COMPUTERIZATION

Selecting the right computer system for your business is an investment in your company's growth and overall success. A computer that is suited to your business' needs will enable you to:

- Run your business more efficiently and cost-effectively.
- Expand your financial management capabilities.
- Help increase profitability.

A properly designed computer system can help perform many of the critical business functions of your company. Computers can accomplish the following:

- Expedite the preparation of internal financial statements while minimizing the potential for clerical and computational errors.
- Enhance the process of analyzing financial and operational performance.
- Allow you to see the effects of different financial decisions quickly by the use of spreadsheets.

The following may indicate that your business can benefit from a computer system:

- High clerical involvement or labor costs
- Repetitious or large number of time-consuming tasks
- Complex calculations
- Recordkeeping requirements
- Need for timely information

Essentially all businesses can benefit from a computer system, but not all businesses are alike. Therefore, in order to maximize your return on your computer investment, the right hardware and software must be selected along with proper training and support. The amount of the investment varies depending on the company's needs, but keep in mind if the company selects the right tools and commits itself to computerizing, the rewards can be long lasting and tremendous.

INTERNAL CONTROL

Internal control is a process, effected by entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the (1) safeguarding of assets; (2) effectiveness and efficiency of operations; (3) reliability of financial reporting; and (4) compliance with applicable laws and regulations.

For any organization, regardless of size, internal control starts with the mind-set of the board of directors and the officers. The board members and the senior management of the company must give clear directions to all personnel emphasizing the importance of the objectives of the company's internal control system.

For the employees to be cognizant of the importance of the control system and how they fit within such system, a job description manual with clear lines of responsibility should be prepared. For smaller organizations where a formal job description manual may be too costly to prepare, we suggest that each employee write a list of job functions and processes that the employee is performing. Management should review this list and make sure that the functions are in line with the position of the employee. As the company grows, the list of functions and processes should be updated with the eventual goal of formalizing the lists into a manual.

One of the most important aspects in devising a system of internal control is to adequately segregate the duties and responsibilities. Even in small organizations, with some thought, duties can be allocated amongst the employees so that not one person is responsible for a particular job from the start to the end. Functions involving cash receipts and disbursements should be segregated so that another employee or manager is involved in the process. In addition, a periodic review of the work by a manager can be effective in deterring misappropriation of funds.

The company should create a culture where the internal control functions are continually emphasized by top management. This all starts with the mind-set of the senior personnel within an organization and the buy-in by the employees. The organization's emphasis on control goes a long way in influencing the employees' perception of the internal control environment, and thereby, the actions. Companies should strive to minimize the risks of errors, omissions, and potential loss of corporate assets by considering appropriate levels of controls that fit the organization's needs. We encourage that studies be made and thought be given in assessing your internal control environment.

A LIMITED LIABILITY COMPANIES

Recently, many states have enacted legislation to permit limited liability companies ("LLCs"). LLCs, which offer both limited liability and tax advantages, will become an important business entity choice for many businesses. An LLC offers the limited liability protection of a corporation and the tax advantages of a partnership.

Tax considerations and reduced operating and ownership restrictions favor selecting LLCs-which, like partnerships, generally are not taxable entities. State laws also permit LLC owners (properly known as "members") to limit their liability to the amounts they have invested, making LLCs more attractive than partnerships. The reduced operating and ownership restrictions also make them more attractive to some S corporations.

47 states and the District of Columbia permitted the formation of LLCs. Legislation is under consideration in all three remaining states. The pace of adoption has been rapid. The key issue for LLCs is achieving partnership status for federal income tax purposes.

Compliance with a state's LLC statute generally ensures an entity will be classified as a partnership. For LLC members to be taxed like partners, LLCs must avoid two of the four corporate characteristics under Treasury regulations.

1. Limited Liability.
2. Centralized management.
3. Continuity of life.

4. Free transferability of interests.

Each of these characteristics is assigned equal weight in determining how a business is classified. By design, LLCs have limited liability and, for practical business purpose, management generally is centralized. Accordingly, LLCs must avoid continuity of life and free transferability of interests to achieve partnership status. For example, if an LLC organizes so that the assignee of a member's interest may become a member without the remaining members' consent (free transferability of interest) or if the LLC continues to operate after an event that terminates a member's interest (continuity of life), the entity will be taxed as a C corporation.

To obtain favorable federal tax status, LLCs must also avoid classification as publicly traded partnerships. This means that partnership interests cannot be traded or be readily tradable on established securities markets, in secondary markets or their equivalents. Conversion of a partnership to a LLC generally would not trigger income tax. However, a corporation converting to LLC status would incur an income tax on appreciated property (including goodwill) in the liquidation process. In either case, depending on the type of business involved, conversion could trigger other tax consequences such as property tax reassessment, documentary transfer or perhaps sales taxes. The LLC is a creation of the state and must file articles of organization with the Secretary of State. Members must enter into a separate operating agreement regarding the affairs of the LLC and the conduct of its business. In general, California LLCs may conduct any lawful business except licensed professional services. Unlike California, some states permit professionals to form LLCs.

LLCs are subject to an annual California minimum tax of $800 plus a fee based on gross receipts starting at $250,000. The fee based on gross receipt applies only to California LLC's not doing business in California for tax years after 1995. For example, the fee is $2,000 ($3,000 in 1996) for gross receipts from $1 million up to $5 million and reaches a maximum of $4,000 ($4,500 in 1996) at $5,000,000. Therefore, for a business with high gross receipts but low net income (or losses), the advantage of limited liability through an LLC must be weighted against the "insurance cost" of the gross receipts tax.

This general information does not apply to each particular cases; therefore, we recommend that consideration of LLCs need to be discussed with professionals in this area.

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