



values

Values is an informational newsletter for attorneys who assist clients in answering valuation questions and claims adjusters who work to pay the proper amount of a claim.



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Rebuilding a Company

In the wake of terrorist attacks, electric grid meltdowns, hurricanes, wildfires, computer virus attacks and a slew of other headline-grabbing disaster events, disaster recovery has become an everyday event for

businesses everywhere. While some have dusted off old business recovery plans or spent the time to create new ones, the vast majority of businesses do not have formal disaster recovery plans. Even those that do have quickly discovered that you just can't prepare for the unexpected.

In fact, if you're working with a business owner who is attempting to rebuild their business after a disaster, you (and they) are facing an uphill battle. Forty-three percent of U.S. businesses never reopen after a disaster. Of those that do, almost thirty percent are closed within two years. Business disaster recovery is a daunting task. To give a business the best chance of recovery, you'll need to walk a tightrope strung between people and paper.

Rebuilding the Company as People

Disasters don't affect businesses as much as they affect people. In the initial wake of a disaster, people have more questions than they do answers. This is the most critical time for a company because, whether a business is selling hamburger combo meals or earth-moving equipment, its employees are evaluating the disaster and trying to determine what kind of future they have. Hand-holding, leadership, communication and a knowledgeable assessment of the damage

and the insurance protections in place are the tools needed to help reassure employees.

Rebuilding the Company on Paper

Rebuilding the company on paper is where the real work starts because most insurance companies are not in the business of paying insureds before they have a pretty good understanding of the extent of the loss. So how do you help the insured/business owner go about recreating a business on paper after it has burned to the ground, washed away by floodwaters or shut down by some other disaster?

There are really two parts to rebuilding a company on paper.

Historical Information

Gathering historical information can serve as a measuring stick of the company's performance in the recent past. This is very important in helping accountants, adjusters and insurance companies provide a good estimation on what a company's performance might have been during its down time.

This data, which is relatively easy to recover, includes financial statements, tax returns and other documents that span multiple years. If company records are not available, copies are likely available from outside accountants or auditors who have prepared the insured's annual financial statements and/or tax returns. If for some reason the outside accountants are not able to provide this information, copies of tax returns can be obtained from the IRS by requesting an IRS Form 4506 (although it may take up to 60 days).

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Rebuilding a company's value on paper is often an inexact science. But by knowing how to find the resources that can help them put the pieces of the puzzle back together after a disaster can make the process much more accurate. That allows the insured and the adjuster to quickly come to an agreement on the actual loss – so the company can start rebuilding as soon as possible.

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Current Financial Data

While historical data is relatively easy to recover, rebuilding information that is too current to be reflected in tax documents can require some creative thinking. How does a business prove inventory levels existed without any inventory or documentation? How can they prove sales volume without current sales reports? How can they demonstrate current expenses? Deposits? Loans? Assets?

As a rule of thumb, the shorter the period of restoration, the more detailed the current documentation will need to be. So how and where do they start to find the information that they need? Here are a few obvious and not so obvious resources.

Accountant

Besides tax documents, their accountant should have any information provided to them that enabled them to file the taxes. They may also be able to provide financial statements, depreciation schedules and other information.

Bank

A bank should be able to provide copies of bank statements, checks, deposits, and loan and line of credit files. Don't forget to check with credit card companies as well.

The State Department of Revenue

State's department of revenue can provide sales tax reports, which can demonstrate recent sales activities. This can be useful – especially if the insured's sales vary from the same time period in previous years.

Outside Payroll Service

If the insured uses an outside payroll service, they can provide important expense information – including payroll, insurance and other benefits. This information can also provide clues as to the

company's recent performance compared to previous years.

The Social Security Administration

If information regarding payroll and benefits is not available through an outside payroll service, the Social Security Administration can provide much of the same information, including copies of W-2 forms.

Franchisers or Regulators

Regulated companies that are required to report to state or federal agencies should have information available through those regulating bodies. Any company that operates as a franchisee, dealer or distributor should also be able to provide valuable documentation of sales figures, inventory, and franchise-related expenses. They may also be able to provide information related to loans, floor-planned inventory, sales forecasts, incentives, etc.

Third Party Payers and Suppliers

Depending on the type of company and how many vendors and suppliers it has, these companies can provide valuable information. Health insurance companies can provide information on medical liabilities. Suppliers can provide information on payables, inventory – and possibly on the company's anticipated level of business. Law firms may be able to provide insight on new contracts and agreements that were in place.

Floor Plan Lenders

Any company that buys or sells items with serial numbers tracks this information for lenders. Floor plan lenders can provide detailed information on the most current inventory that these companies had available.

Can We Help You?

Dale Cremers, Bob Holtzbauer and Roger Nearmyer have experience to help you address questions about forensic accounting. Please call for more information at 515-274-4804 or e-mail us at info@chncpa.com.

