

Preparing for an Economic Damage Claim

Economic damage claims can have numerous causes, from environmental and natural disasters to legal actions, but all economic damage claims requires a clear, concise presentation of the loss. While it is often uncomfortable to ‘prepare’ for an economic damage claim, successfully proving a claim often depends on the ability to provide organized and meaningful financial information to a forensic accountant. Through thoughtful planning, your organization can capture the information necessary to support an economic damage claim.

While no economic damage claims are identical, they typically consider two broad categories: loss of income or loss of gross profits, and extraordinary expenses related to damage mitigation. An economic damage claim will vary based on each organization’s business model, but by considering the following questions, your organization may be able to capture important information:

- *When did the damage begin, and when is it expected to end?*
- *What financial statements or tax returns are available to support your business activity prior to the event in question? Forensic accountants (and insurance companies) typically request at least two years of monthly financial statements prior to the event to determine normal business activity.*
- *What pre-event budgets or forecasts are available to reflect expected activity if not for the damage? Well-prepared budgets or forecasts can serve as a guide to expected business activity.*
- *What key metrics can support changes in the financial statements post-event? For example, is there a log showing cancelled orders or cancelled reservations? Is there a log showing monthly occupancy rates? Unit sales? Tax receipts? Each organization will have its own metrics, but this information is often useful in presenting what revenues were lost.*
- *What level of business activity took place during the damage period? Was there a complete cessation of business, or a reduction of business? What efforts were made to mitigate damages?*
- *What extraordinary expenses were necessary to protect your organization or to attempt to resume operations? Did you pay for offsite facilities? Did you require a generator? Did your employees work overtime? Did you have clean-up expenses?*
- *Where in your accounting ‘system’ are extraordinary expenses recorded? Is there a separate line item for damage related costs? Are the expenses included in their normal categories?*



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Jason is a Director with P&N’s consulting division. His practice focuses heavily on the valuation of private equity, and his professional experience includes business valuations for estate and gift matters, litigation, mergers and acquisitions, and financial reporting. In addition to his valuation practice, Jason provides litigation support in economic damage issues, assists clients in complex financial forecasting and modeling, and performs general financial consulting. Jason has prepared, overseen, or contributed to hundreds of valuations of businesses, intellectual property, and intangible assets.

Assembling the appropriate documents and records is the foundation of a defensible loss of income claim, but keeping detailed notes on timelines, business indicators, and key metrics are equally important. We recommend that clients keep adequate backups of documentation that may prove useful in a potential economic damages claim, but also to keep meticulous records should a damage event occur. No organization wishes for an interruption in operations, but being prepared could make the difference in an economic damage claim.

The professionals at Postlethwaite & Netterville have assisted clients in hundreds of loss of income claims, from environmental and natural distaters and legal actions to business interruption claims in insurance matters. If you have any questions about your organization’s loss of income claim or what preparations you should consider, please let us know.