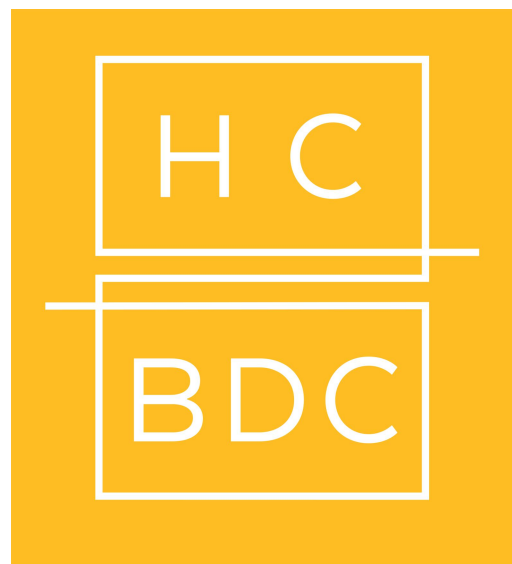




Sequoia Technical Services LLC



WORKFORCE TRAINING

Business Finance Part 2

August 2020

Building a 5 year pro-forma Financial Statement



Sequoia Technical Services LLC

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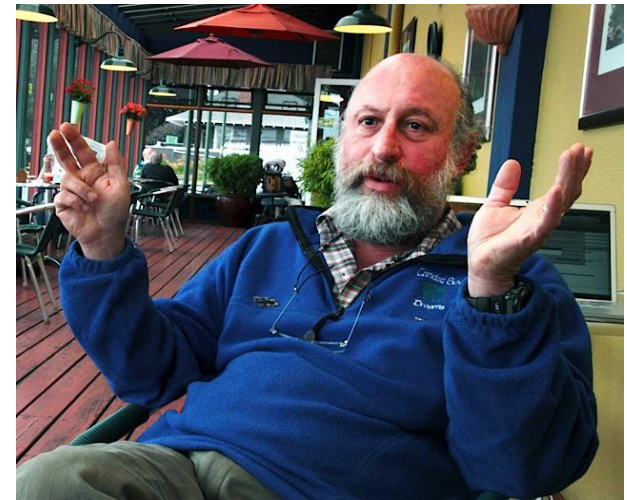
larry@northcoastca.org

Your presenter today:

- MBA from Humboldt State University Successfully built, managed and sold three IT businesses over the past twenty years.
- Originally from New York City, but has lived on the California Northcoast since 1978
- Began professional career working on energy management and renewable energy projects, pioneering the leasing and installation of residential and commercial solar water heaters on Northcoast in 1979.
- Worked for 11 years in community action (**Redwood Community Action Agency**) building energy retrofitting, financing and technical support programs for low-and-moderate income communities.
- Started Sequoia Technical Services in 1980 providing consulting services to small businesses, government & individuals.
- Developed the first Internet services on the California Northcoast (**Northcoast Internet**, 1994) and later founded a national outsource 24/7/365 Helpdesk technical support service business (**NetHelp International**, 1996 – 2001)



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Agenda



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- Review accounting basics to understand the information on your financial statements
- Understand how to read and analyze your:
 - Income statement
 - Balance sheet

“ No one can advise you on how to manage your business without first reviewing and understanding your financial statements. ”

What are financial statements?



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The summarized results of your business financial transactions over a designated period of time.

They will show total income, expenses, cash balances, level of debt, and much more.

But where does this information come from?

Three Important Financial Statements



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The Balance Sheet:

- Provides a snapshot view of a company's assets and liabilities.
- The Balance Sheet is as of a particular date.

The Income Statement:

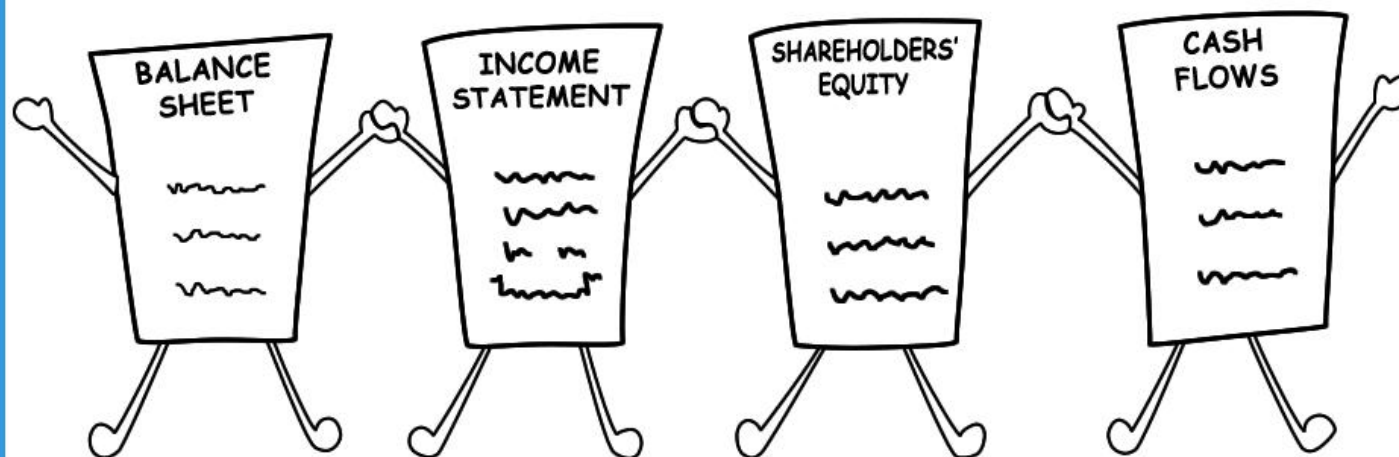
- Provides a summary of a firm's revenues and expenses.
- The Income Statement is over a specific accounting period, usually a quarter or a year.

The Cash Flow Statement:

- Is an analysis of the sources and uses of cash by the firm over an accounting period.
- Summarizes operating, investing, and financing cash flows.



Financial statement relationships



Financial statements share information to collectively present financial information

MONITORING

MONTHLY FINANCIAL STATEMENTS

MANAGEMENT DASHBOARD

OPERATING BUDGET

BUDGETING

LONG-TERM FORECAST

BUSINESS MODEL

MODEL

BUSINESS MODEL FORMULA

INCOME STATEMENT

PROCESSES

CASH FLOW STATEMENT

BALANCE SHEET

FOUNDATION

CAPITALIZATION TABLE

FINANCIAL PYRAMID

Accounts



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Accounts are the categories into which the effects of transactions are recorded, and from which financial reports are created.

5 major account categories:

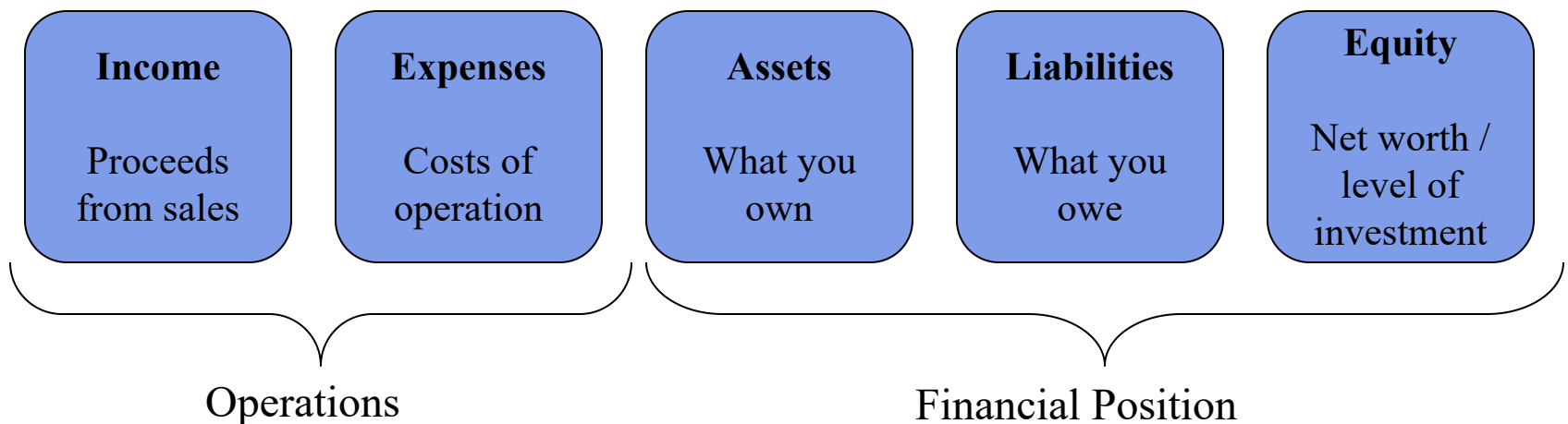


Chart of Accounts



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Sample Income accounts

- Sales revenue
- Other income

Sample Expense accounts

- Rent
- Cost of Goods Sold (COGS)
- Marketing
- Office supplies
- Payroll
- Professional fees

Sample Asset accounts

Current assets

- Cash
- Inventory
- Accounts receivable

Fixed assets

- Equipment
- Property

Sample Liability accounts

- Accounts payable
- Credit card payable
- Loan payable

Sample Equity accounts

- Owner's equity
- Retained earnings

Statement of Cash Flows



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Uses of Funds

- **Assets** ↑
- **Liabilities and Stockholders' Equity** ↓

Sources of Funds

- **Assets** ↓
- **Liabilities and Stockholders' Equity** ↑

Statement of Cashflows



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A firm's cashflows can be quite different from its net income. For example:

- The income statement does not recognize capital expenditures as expenses in the year that the capital goods are paid for. Those expenses are spread over time as a deduction for depreciation.
- The income statement recognizes revenues and expenses when sales are made, even though the money may not have been collected (revenues) or paid out (expenses).

Who do we prepare Pro-forma projections for?



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- Ourselves – as a management tool to see if we are meeting our objectives.
- Our bankers – to borrow money or get credit
- Investors – to raise capital for future growth

Remember – the whole point of financial projections is to review them in the future to see how your business is performing!

How to create a Pro Forma statement in 4 steps



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Step 1:

Calculate revenue projections for your business. Make sure to use realistic market assumptions to write an accurate pro forma statement. Research and speak to experts to determine what a normal annual revenue stream is, as well as cash flow and asset accumulation.



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Step 2:

Estimate your total liabilities and costs. Your liabilities are loans and lines of credit. Your costs will be your lease, employee pay, insurance, licenses, permits, materials, etc. To create the first part of your pro forma you'll use the revenue projections from Step 1 and the total liabilities and costs found here.

During this time, put a lot of thought into each expense. This is an opportunity for you to evaluate if every cost is necessary, and what you can cut.



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Step 3:

Estimate cash flows. This portion of the pro forma statement will project your future net income, sale of assets, dividends, issuance of stocks, etc. This is the second section of your pro forma financial statement.



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Step 4:

Create the chart of accounts. This chart of accounts will make up the pro forma statement for a 3 to 5 year period. Year one will be broken down into monthly increments, and future years can be broken down by month or quarter.



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Identify all your sources of revenues

Determine your revenues for a typical month

Understand you revenue drivers

- How many customers you will serve
- How much product they will buy
- How much they will pay for each product
- How often they will buy

Validate driver assumptions

- Primary research (talk to customers, attend tradeshow etc.)
- Secondary research (industry reports, company reports etc.)

Determine COGS

Determine operating expenses by most appropriate time frame

Refine operating costs

Create preliminary income statement

Building your pro-forma financial statement



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Comparable method

- Compare revenue projections to industry metrics
- Run scenario analysis
- Compare common-sized cost percentages to industry averages

Building integrated Financial statements

- Derive monthly income statements for two years, monthly or yearly statements for year 3 -5
- Create balance sheet (yearly for year 1 -5)
- Create cash-flow statement

Final steps

- Write a two- to three-page description of financial statements

Operating Expenses

Operating expenses are the costs of keeping your business running. Think of these as the things you're going to have to pay each month. Your list of operating expenses may include:

- salaries (yours and staff salaries)
- rent or mortgage payment
- Telecommunications
- utilities
- raw materials
- Storage
- Distribution expenses
- Marketing & promotion
- loan payments
- office supplies
- maintenance



Income Statement per Year



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Income Statement

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		'2007'
Revenue														
Sales	808,426	322,243	1,016,525	226,606	820,074	736,284	1,092,444	268,147	698,374	1,737,819	2,920,921	831,956		11,479,819
Cost of Sales														
Cost of Goods Sold	(420,695)	(50,507)	(524,854)	(157,679)	(553,893)	(175,366)	(1,183,293)	(162,278)	(462,335)	(1,323,247)	(1,750,827)	(578,711)		(7,343,684)
Gross Profit	387,731	271,736	491,671	68,927	266,181	560,918	(90,849)	105,868	236,039	414,573	1,170,094	253,246		4,136,135
Operating Expenses														
Administrative Expense	(22,227)	(23,181)	(9,494)	(20,875)	(86,646)	(24,325)	(9,823)	(35,754)	(22,201)	(16,632)	(13,160)	(17,316)		(301,632)
Manufacturing Expense	19,703	16,879	50,046	39,187	81,627	96,587	61,795	59,185	173,009	350,587	156,146	81,029		1,185,780
Travel and Entertainment Expens	1,056	4,875	1,250	1,165	1,322	1,507	1,577	3,389	1,385	1,549	1,459	1,672		22,207
Project Operation Expense	(13,949)	(18,691)	(16,578)	(17,263)	(20,826)	(13,565)	(16,642)	(18,783)	(16,629)	(14,663)	(16,299)	(14,404)		(198,292)
Other Employee Expenses	18,970	15,820	17,910	17,605	19,005	16,730	18,375	19,250	16,415	17,900	17,710	16,275		211,965
Depreciation Expense	(84,400)	(86,350)	(88,751)	(90,331)	(90,519)	(90,545)	(95,651)	(95,651)	(95,651)	(95,651)	(101,272)	(101,689)		(1,116,461)
Total Operating Expenses	(80,847)	(90,648)	(45,617)	(70,513)	(96,036)	(13,610)	(40,369)	(68,365)	56,329	243,089	44,585	(34,432)		(196,434)
Operating Income	306,884	181,089	446,054	(1,586)	170,145	547,308	(131,218)	37,504	292,368	657,662	1,214,679	218,814		3,939,701
Other Expenses	(3,311)	(752)	(374)	696	(2,814)	(5,261)	4,126	(1,214)	9,345	5,870	(10,551)	(5,684)		(9,925)
Other Income	8,934	14,025	20,130	23,511	24,728	18,482	16,695	14,898	18,364	20,961	23,172	13,250		217,149
Gain/loss on asset disposal	-	-	-	-	-	-	-	-	-	-	-	-		-
Net Profit	312,506	194,361	465,810	22,620	192,060	560,529	(110,397)	51,188	320,076	684,493	1,227,300	226,380		4,146,925

Cash Flow Projection



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- There are three parts to the Cash Flow Projection. The first part details your Cash Revenues. Enter your estimated sales figures for each month. Remember that these are Cash Revenues; you will only enter the sales that are collectible in cash during the specific month you are dealing with.
- The second part is your Cash Disbursements. Take the various expense categories from your ledger and list the cash expenditures you actually expect to pay that month for each month.
- The third part of the Cash Flow Projection is the Reconciliation of Cash Revenues to Cash Disbursements. As the word "reconciliation" suggests, this section starts with an opening balance which is the carryover from the previous month's operations. The current month's Revenues are added to this balance; the current month's Disbursements are subtracted, and the adjusted cash flow balance is carried over to the next month.



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Brief Narrative of Financial Projections

Once you have your Balance Sheet, Income statements and cashflow analysis completed, you're ready to write a brief narrative of each of the three financial statements. When you're writing these analysis paragraphs, you want to keep them short and cover the highlights, rather than writing an in-depth analysis.



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Questions?



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Marketing Opportunities with Tribes

Sep 08, 9:00 AM
Online training

Opportunities working with tribes:
taxation, product types, joint
ventures and brand
transfer/licensing. ZOOM:
<https://us02web.zoom.us>

Register



Doing Business with Tribes

Tue, Sep 15 | Online training

Register

**Thank you for your participation
In this
HCBDC workshop**



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