



**PROTECT**

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Business Resiliency

**FINANCIAL**

**GUIDE**

for Small Business



This guide is funded by a grant from the U.S. Department of Commerce, Minority Business Development Agency



# Disaster Recovery and Resiliency Initiative

**The Houston MBDA Business Center** is operated by Houston Community College. The program is funded, in part, by the U.S. Department of Commerce, Minority Business Development Agency and has been hosted at Houston Community College since September 2013. MBDA Business Centers are staffed by business specialists who help minority businesses access procurement opportunities, new markets, and capital.

The Disaster Recovery & Resiliency Initiative is funded by a grant from the U.S. Department of Commerce, Minority Business Development Agency. The initiative aims to help businesses prepare before a disaster, maintain continuity during a disaster, and recover after a disaster.

For more information, check out our website at [www.HoustonBRI.com](http://www.HoustonBRI.com).

## **Houston MBDA**

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Owning a business can be a very rewarding and fulfilling professional experience. Earning a living while working in a field you are passionate about can be a dream come true. Providing jobs and making a positive contribution to your community through business ownership yields great rewards. However, as many entrepreneurs have learned – or will learn at some point – running a business means, eventually, you will encounter great challenges that can jeopardize your company’s sustainability. Whether it is a natural disaster such as a hurricane or flood, or a personal crisis like an illness or death in the family, any number of challenges has the potential to derail your business if you are not prepared. In addition, while you may recover from a disaster operationally, if your financial health is not in order, an interruption in sales or cash flow could put you out of business in the blink of an eye.

This financial literacy guide was created to help you prepare to stay in business by making sure you are prepared to handle a loss in income in the event of a disaster.



In this guide, you will learn how to implement accounting and basic fiscal practices that make it easy to meet federal and local tax requirements and standards. With this foundation, you will meet small business requirements and manage your finances with less stress. We will identify five areas of a business where structure can have the greatest impact:

- Accounting and Finances
- Back Office and Administrative
- Process Improvements
- Staffing
- File Sharing

# RESILIENCY ASSESSMENT

How resilient is your business? As a small business owner, you are likely wearing several hats and juggling more than a few roles and responsibilities, so it is easy to put something like risk assessment on the back burner. Nevertheless, in order to fortify your business against any potential disaster, you must take a hard and honest look at where your company currently stands.

## Risk Assessment Exercise

You may not have the means to hire an expert, but you can conduct your own informal risk assessment to gain insight into where your business stands. Look at the questions below. If any of the situations happened tomorrow, how would your business respond? Write down your answers.

- If you, the business owner, were to get sick and could not work, what would happen from a sales and revenue standpoint?
- If you lost your biggest customer or client, could your business survive?
- If several clients were suddenly slow to pay their invoices, how would that affect your business?
- If a key staff member became ill and could not work or left the company, what would happen to your business?
- If there was a dramatic change in the economy and the demand for your product or service dropped dramatically, how would you handle that situation?

Once you have answered these questions, take a moment to think about the areas you are able to influence or control so that you are in a better place financially and are at lower risk of losing income.

**Cash flow problems can threaten your business. Your approach should be strategic and measured. Let us start by asking these questions:**

### Are your accounting records up-to-date?

Whether you are using a bookkeeper, certified public accountant (CPA) or you are handling the books yourself, be sure to have your profit and loss statement, balance sheet and income statement updated and in order. These documents are important when preparing your tax return and franchise reports. **Depending on your business structure, you will have to adhere to filing deadlines with the IRS as listed below:**

**Sole Proprietorship** – April 15

**S-Corporation** – March 15

**C-Corporation** – April 15

**Nonprofit** – May 15

Remember that extensions only extend the filing time, not payments due. If your corporation was formed in Texas, your state franchise report is due each year by May 15. You can forfeit your business and lose the right to operate if you do not file the report on time. As a business owner, you should be filing your business returns annually. Estimated taxes should be filed and paid quarterly. Payroll reports can be filed monthly or quarterly, based on the business structure.

### Do you pay your payroll and sales tax on time?

Payroll reports 940 and 941 can be filed monthly or quarterly based on the business structure. Small business owners can use a payroll service, such as Paychex or ADP or a CPA to perform these services annually to follow federal and state regulations and guidelines. Generally, employers are required to file Forms 941 quarterly. However, some small employers (those whose annual liability for social security, Medicare, and withheld federal income taxes is \$1,000 or less for the year) may file Form 944, Employer's Annual Federal Tax Return annually instead of Forms 941. Employers are required to file Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return annually. Employers must also file a Form W-2, Wage and Tax Statement annually for each employee along with a Form W-3, Transmittal of Wage and Tax Statements, and furnish a copy of the Form W-2 to the employee.

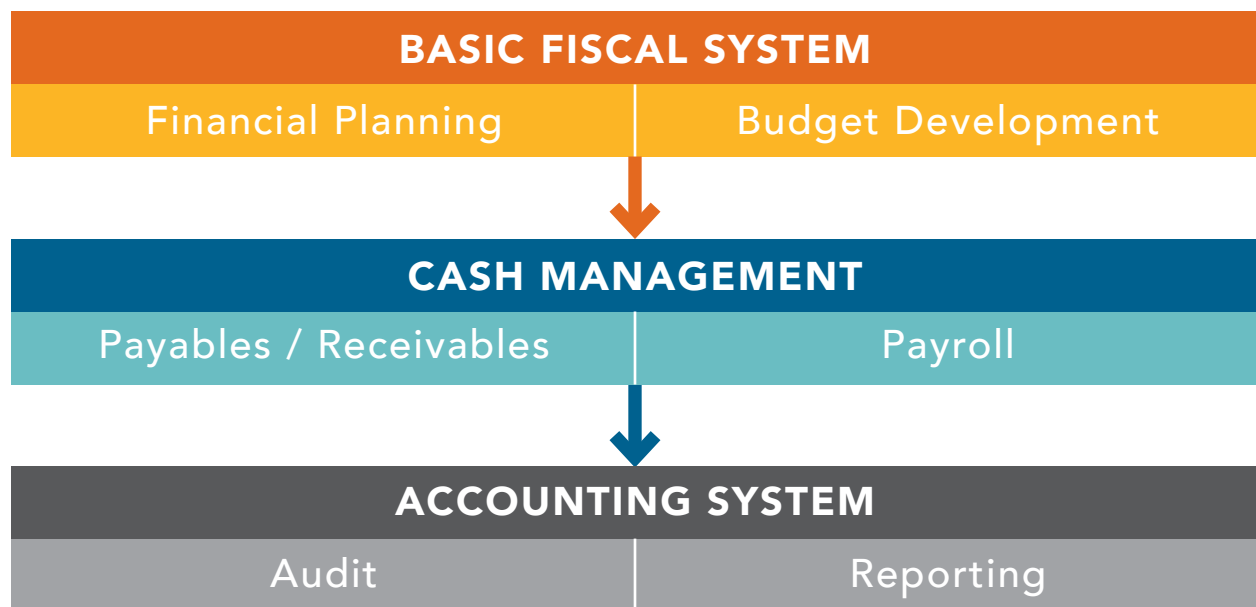
### Are your credit cards hurting the business?

Make sure you are only purchasing items directly used by the business – no personal purchases. Examples of business expenses include office furniture and equipment. Personal expenses may include groceries for your home or other items not used in your business.

### Are expenses your real issue?

Debt is manageable; review what you are paying monthly to determine what can be reduced or cut out completely.

Business owners should have separate bank accounts for business and personal expenses. Co-mingling can cause serious financial issues that can strain the business. Review your financials regularly with your accounting specialist or CPA to determine if you are using your cash as budgeted. QuickBooks, Quicken and Zero are some accounting software that are available to small business owners.



# RESILIENT RESPONSIVENESS

Responsiveness is not only one of the biggest determinants of an accountant-client relationship success, it is the largest. Poor communication has nothing to do with your accountant communication ability your ability to communicate. It is the result of technologically imposed chasm; one that should be bridged through cloud-based document management software for both the accountant and client. Here are five reasons why:

- 5. Clients Demand Responsiveness** – Cloud-based software can mitigate client-imposed business by increasing professional mobility. iCloud, Google Drive and Dropbox are some examples of cloud-based services.
- 4. Accessibility & Security Are No Longer Mutually Exclusive Through the Cloud** – The cloud brings storage space, enhanced security, and hyper-collaborative features; this keeps sensitive information accessible.
- 3. Cloud Lessens the Burden of Unpredictable Hours** – Mobile document management provides the freedom to work with convenience and comfort of any place. OneDrive or Microsoft products are some services that allow business owners to work remotely with the capacity to share needed documents while traveling. Synchronizing all your smart devices allows you to become more efficient and reduce late hours in responding to your clients or customers.
- 2. No Tech Experience Required** – The software provider and/or host will handle issues arising with the software. If Wi-Fi or Internet is unavailable, if you are using smart devices a Hot Spot maybe available and is only a click on your smart device. Purchase anti-virus protection on all your devices. Your devices can be managed by the service provider remotely to save you time and money.
- 1. Reduced Operating Cost** – A cloud-based document management system (DMS) can be cost efficient. DMS is a process system designed to track, store, manage and control the flow of documents and files. If the system relies on computer tools that help the digitalization of documents, efficiency and profitability are gain by allowing a decrease in the use and storage of paper.

## BEST RESILIENT START

**Set financial goals:** Be realistic.

**Make a financial plan:** Establish time frames.

**Get connected:** Meet licensed or registered advisers such as business consultants, financial advisors, CPAs, professional development mentors.

**Be Involved:** Take an Interest – Business owners should know every area of the business and be knowable of processes and the staff producing the service or product.





## THE RIGHT LEGAL STRUCTURE FOR YOUR BUSINESS

One of the first, most important decisions you will make as a business owner is choosing the proper type of business entity for your company. The structure you choose can have long lasting tax and legal consequences, so it is important to get it right.

### Types of Business Entities

There are four types of business entities for owners to consider; each has its own advantages and disadvantages, which owners should discuss with a CPA or business attorney:

- **Sole proprietorship**

The most common form of business structure in the U.S., a sole proprietorship is easy to establish and maintain. However, the owner has no protection for personal assets from business liabilities.

- **Partnership**

Two or more owners who share in the business' profits and losses can form a partnership. As with a sole proprietorship, there is no limited liability protection for owners in a partnership.

- **Limited Liability Company (LLC)**

A hybrid of partnership and corporation business structures, the LLC allows owners to report business profits and losses on their own tax returns without the business itself being taxed and provides owners with limited liability protection. Sometimes, this can be known as pass-through entities.

- **Corporation**

A corporation operates as a separate entity and is taxed as such. "C Corporations" are taxed as separate entities, while "S Corporations" are pass-through entities where taxes are reported on the owners' individual tax returns.



# Considerations for Selecting the Right Business Entity

In general, there are three critical areas for consideration in selecting the right legal structure for your business. These include:

- **Risk**  
All businesses carry some degree of risk, and perceptive business owners will want to choose a structure that protects their personal assets from business liabilities. A limited liability company (LLC) or a corporation (C Corp or S Corp) can insulate an owner’s personal property from business creditors and litigation.
- **Taxation**  
Business owners who prefer to report business profits and losses on their personal tax returns and be taxed on the net profits from the business should select what is known as a “pass through entity”, which includes sole proprietorships, partnerships and LLCs. Owners who would prefer to use a corporate structure to take advantage of preferred corporate tax rates would choose an S Corporation or C Corporation structure.
- **Complexity**  
Approximately 75% of small businesses in the U.S. operate as sole proprietorships, primarily because this type of business entity requires much less paperwork, time and money to maintain. Corporations and LLCs require detailed record keeping as well as adherence to a lengthy list of requirements in order to maintain their limited liability protection.

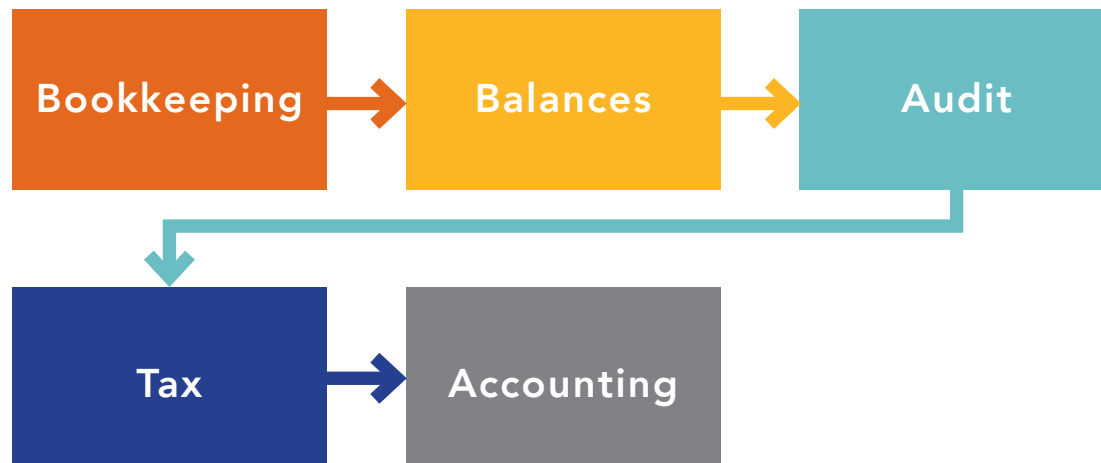
As the old adage goes, if you fail to plan, you are planning to fail. One important way to plan for success is to set a budget for your business. Look ahead to where you would like to be financially in the next 3 months, 6 months, and 1 year. When setting a budget, look at both your expenses and earning potential.

When planning, consider what resources you will need, including human resources. Look at your current costs and see where you are able to cut expenses if necessary. Where possible, avoid expensive, long-term contracts so that you can scale your business as demand increases or decreases. If a disaster strikes and sales become slow, you want to be in a position where you can trim costs quickly and easily to avoid being in debt.



# RESILIENCE ASSURANCE-GROWTH

Develop overall operational resilience internal audit plans, ingrain operational resilience into existing audits, and provide assurance over the operational resilience program. Your strategic plans of the business should have included using a CPA or accounting annually for controlled cost. Internal and external audits are performed to ensure that the business is operating for growth and longevity. Audits are to protect the assets and enhance the process of the business. You should consider using an outside firm to manage the audit for complete transparency in the business.



By now, your growing business should be following the above process as your financial foundation and operations. What does this mean?

1. **Bookkeeping** is the activity or occupation of keeping records of the financial affairs of a business.
2. **Balance** is an even distribution of revenue and expenditures.
3. **Audit** is an official inspection and/or examination of an organization's accounts, typically by an independent body.
4. **Taxes** are a means to the government to finance their expenditures.
5. **Accounting** is the action or process of keeping financial accounts.

## Resilient Businesses Should Take Steps to Control Debt

Analyze the debt.

Develop a strategy.

Beware of high credit cost.

Ensure bills are paid prior to the due date.

## Guard Your Business Identity and Credit

- Secure your financial records by hiring a CPA firm with the capacity to maintain both electronic copies and paper files with a PIN or password.
- Shred or destroy documents before tossing them in the trash. A three-way shredder or a mobile shred company are two effective options.

- Always read the fine print for the terms when signing a new contract, opening new bank accounts and making purchase for equipment.
- Do not give out your Employer Identification Number (EIN) or Dun & Bradstreet Number over the phone to unknown parties.

## OPERATIONAL RESILIENCE

In today's environment of rapid digital change, growing cyber concerns and outages impacting the financial sector, operational resilience continues to be top of mind for industry executives around the world. It is not just the firms within the industry that are focused on the topic. With the issuance of the Discussion Paper on Operational Resilience by regulators in the UK, and the recent issuance of a similarly themed paper by the Monetary Authority of Singapore, the regulators have sent a clear message that this will be an area of increased focus in the coming years.

Protiviti's financial services industry subject matter experts developed a framework with which firms can approach and evaluate operational resilience. This framework provides a structure that can be leveraged to help understand, prevent, and recover from extreme-but-plausible events that may affect critical business services provided by the organization.

Analyze existing business services to determine criticality, establish initial impact tolerance methodology and create economic impact scenarios for business services defined as critical.

### Providing smart, proactive solutions throughout a business's journey to operational resilience:

1. **Identify Critical Business Services** – Understand your business services and formalize those that are critical. Critical business services are those that have been identified through separate regulatory obligations or meet established criteria that demonstrate a broader economic importance beyond the business.
2. **Establish Impact Tolerance** – Establish impact tolerances for critical business services. Extending beyond traditional recovery time, impact tolerance represents the point at which an interruption (or resilience event) threatens the viability of business services.
3. **Understand Economic Impact** – Understand the impact of an operational resilience event on the financial sector and the broader economy. Create processes and procedures to minimize any negative impact.
4. **Implement Appropriate Governance** – Establish proper governance functions and implement a resilience program based upon the needs of the organization's critical business services.
5. **Test and Improve** – Test the "extreme but plausible" scenarios to understand realistic recovery times versus established impact tolerance. Testing will indicate where investment in technology or processes is needed in order to stay within tolerances.
6. **Continue to Evolve Foundational Elements** – Continue to improve business, cyber, third party and technology resilience — foundational elements of a solid resilience program that should be supported with the appropriate "tone from the top."

## Let's Be Resilient Together



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