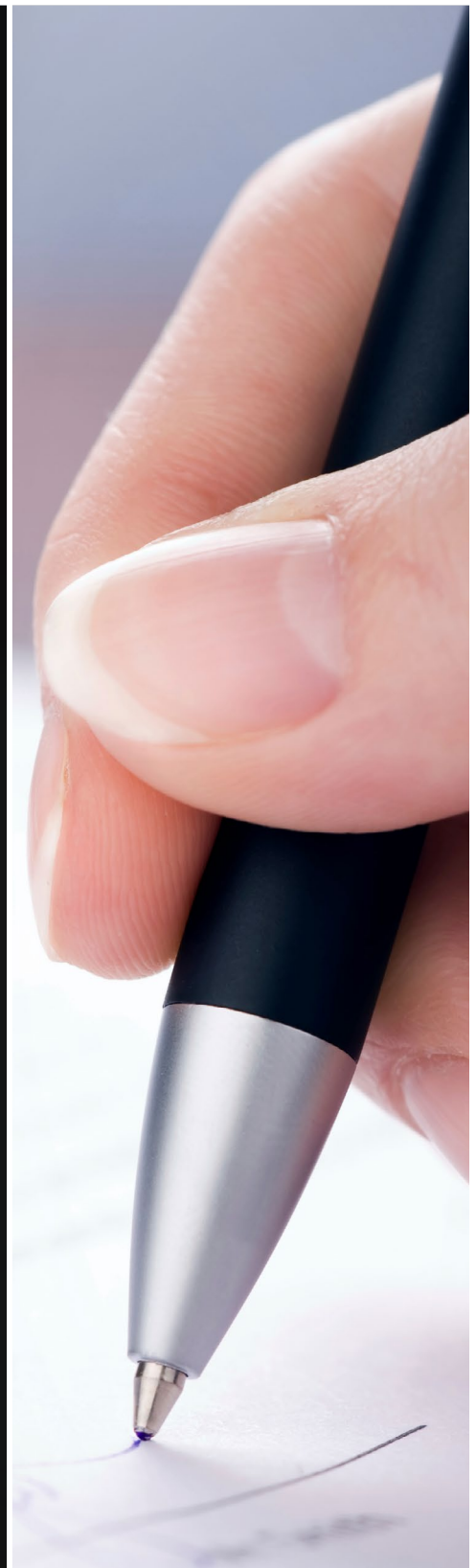


PROTECTING WHAT'S IMPORTANT TO YOU AS A BUSINESS OWNER



To make your business
#CPAPOWERED, call today and let's get
started.



CENTURIATUS
Certified Public Accountants & Advisors

INTRODUCTION

Risk management is one of the most misunderstood, yet most important, areas of forming and operating a business. Many entrepreneurs are so busy with operational and financial matters that protection of their most important assets is often overlooked.

Certified Public Accountants (CPAs) are integral to assisting in the formation, operation and protection of your business. Many people do not approach the protection of the business in the same way that they approach the protection of their personal assets, if they approach it at all. A CPA knows the best ways to help you prevent loss.

The tools provided in this article will give you direction in the future protection of your:

- Health — The most important asset in any small business is the owner/executive. You will find tax-efficient methods and strategies for protecting your health to allow for greater growth and value in your business.
- Business property — A checklist of approaches for determining the amount of value used for coverage and practical methods of binding coverage for your property is presented in this resource.
- Cash flow streams — The lifeblood of any small business is cash flow. You will discover steps to take that will protect your company from catastrophic loss of cash flow due to losses from natural disaster and employee theft.
- Key personnel — Protecting the integral members of a small business is a requirement, not an option. Particular to smaller capitalized businesses, the management and executive team create tremendous value attributed to expertise and experience.
- Succession planning — Transitioning your small business to the next generation of owners is critical to preserving the value of your company. You will learn techniques to transitioning the ownership of your business in a prudent and practical manner to preserve the value of the company.
- Intangible assets — In many small businesses, the largest valued assets are not even on the balance sheet. This resource will provide you guidance in determining the existence, value and protection of corporate goodwill.

RESOURCES AND GUIDANCE

Health

Many people are confused about their health insurance coverages, deductibles and copays. To reduce this complex subject to its simplest form, you should consider the following:

- Assess current age, state of health, family history and employment area
- Calculate the value of the risk you are willing to retain (deductible)
- Review the network options of providers in your area
- Establish a health savings account for funding the deductible and copays
- Undergo an annual physical to uncover any potential physical threats before they become catastrophic

With the continued evolution of health insurance in the United States, you should consider pricing your health insurance needs each year to determine if you are getting the best value. Small employers may benefit from existing tax credits for providing health insurance to employees.

Business property

Adequate coverage of your business property is vital. A catastrophic event could render your previous hard work and investment worthless in an instant. Property and casualty insurance companies vary greatly on the types and amounts of coverages, deductibles, co-insurance provisions and payment terms.

Seek out a professional to help you sort out the best coverage and deductibles for your business assets. At a minimum, you should consider the following types of coverage for your business:

- Rating of the insurance company by a reputable rating agency such as A.M. Best Company or Standard & Poor's
- General liability insurance for your overall company activities
- Product liability insurance for your manufactured products sold to customers
- Exclusions to the policy
- Deductible amounts that are affordable for the company
- If you ship your products or manufacture products internationally, consider coverage from companies that bind policies outside the United States

The amounts and types of coverage you need also depends upon your legal structure (read the resource titled “Selecting Your Small Business Legal Structure” at cpapowered.org). For example, if you operate your business as a sole-proprietorship, you may require additional coverage due to a lack of liability limitation.

The area of risk management is very broad. There are literally hundreds of insurance carriers in the U.S. market. Selecting the right carrier for your business takes time, and knowledge of the industry is vital to investing your insurance dollars properly. A CPA can help you analyze, solicit quotes and determine funding alternatives for your business insurance.

Cash flow streams

The lifeblood of any business, whether you’re big or small, is cash flow. To protect this asset, you should consider the business interruption coverage within your property and casualty insurance. Many carriers provide for a period of time (i.e., six months, one year, a natural business cycle if you’re in an industry such as construction of buildings, etc.) claim payments to mitigate your complete loss of cash flow due to a catastrophe.

Proper records are necessary to substantiate your income streams of the business. Consider utilizing electronic storage (i.e., cloud-back up systems) for purposes of retaining records necessary to verify your claimed loss of income.

CPAs are integral to the process of filing claims for loss of cash flow or revenue replacement insurance. By consulting a professional with expertise in documentation and computation of your business records, you provide yourself with someone who is an advocate for you in an ethical and comprehensive manner.

Key personnel

Many small businesses start from the talents and resources of their owners/managers. To protect this intangible asset from loss, you may consider buy/sell agreements funded by life insurance. Depending on the type of business you operate, the spouse or family members of a partner or key employee may desire to be compensated for the deceased employee’s capital of the business.

This type of mitigation resource is used in companies that are owned by more than one owner who is functional to the business. The use of a buy/sell agreement simply entails the agreement of valuing the shares or units of the company in an agreed manner and buying the shares or units from the estate of the deceased owner with the life insurance proceeds.

Although simple in theory, the properly structured and funded buy/sell agreement can be very complex. An attorney and CPA will be instrumental in the process of employing this method of asset protection.

Succession planning

In many instances, a small business is the most valued asset on the owner’s personal financial statement. To protect it by continuing operations after the retirement of the owner is critical. Succession planning is more than selling your company to another entity or person. The culture, market share and operational value of the company will be protected by a search, timing and implementation of another owner with a belief in the company, its people and its products.

Secondary to the transfer of the ownership and continuation of the business is the taxation of the conveyance of the ownership. When properly structured, an employee stock ownership plan may provide a method of retaining key employees and management within the business after the original owner has retired. This type of plan provides for a means of selected employees to become owners in the business and, thereby, assume responsibility for the profitable function of its operations.

Intangible assets

Depending on the type of business, many smaller enterprises own patents of unique products, copyrights of marketing logos and materials and other intangible assets that may not be present on a balance sheet. A valuation of the company will reveal the existence and value of these types of assets. Many small technology companies have very few tangible assets (i.e., computers, furniture, equipment, etc.) but have created tremendous value in their intangible assets (i.e., software, apps, cloud-based structures, etc.). These intangible assets may generate all or most of the revenue streams for which the company is dependent.

To protect this type of asset, a reasonable value must be obtained through the application of valuation methods and approaches. A CPA would be needed to apply a strict discipline of valuation to determine defensible amounts for insurance purposes. Furthermore, a CPA who has the Certified in Entity and Intangible Valuations™ (CEIV™) credential is highly trained in preparing rigorously documented valuations for intangible assets and should be an integral part in preparing a valuation that may ultimately be scrutinized by the courts or insurance companies. A well-documented and supported valuation is incredibly important because insurance companies will not cover intangible assets beyond a certain limit or if they cannot be sufficiently substantiated. Therefore, it is vital to provide properly documented and supported evidence of the value of intangibles to properly protect a company's future operations in the event of catastrophe.

Use of trusts, LLCs and proper titling of assets

The use of various types of trusts may provide protection of your assets from creditors. For example, you may establish an irrevocable trust with an independent trustee, to hold critical assets that create cash flow streams to support your family. When properly functioning, these types of trusts will protect the asset from lawsuits and other perils that would cause irreparable harm to your finances.

A review of the current titles on your assets may give rise to other forms of ownership. For example, you may have developed a large ranch or other type of asset-based business during your lifetime. To provide for the transition of assets to your heirs, you may wish to explore the use of Family Limited Liability Company with voting and non-voting units. This structure would provide for the transfer of units in installments during your lifetime to the heirs you wish to honor with the asset in the future.

Many assets in a small business are initially titled in the simplest form — joint tenancy with rights of survivorship. Starting out your company, often with little capital, this may be appropriate. However, as the value of your company grows, you may find this type of ownership title to be very costly. Consider a trust or limited liability company for purposes of “building walls” between your assets and creditors.

ACTION STEPS TO IMPLEMENT YOUR RISK MANAGEMENT PLAN

- Review your financial statements and records for adequacy of reporting.
- Review your depreciation schedules and asset listings to determine completeness.
- Analyze cash flow to determine integral drivers that may not be covered by existing insurance.
- Meet with key personnel and/or owners to discuss the future of the enterprise and the need for buy/sell agreements to protect families and the company.
- Review your current policies including coverages, deductibles, exclusions, etc. It is critical that you know what is and is not covered.
- Seek out a CPA to assist in the discussion of risk management to confirm that you are addressing all of the critical areas of your business.
- Discuss the possible need for a valuation of the business to quantify and value any intangible assets. This process may need to be repeated every three years for growth or as needed for other purposes.
- Review any risk mitigation requirements in your loan covenants. Many banks require minimum levels of required types of coverage to protect their collateral.
- Consider backup systems and safety measures to protect your data. This will be a critical step to protect the company in response to a natural disaster or other catastrophic event.
- Consult with your estate and business attorneys to determine if your current structure of ownership and titles to assets are adequate for protection purposes.

Risk management in a small business is critical to the functions and operations of the business. Building a small business takes a tremendous investment of time and effort, not to mention capital. Protecting what is often your largest asset is essential to ensuring that it is saleable when you retire. Seek out appropriate professionals and invest in the long-term viability of your operation by procuring coverages and types of insurance that meet your needs.

