

# Management



# Tax Concepts



Disaster recovery planning

**Making sure  
your company  
is ready for anything**

Accidents happen:  
Consider long-term  
disability coverage

**Have you considered  
a reverse mortgage?**

It can do more than just  
fund medical expenses

**6 key components  
of a business budget**

**MF**  
**Mallah Furman**

CERTIFIED PUBLIC ACCOUNTANTS

# Making sure your company is ready for anything

Unfortunately, every year we see at least a few examples in the news of how a single natural disaster can adversely affect — sometimes even destroy — a business. And these are just the stories we hear about. Many companies encounter disasters, both natural and man-made, that have detrimental consequences not fully realized until many months later.

So how do you keep your business from joining these unfortunate ranks? You've got to make sure you're ready for anything. Although you can't foresee every disaster, you can put together a comprehensive plan to keep your people safe, your information preserved and your operational capacity maintained. The formal term for this effort is "disaster recovery planning."

### Plan for your people

First things first: Form a disaster recovery team. It should include one representative from each department or at least have enough members to

ensure no area of your company is left out. Along with helping create your comprehensive disaster recovery plan, the team should be in charge of facilitating evacuations in the event of a fire or other disaster.

For instance, some team members could be "seekers" who verify that every employee has left his or her work area and proceeded toward the evacuation route. Other members could be "guides" who direct staff to the appropriate exits. Someone else should be the "point person" who goes to an off-site location where your staff can gather and make sure everyone is accounted for.

Think about what will happen to your staff after a disaster as well. This is where having a Web-based e-mail system can come into play. It will allow you (or another chosen team member) to e-mail instructions to employees and vendors about how your company is operating during the recovery period and what you need them to do.

### Touch on your technology

By now, most companies back up their data on tapes, disk or other such media. They generally do so to guard against computer crashes, not natural or manmade disasters, but the objective is the same: to preserve data. The problem, though, is that it can be hard to get to these media when an office has been burned to the ground or flooded with water. In fact, the media may even be destroyed. For this reason, your team should explore the option of storing your backups off-site in a secure storage facility.

Another option is to not maintain your data on-site at all. A recent phenomenon called "cloud computing" refers to a company's ability to buy all of its software and data storage from



## What's the worst that could happen? Plenty!

You and your disaster recovery team (see main article) need to identify all the potential risks to your company, taking into consideration its nature, size and location. Here are some key disaster types to focus on:

**Natural disasters.** These might include earthquakes, floods, storms and wildfires. Home in on those specific to your region.

**Technology failures.** How stable is your internal and local infrastructure? Computer viruses, hacker attacks or simply downed phone and cable lines could trigger a major problem.

**Transportation breakdowns.** Look into whether a bridge or road outage, or a public transportation crisis, could shut you down or seriously impede your operations.

**Labor problems.** Are labor disputes and strikes common to your industry? Also address how to cope with an incident of workplace violence.

outside providers who deliver and maintain it via the Internet. From a disaster recovery planning perspective, it makes a lot of sense.

If cloud computing sounds like too big of a step at the moment, you might still consider online backup and data storage services. They've been common, reliable, secure and affordable for some time now. And, as with cloud computing, the data restoration process following a disaster can happen quickly with just a few computers and an Internet connection.

**“Look into business interruption insurance to help cover employee payroll, rent, utilities, lost profits, etc.”**

### Investigate insurance

Among all the talk of escape routes and data backups, insurance often gets lost in the shuffle. Have your team take a close look at your company's insurance at least annually. What's covered? What isn't? Do you have enough coverage to replace lost

assets and otherwise restore, rebuild or, if necessary, relocate your operations?

For example, general casualty policies often have coverage exclusions, so you may want to buy riders for additional coverage such as for windstorm or flood damage. Also, look into business interruption insurance to help cover employee payroll, rent, utilities, lost profits, etc.

Other policy types that may be worth your team's consideration are leasehold improvement coverage (which covers improvements to a rented space) and accounts receivable coverage (which covers loss caused by the inability to collect accounts receivable because your records were lost, destroyed or damaged).

### Move fast (but not too fast)

If you have no formal disaster plan at the moment, you should move quickly to put some fundamental protections in place. But don't move too quickly to create a comprehensive plan, because you may end up inadvertently driving up the expense involved. (Unneeded insurance coverage and too-expensive technology services are two common culprits.) Get basic protections in place, but take your time to get the details of a comprehensive plan right. ♦

# Accidents happen: Consider long-term disability coverage

---

Many Americans live with some sort of disability, and a large number of these disabilities came about unexpectedly. A disabling accident or illness can happen to anyone at any time — and the more severe, the greater the potential drain on an individual's or family's budget. For this reason, everyone should at least consider long-term disability insurance.

## What's the benefit?

You may already own some disability insurance via your employer. But this coverage is likely only short-term and, even if it's for a longer period, may not cover you adequately.

Buying an individual long-term policy can ensure your policy will remain in effect no matter what your employment situation. Plus, choosing your own policy will allow you to tailor coverage to your own needs. What's more, disability income drawn

from an individual insurance policy is generally income-tax free as long as you pay the premiums.

As you might expect, buying your own long-term disability coverage isn't inexpensive. But, like any insurance policy, a variety of factors weigh into just how much you'll have to pay. These include age, health and exactly how much coverage you're looking for. Nonetheless, expect a higher cost policy if you're older or seeking a longer coverage period.

**“Buying an individual long-term policy can ensure your policy will remain in effect no matter what your employment situation.”**

## Any shopping tips?

When shopping for long-term disability insurance, there are a variety of points to keep in mind. First, pay careful attention to how a potential insurer defines “disability.” Look for a broader definition that will cover you in as many instances as possible.

Also, seek to procure the highest monthly benefits for which you can attain eligibility. To do so, you may need to buy added coverage or riders that boost your payments. In addition, to the extent possible, stick to “own occupation” coverage. Some providers may offer less expensive “any occupation” coverage, but it could compel you to take a lower-paying job after suffering a disability.

To save money, look for a policy with a longer waiting period. For example, coverage with a nine-month waiting period will cost less than a policy with a one-month wait. Just make sure you can afford to wait that long.





### Who can help?

As you can see, buying a long-term disability policy requires forethought. One rule of thumb says you should try to cover 50% to 60% of your net income, but it may not be quite that simple. Your best bet is to estimate how much money you'd need to meet monthly expenses and then work with your financial advisor to pick out the best policy. ♦

## Have you considered a reverse mortgage?

*It can do more than just fund medical expenses*

The figurative bumps and bruises that most people have suffered during the difficult economic times of the past year or so have left many looking for sources of ready cash. If you're among them, are age 62 or older and have paid off (or are able to pay off) your mortgage, have you considered a reverse mortgage?

Although you may associate these arrangements with someone looking to fund an influx of unexpected medical costs, they can do more than just that. Retirement and estate planning strategies could both receive a boost from a well-planned reverse mortgage. Naturally, there are risks to consider, too. Let's look at the specifics.

### An expanding market

A reverse mortgage is an arrangement under which a lender makes payments to you for your home's equity, and the proceeds are generally tax free. The loan doesn't come due until you sell the home (at which time you may be able to deduct the interest on your tax return) or die.

Generally, the lender can't sell the home — you retain ownership. If your estate or your family doesn't have the liquidity to pay off the reverse

mortgage after your death, however, your estate might have to sell the home, and the estate would keep any proceeds in excess of what is owed to the bank.

The reverse mortgage market has been expanding over recent years. The number of federally insured reverse mortgages went from 43,082 in 2005 to 112,015 in 2008, per federal housing data. To stay competitive, many bigger mortgage lenders and banks began offering products during this period,



some lowering fees and allowing more substantial payouts. A number of lenders even offer so-called “Jumbo” reverse mortgages for more highly valued homes.

Additional loan backers joined in as well. Previously, Fannie Mae was the primary buyer of reverse mortgages. Several other banks, including Bank of America, are now players in the reverse mortgage market.

The federal government has taken notice, too. The economic stimulus package passed in early 2009 saw Congress raising the reverse-mortgage loan limit to \$625,500 through the end of 2009. The lending limit is scheduled to revert to \$417,000 beginning in 2010, but Congress may extend the higher limit — perhaps even by the time you’re reading this. Check with your CPA for the latest information.

**“The economic stimulus package passed in early 2009 saw Congress raising the reverse-mortgage loan limit to \$625,500 through the end of 2009.”**

### Many uses

For years, reverse mortgages were looked at as a last resort for those living in valuable homes but lacking cash. These arrangements often provided a way to fund medical expenses, hospital stays and even nursing home residencies.

In light of the reverse mortgage surge, however, things are changing. Many higher-net-worth individuals are using these arrangements to supplement their retirement income, allowing them to take trips or buy recreational vehicles. Some are even taking out reverse mortgages to fund the purchase of a vacation home.

### Estate planning potential

Don’t overlook the estate planning potential of this product. With a reverse mortgage, you could withdraw some equity from your home. You could then use the money to make annual exclusion gifts to your children or grandchildren, thereby reducing the value of your taxable estate.

Under the annual exclusion, you can give up to \$13,000 per year per recipient free of gift taxes (\$26,000 if married filing jointly) without using up any of your lifetime gift tax exemption (or any of your estate tax exemption). Or you could use the money to fund a 529 college savings plan. 529 plan contributions qualify for the annual exclusion, and a special break only for 529 plans allows you to make five years’ worth of annual exclusion gifts to a 529 plan in a single year.

### Intriguing choices

Reverse mortgages are just one way individuals can boost their cash flow. But, there are risks to these arrangements — including high closing costs and loan-serving fees, not to mention using up some or all of your home’s equity. Be sure to get professional advice before making this move. ♦



# 6 key components of a business budget

Many owners of small to midsize businesses don't create a budget or don't update the one they have, typically because they're too busy or simply not focused on sticking to a budget. Yet with the economic recovery slow and every dollar precious, you need to know where your money is going — both now and in the near future.

What's more, others might be looking for your company to maintain a sound budget. Banks, for instance, are setting up loan covenants with an increased emphasis on budgeting. With that in mind, here are six key components of a business budget:

## 1. A description of your business and its market.

You may think you have a sound budget for your company, but it won't be accurate if it's for your company three years ago. Compose a brief description of precisely what you're doing right now, how your market is going (hot? cold?), and what economic factors may be affecting how your money is budgeted.

## 2. Explanation of how the budget supports the company's mission, vision, values, goals and objectives.

To be included in the budget, items should tie into and support overall company goals. If you can't effectively demonstrate how an item enables a particular goal, you should question its merit. If you don't already have a mission statement, compose one to help you with this component.

## 3. Line-item details for allocating funds.

Typical examples include staffing, real estate, equipment and material needs.

Although it can be tedious to maintain a detailed budget for all company expenditures, it's good cash flow management. Your budget can facilitate expense tracking and help guide spending decisions to align with your business goals.

## 4. Expectations for measuring performance against the budget.

For analysis purposes, a budget is useful only if you update it regularly so it accurately reflects actual spending. For instance, you may have underbudgeted or overbudgeted on some items and, thus, spent more or less than you anticipated.

## 5. Supporting appendices.

These may include a historical budget and results analysis. Also consider attaching summary documents for each department, tables and graphs depicting market and cost trends, organizational charts, and a glossary of terms.

## 6. An executive summary.

This can be a good way to focus all of the information in your budget and provide you with some practical "takeaway." More important, an executive summary can make your budget more digestible to lenders and outside investors. ♦



# Not Just Outstanding Service. Proven Effectiveness.

At Mallah Furman, we've always believed that looking back shows us how to move forward. As we look at our accomplishments over the past four decades, we find that our strong focus on client service has played a key role in both our and our clients' success. As a result, timely, responsive, friendly and effective service continues to be our top priority.

Many of our clients have been with us as long as our senior partners. We think that says a lot about how well we get to know our clients, their children and their grandchildren. We treat their families like our own and constantly seek ways to increase their financial success.

When our clients make business decisions, they can count on us as for resourceful advice. We consider our job to be first listening to what clients want to accomplish, then providing the services required to meet their needs as cost-effectively as possible.

## More than 45 years of excellence

When we opened our doors in Miami 46 years ago, we had a single-minded professional commitment to advise, counsel and deliver value-added solutions for our clients. We still do. All of our directors and staff are dedicated to exceeding our clients' expectations. And judging by the results our talents and hard work have achieved for our large and growing number of clients, we do.

Consequently, we are now one of the state's most highly respected accounting firms, recognized as an affordable and quality alternative to the large national and international firms.

## Not just communication — total understanding

The way we see it, our effectiveness depends on building a strong rapport with clients and keeping the lines of communication open. We want to always be available to discuss your needs, answer your questions and consult with you about ways to reach your goals. To do this, we know we must listen carefully to fully understand your changing needs. We take the time required to become immersed in your business and ask probing questions to develop the insights necessary to help you prosper and grow.

Because each client has unique needs, we don't just apply stock solutions. Instead, we draw on our extensive knowledge of specific industries to provide comprehensive, personalized solutions tailored to your special needs.

## Services for all your business and personal needs

Mallah Furman offers a complete array of tax, accounting, financial reporting, valuation, and consulting services to individuals, nonprofits, and businesses in a wide range of industries, including health care, law, and international business. For example, we can assist you with:

- Profitability enhancement
- Strategic and succession planning
- Fraud prevention and detection
- Business valuation services
- Mergers, acquisitions and divestitures
- Estates, trust and valuation
- Litigation support
- Partnership and corporate taxes
- Financial reporting services
- Sarbanes-Oxley (SOX) compliance
- Bookkeeping, forecasting and projection
- Internal controls, policies and procedures

Please call to discuss your needs. We would welcome the opportunity to serve you.

