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YEAR END 2010



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HOW DID YOU DO?

PERFORMING A YEAR END BUDGET REVIEW

The end of the year usually has business owners thinking about taxes. But, while year end tax planning is certainly important, conducting a year end budget review is also critical.

With the economy continuing to keep you presumably wary, if not outright worried, keeping a close eye on every dollar coming in and flowing out has never been more important. So how did you do? Were you able to keep all (or most) of the numbers in line? Or are you headed for trouble?

A year end budget review can help you answer these questions and perhaps others that are weighing on your mind.

Starting at the bottom

Generally, a business budget will have three primary components: an income statement, a cash flow statement and a balance sheet.

The income statement typically shows sales, margins, operating expenses, and profits or losses. And because, like many business owners, you may naturally be drawn to the profit part — otherwise known as the bottom line — let's start there.

The key details to focus on here are, obviously enough, whether you're operating profitably. If it looks like you will post a profit this year, determine what you did right and whether you should pursue these actions more aggressively or take a "hold steady" approach.

And if you anticipate a loss year, ask a similar question: Should you actively try to pull your business out of its current financial predicament or should you dig in and wait it out by staying within your margins and controlling operating expenses?

Getting into the flow

In terms of pure survival, the most important part of a budget review may be an examination of your cash flow statement. A typical cash flow statement comprises three sections:

1. Operating activities (associated with running the business),
2. Investing activities (associated with growing the business), and
3. Financing activities (associated with obtaining money).



After looking carefully at all three sections, check to see whether you have as much available cash as you expected to when you set up your budget. A number of things may have thrown off your earlier projections.

For starters, there's the question of taxes. (This is where tax planning and a budget review can be a useful joint activity.) Often, businesses hold funds allocated for income and other taxes for an interim period until a payment is made to the appropriate governmental body. If these funds aren't clearly marked as such, you may overestimate available cash.

When departments over- or underspend against budget goals, the reasons often go unchecked.

Have you made any major asset purchases this year? If so, such a transaction could have major implications on whether or not you've stayed within budget. Maybe you absolutely had to buy a new piece of equipment after the old one failed, or you had to allocate amounts due from customers toward purchases before those funds were actually collected.

Another important thing to look at in your year end budget review is spending variances. When departments over- or underspend against budget goals, the reasons often go unchecked.

Putting it all together

As mentioned, the third element of a business budget is the balance sheet. After looking at your company's profitability and its cash flow, use this document to get a sense of the financial condition

Cost-control management: A budget's best friend

If your company comes up overbudget year after year, you may want to consider cost control management. This is a formalized, systematic review of operations and resources with the stated goal of reducing or at least controlling costs at every level. As part of this effort, you'll confront issues such as:

Operational efficiency. Cost-control management can help you clearly identify activities that are running smoothly and staying within budget from the ones that are constantly breaking down and consuming extra dollars.

Procurement effectiveness. Maybe you've bought the same types of materials from the same vendors for many years. Are you really getting the most for your money? A cost-control management review can help you look for better bargains on the goods and services that make your business run.

The technology factor. At this point, just about every business process has been affected by technology in one way or another. But, in some cases, companies overspend on technology that's not really necessary and, in other cases, they're missing out on ways to automate or augment an activity with the right tech tool. Cost-control management can help you decide whether to simplify or upgrade.

of your business on the date you prepared your budget to compare it against its current financial condition.

For instance, perhaps you're seeing substantially more debt on your balance sheet than you anticipated. In this case, you'll likely need to curtail discretionary expenses (such as bonuses) in your budget and create a plan for paying off or refinancing that debt as quickly as is reasonably possible.

When delving deep into the numbers, however, don't lose sight of your company's goals. If a

particular item on your budget never really “paid into” your business objectives for the year, maybe it’s time to eliminate it. On the other hand, if an item is delivering significant value — especially in comparison to cost — figure out why. Could you get even more from it by raising the activity’s allocated dollars, or is it fine as is?

Perhaps the easiest way to get a sense of whether your budget served its purpose over the course of the year is to dig out your business plan. Draw on your mission statement and business plan to determine whether you’ve won or lost the budget battle this year. Sometimes a budget review may prompt a revision of either your

mission statement or business plan (or both). But undertake any such change with caution, as drastically altering your company’s chosen course can be a risky maneuver.

Keeping up

You’ve kept up with your annual budgeting process, right? Don’t beat yourself up too much if you haven’t. Many companies — particularly small businesses — lose sight of budgeting as the years fly by and the struggles to stay successful mount. But, as mentioned, today’s economy warrants not only creating a budget, but also reviewing it monthly and annually and using it as one of your primary strategic tools. □

NOTHING NEW, BUT NEVER MORE IMPORTANT

ERM TAKES RISK MANAGEMENT COMPANYWIDE

Risk management is nothing new in the business world. But, just as risks continually evolve, so do efforts to manage it. And, with continued economic uncertainty, constant technological threats and the always-prevalent regulatory issues making life difficult for business owners, risk management has never been more important.

Among the most popular approaches is enterprise risk management (ERM). Like a computer system, it seeks to manage risk on an integrated, company-wide level. And though an ERM program can be

circumvented or mismanaged, it still offers a comprehensive means to steer your company clear of whatever threatens it the most.

Lay the groundwork

Risk management takes many forms, and the number of strategies available to deal with it may seem overwhelming. This is largely why ERM came about — to bring together the best practices in the field to build sound risk protection that addresses a company’s every foreseeable need.

Before you can implement an ERM program, you must lay the groundwork. This typically isn't something you can do by yourself: You'll need to sell your colleagues on "risk religion," from the top down. After you've gained commitment from key players, spend time assessing the risks your business may face.

The first task in creating an ERM program is to develop a comprehensive list of risks. Then determine the impact and likelihood of each one. Obvious risks may include financial perils, IT attacks or crashes, weather-related disasters, regulatory compliance debacles, and supplier/customer relationship mishaps. Because every business is different, you'll likely need to add other risks unique to your business and industry.

Develop a philosophy

Recognizing risks is only the first phase. Many of the large companies struck by fraud or misfortune over the last decade had risk management programs in place — to no avail.

To truly address the risks specific to your business, clarify what your company's appetite and capacity for each risk is, and then develop a cohesive philosophy and plan for how they should be handled.

Let's say your company creates a new, innovative product. You'd likely face a number of perils involved with the new high-tech product, including product liability or violations of your intellectual property. You might also run afoul of safety regulations or run into a shortage of raw materials or lack of manufacturing capacity.

Before rolling out the product, your company would need to spend time developing and analyzing

worst case scenarios for each risk, and then craft a plan to survive each one. The key to success in this planning stage is conducting a detailed analysis of your business.

Gather as much information as possible from each department and employee. Depending on your company's size, engage workers in brainstorming sessions and workshops to help you analyze how specific events could alter your company's landscape.

In addition to developing strategies, assign someone to manage each of the various aspects of risk. In other words: Each risk should have an "owner." If the list of risks seems overwhelming, manage the largest ones first and work your way down the list.

Weave it in

The ultimate goal is to embed ERM in your company culture, weaving it into every aspect of the business. Beware of top-down impositions during this phase: Squelching an otherwise free-wheeling company culture through ERM is actually one of the risks you face!



Frequent monitoring of important metrics is an integral part of keeping up with ERM.

ERM software may help you integrate this risk management process into the daily operations of your business. If employees understand the software application and use it regularly, ERM will maintain a higher visibility in their respective jobs and will be less likely to fade away.

For you, frequent monitoring of important metrics is an integral part of keeping up with ERM. To this end, many software packages come with “digital dashboards” that keep critical risk-related info instantly accessible on your computer’s desktop.

Get ahead

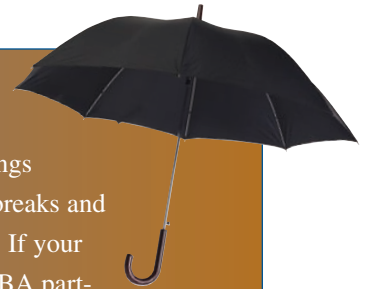
Although we have some vague ideas, no one knows precisely what the biggest risks of the next decade will be. Putting an ERM system in place now can help you recognize developing threats as early as possible and get ahead on the tough task of keeping these dangers from undermining your profitability. □

MONEYLINES: NEWS BRIEFS FOR BUSINESSES

SBA offers help with disaster preparedness. In many parts of the country, year end brings adverse weather — and, with it, the threat of a variety of disasters including water main breaks and roof collapses. Even in warm weather states, hurricanes, fires and floods could still strike. If your small business is underprepared when it comes to disaster planning, be advised that the SBA partnered with a firm called Agility Recovery Solutions earlier this year to launch the “Prepare My Business” program. It offers free tips on creating a disaster plan as well as webinars and other information. Check it out at preparemybusiness.org.

401(k) loans and hardship withdrawals are increasingly popular. If your company offers employees a 401(k) plan with a loan component, you may want to reiterate the rules and risks of such loans. They’ve become increasingly popular. Citing data released this past August, Fidelity Investments revealed that 11% of total active 401(k) participants initiated the loan process in 2010, a 2% rise from the previous year’s figure.

Is your company ready to head overseas? The idea of entering the global marketplace may seem daunting. But, as the economy continues to be unsettling at best, many business owners are turning to overseas markets. The Export-Import Bank reported that small business loan authorizations in the first half of its fiscal year rose from \$1.7 billion during that period in 2009 to \$2.3 billion this year. Another factor inspiring companies to head overseas may be the federal government’s National Export Initiative, issued this past March. It seeks to strengthen trade laws and otherwise “improve conditions that directly affect the private sector’s ability to export.” Go to export.gov for more info.



SOON-TO-BE RETIREES REASSESS THEIR PORTFOLIOS

Peter and Claire are a married, dual-income couple. Soon after their youngest child's wedding, a realization hit them: Retirement wasn't far off. What's more, though they'd kept an eye on their retirement plan and investment portfolios, the couple hadn't made many changes recently. They sat down with their financial advisor to discuss the matter.

Their advisor began by noting that, as she was wont to mention, it's important to consider rebalancing one's retirement plan and investment allocations at least annually. Plus, with the volatile stock market of late, Peter and Claire's allocations may have deviated from their goals. And, as the couple suspected, the appropriate allocation usually changes as a person gets closer to retirement.

Check the foundation

Their advisor suggested they begin their annual review with a close look at their "core holdings." These are the investments chosen to give their portfolios steady, long-term results that get them as close as possible to their financial goals.

Their core holdings need not — and, often, should not — be the couple's best or worst performers. But older investors, such as Peter and Claire, who



are becoming more focused on preserving their assets (rather than only growing them), would probably favor an even more conservative mix of investments at their portfolios' core.

So, their advisor said, it wouldn't hurt to check and see whether any changes (for example, moving some money into a diversified high-quality bond fund) are needed.

Review the amenities

At this point, the couple's advisor tried out a metaphor. If their core holdings are the foundation of their retirement house, their "noncore holdings" are the amenities — the investments that, by enhancing their return potential and reducing their overall risk, make it a place worth living in.

Their advisor suggested the couple review whether their noncore holdings are fulfilling needs that, otherwise, would go unfulfilled. More specifically, many investment types in this category take on more risk to, ideally, drive up the portfolio's value in a manner that the core holdings can't.

For example, their advisor noted, commodities tend not to follow the general rhythms of the wider stock or bond markets. Although this does make them volatile, commodities can also provide a boost when more mainstream investments aren't doing so hot.

No reminder necessary

Upon leaving their financial advisor's office, Peter and Claire had another realization: Staying on top of their retirement plan and investment allocations was more important than ever now that they were on the brink of retirement. They wouldn't need a reminder to check into it next year.



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