 And Divorce: Dealing with Financial Uncertainty in Marital Portfolios” *National Association of Certified Valuation Analysts (NACVA)’s Around the Valuation World Webinar*, February 2021
- “Bankruptcy and Distressed Companies,” *AICPA Forensic and Valuation Conference*, November 2020
- “Divorce and Tax Problems,” *Strafford Publications Webinar*, October 2020
- “Business Valuation and Uncertainty,” *The Florida Bar’s Family Law Section*, October 2020
- “AICPA: Solvency Considerations for Financial Advisors,” *American Bankruptcy Institute (ABI)*, October 2020
- “Business Valuation: Key Points for Family Law Attorneys,” *The Florida Bar’s Family Law Section*, October 2020
- “Valuation of Distressed v Impaired Companies,” *Florida American Academy of Matrimonial Lawyers (AAML)*, August 2020 and *Kansas Society of Certified Public Accountants (KSCPA)*, October 2020
- “The Balance Sheet and its Correlation to Company Specific Risk,” *Business Valuation Resources (BVR) Webinar*, June 2020.
- “Main Street CARES: Understanding Loans, Forgiveness and Tax Benefits for Businesses affected by COVID-19,” *The Florida Bar’s Business Law Section*, May 2020
- “The CAREs act Implications for Individuals and Businesses,” *Various industry and community groups*, March 2020
- “Forensic Accounting in the Discovery Process,” *Jacksonville Bar Association’s Commercial Litigation Section*, January 2020
- “Reasonable Certainty: New Business Lost Profits,” *Business Valuation Resources (BVR) Webinar*, November 2019 and *Florida Bar Webinar*, December 2019
- “Hidden Income and Undisclosed Assets: A Forensic Accountant’s Process,” *National Association of Certified Valuation Analysts (NACVA)*, June 2019
- “Business Valuation Key Points for Attorneys,” *Jacksonville Bar Association*, April 2019, and July 2019
- “Are You Protecting your Business from Fraud?,” *Ocala/Marion County Chamber & Economic Partnership*, September 2016
- “Accounting for Professionals,” *Ocala/Marion County Chamber & Economic Partnership*, July 2016, *Jacksonville Bar Association*, August 2016, and *Florida Academy of Collaborative Professionals*, June 2017

Note: Professionals replaced with Attorney in some presentations for Law Firms and Legal Groups.

- “Collaborative Practice Development: What a Financial Professional Wants You to Know,” *Collaborative Family Law Group of Northeast Florida (CFL)*, March 2016
- “Merging Forensics with Data Analytics,” *MISTI Training Institute*, September 2015
- “Accounting Must Know and Intro to Damages,” *MISTI Training Institute*, June 2015
- “Financial Planning and Analysis – How to move your Business to the Next Level,” *Florida Institute of Certified Public Accountants (FICPA)*, March 2015
- “Fraud Analytics Must Haves,” *MISTI Training Institute*, December 2014
- “Creating Fraud Risk Response Maturity Model Assessments,” *MISTI Training Institute*, December 2014
- “Developing and Implementing a Fraud Risk Assessment,” *MISTI Training Institute*, September 2012
- “Strategies for Implementing a Formal and Effective Anti-Fraud Program,” *MISTI Training Institute*, September 2011, and *Florida Institute of Certified Public Accountants (FICPA)*, September 2015

Income and Cash Flow Cheat Sheet for Family Law Attorneys

1. Understanding Income and Cash Flow

- **Income:** Total earnings from all sources before deductions.
- **Cash Flow:** Actual cash available to spend, which may differ from reported income due to non-cash expenses and other adjustments.

2. Key Income Sources

- **Wages and Salaries:** Reported on Form 1040, Line 1.
- **Business Income:** From self-employment or pass-through entities (S-Corporations, Partnerships, LLCs).
- **Investment Income:** Dividends, interest, capital gains.
- **Other Income:** Alimony, rental income, royalties.

3. Business Income Analysis

- **C-Corporations:** Income reported on Form 1120. Key lines: Line 12 (Compensation of Officers), Line 30 (Taxable Income).
- **S-Corporations and Partnerships:** Income passes through to individual returns via Schedule K-1. Key lines: Box 1 (Ordinary Business Income), Box 16D (Distributions).

4. Cash Flow Adjustments

- **Non-Cash Expenses:** Depreciation, amortization.
- **Retirement Contributions:** Pre-tax contributions to 401(k)s, IRAs.
- **Personal Expenses:** Run through business accounts.

5. Deductible vs. Non-Deductible Items

- **Deductible:** Business expenses, mortgage interest, property taxes, medical expenses (subject to limits).
- **Non-Deductible:** Personal living expenses, fines and penalties, political contributions.

6. Common Issues in Family Law Cases

- **Hidden Income:** Unreported cash transactions, underreported business income.
- **Lifestyle Analysis:** Comparing reported income to actual lifestyle and spending.
- **Tracing Assets:** Identifying and valuing marital vs. separate property.

7. Practical Tips

- **Review Multiple Years:** Look for patterns or discrepancies.
- **Analyze Supporting Documents:** Bank statements, credit card statements, loan applications.
- **Consult Experts:** Forensic accountants, valuation experts.

Steps to Analyze Business Income

1. Review Financial Statements

- **Income Statement:** Examine revenue, cost of goods sold (COGS), gross profit, operating expenses, and net income.
- **Balance Sheet:** Look at assets, liabilities, and equity to understand the financial position.
- **Cash Flow Statement:** Assess cash inflows and outflows from operating, investing, and financing activities.

2. Understand Revenue Streams

- Identify all sources of income, such as sales, services, interest, and other revenues.
- Determine the consistency and reliability of these income streams.

3. Evaluate Cost of Goods Sold (COGS)

- Analyze the direct costs associated with producing goods or services sold by the business.
- Compare COGS to revenue to calculate the gross profit margin.

4. Analyze Operating Expenses

- Break down expenses into categories like salaries, rent, utilities, marketing, and administrative costs.
- Identify any unusual or non-recurring expenses.

5. Assess Profitability Ratios

- **Gross Profit Margin:** $\frac{\text{Gross Profit}}{\text{Revenue}}$
- **Operating Profit Margin:** $\frac{\text{Operating Income}}{\text{Revenue}}$
- **Net Profit Margin:** $\frac{\text{Net Income}}{\text{Revenue}}$

6. Examine Non-Cash Expenses

- Look at depreciation and amortization to understand their impact on net income.
- Adjust for these non-cash expenses when calculating cash flow.

7. Review Tax Returns

- Compare financial statement income to taxable income reported on tax returns.
- Identify any discrepancies or adjustments made for tax purposes.

8. Analyze Cash Flow

- **Operating Activities:** Cash generated from core business operations.
- **Investing Activities:** Cash used for investments in assets or received from asset sales.
- **Financing Activities:** Cash from borrowing, repaying debt, or equity transactions.

9. Look for Red Flags

- Significant fluctuations in revenue or expenses.
- Consistently low profit margins.
- High levels of debt or poor cash flow management.

10. Consult Supporting Documents

- Review bank statements, invoices, receipts, and contracts to verify income and expenses.
- Ensure all financial data is accurate and complete.

By following these steps, you can gain a thorough understanding of a business's income and financial health. If you need more detailed guidance or specific examples, feel free to ask!