



Putting Your Financial House in Order and Your Business Team Together

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Putting Your Financial House In Order



- Choosing the Right Entity Type
- 4 Critical Financial Techniques
- Managing Company Cash Flow
- Top 10 Financial Tips-Personal/Business

Choosing the Right Entity Type



- C-Corporation
- S-Corporation
- Limited Liability Company
- Partnership
- Sole Proprietorship

C-Corporations



- Virtually unlimited in the number and **type** of shareholders
- The individual business owner has a “limited liability” if the business entity, and not the owner, is responsible for the debts and obligations of the business.
- A Corporation has a “continuous life” because it does not cease when its owners change or die
- The Corporation is taxed itself as a separate entity
- Profits are taxed twice
- **Entity** may be relatively difficult and expensive to form and maintain

S-Corporations



- Qualification as an S corporation offers a potential tax benefit
- Income, gains, deductions, and losses of the corporation are generally passed through to the shareholders.
- Shareholders report the S corporation's income, gains, deductions, and losses on their individual federal income tax returns
- Elimination of potential for double taxation of corporate earnings in most circumstances.

Limited Liability Companies (LLC)



- A limited liability company (LLC) is a type of entity that provides limitation of liability for owners, like a corporation.
- State law generally provides much more flexibility in the structuring and governance of an LLC as opposed to a corporation.
- Most LLCs are treated as partnerships for federal income tax purposes, thus providing LLC members with pass-through tax treatment.
- LLCs are not subject to the same qualification requirements that apply to S corporations.

Partnerships



- There must be at least two partners
- Relatively simple and inexpensive to create and operate
- No limit on the number and type of partners
- Flexibility in sharing profits and control
- Profits taxed only once
- Partnership interests can be freely assigned
- Each partner can typically “bind” the partnership
- Partners are personally liable for any acts of the others, and all partners are personally responsible for the debts and liabilities of the business

Sole Proprietorships



- Sole proprietor is personally liable for the obligations of the entity
- The owner can be sued and enter into contracts on behalf of the business.
- Life span of the entity is limited to the life of the sole proprietor
- Income and expenses are reported on the owner's Schedule C of the individual Form 1040
- Profits taxed only once
- Management is centralized

4 Critical Financial Techniques



- Cash Flow Forecasting
- Cash Breakeven
- Forecasting the Balance Sheet
- Sustainable Growth Rate

Cash Flow Forecasting (Budgeting)



Cash flow forecasting, or budgeting, describes the anticipated movement of cash during the year. A worksheet needs to be prepared that lists, month by month, all expected cash receipts and all expected cash disbursements. This worksheet, rather than a monthly projection of revenues and expenses, is of great importance because managers of small firms cannot assume that net profit will equal net cash flow.

Cash Breakeven



Cash breakeven is defined as the forecasted dollar sales level at which cash receipts will equal cash disbursements. Use of the cash breakeven formula will not pinpoint the exact time during the course of a year that a cash loss will occur, nor the magnitude of that loss. It is a supplement to the cash budget because the breakeven only reveals the net cash at the end of the year. Budgeting does month-by-month cash flow forecasting.

Forecasting the Balance Sheet



A company uses current and fixed assets to create sales. As the sales level grows, additional assets are required for purchase. A firm must forecast its balance sheet to determine the dollar amount that must be invested in additional assets and to plan the source of the dollars. As always, it is to the firm's advantage to plan ahead.

Sustainable Growth Rate (SGR)



Growth is a two-edged sword. The edge facing the smaller, resource-poor firm is razor sharp. Because growth requires the disbursement of cash for additional assets, a small firm can grow itself broke. Knowing the company's SGR enables the firm the question of how fast the firm can grow in sales without experiencing cash problems.

Managing Company Cash Flow



- Managing Company Receivables
- Managing Company Payables

Managing Company Receivables



- Stay on top of payments
- Make it easy for them to pay
- Institute a credit policy
- Institute a collections policy

Managing Company Payables



- Manage your due dates
- Extend your payment terms

Top 10 Financial Tips



1. Get Paid What You Are Worth and Spend Less than You Make
2. Stick to a Budget
3. Pay Off Credit Card Debt
4. Contribute to a Retirement Plan
5. Have a Savings Plan

Top 10 Financial Tips



6. Invest – consistently
7. Maximize your Employment Benefits
8. Review Your Insurance Coverages
9. Update your critical Estate and Business Documents
10. Keep Good Records



Putting Your Business Team Together

- Choosing your professional advisors can be one of your most critical business decisions. How much advice you need, want, and can afford are some of the issues you should consider when forming a team.
- Only **you** can decide the best mix of advisors for your team.

The Inside Players



- Examples of Key Players:
 - Budget and Forecast Experts
 - Sales and Profit Analysts
 - Pricing Specialists
 - HR Department

The Outside Players



- May be used on a temporary basis or for a specific purpose
- Can be as informal as members of a Peer Advisory Group to which you belong – for example, WPO
- Can be Paid Professionals

Temporary Needs



Certain players are only needed at particular key moments. For Example:

- You may need a player to do only specific things (e.g., a CPA to do the taxes each year)
- You may need to assemble a special team to handle a particular event if you are expanding or selling your business
- Architects, attorneys, CPAs, and brokers are some types of independent contractors that you can hire in those cases.



Peer Group Advisors

Don't forget to pick the brains of your associates and colleagues

- You have probably joined groups of others who have similar experiences
- Take advantage of their own personal experiences to help you
- WPO allows you to have roundtable discussions about your particular issues

When Attorneys Are Helpful

- When first establishing your business
- When designing contracts and other legally enforceable documents
- When drawing up estate planning documents (wills, trusts, powers of attorneys)
- When working on Succession Planning and need such as Buy-Sell Agreements must be drawn up
- Employee-specific issues



Why Hire a CPA?



- Annual Audit, Review or Compilation (sometime mandatory and sometime voluntary)
- Tax Planning and Preparation
- Financial Statement Preparation or Review
- Consulting to establish Accounting Policies and Procedures Manuals
- Consulting to find software

Financial Planners



PFS – Personal Financial Specialist:

- This prestigious designation is one that can only be earned by established CPAs. Most of the time you will see the designation as CPA/PFS or CPA, PFS.

CFP – Certified Financial Planner:

- This is a professional who is not necessarily a CPA, but has passed comprehensive exams on various financial planning topics. In addition, there is an experience requirement and continuing education is also required.

Registered Investment Advisor (RIA)

- A RIA is a firm that is licensed in one or more states, who is paid to offer financial advice for flat fees, hourly fees or tiered fees.
- They can manage your investments or strictly advise you on those investments or other financial matters.



Securities Licensed Advisor



- Someone who is Securities Licensed is trained in the basics of investment analysis, and the mechanics of trading.
- Most must pass Series 7 licensing exam administered under the FINRA, which allows them to advise you, solicit your business, and execute transactions on your behalf. Most states also require the Series 63 exam.

Insurance Agent



There are many types of products Insurance Agents can sell. Most of these can be individual or group policies:

- Life and Health Insurance
- Annuity Products
- Disability Insurance
- Long Term Care Insurance
- Property and Casualty – homeowners, auto, umbrella, liability

Define the Needs and Roles of the Advisors



- Break down your particular needs into component parts
- You need to define each advisor's role and communicate this information to all parties involved
- Specify the conditions when one professional should defer to the judgment of another

Define the Needs and Roles of the Advisors



- You may want to appoint your quarterback--one advisor who coordinates the overall efforts of all parties to ensure that the "big picture" is kept in mind.
- Typically, the coordinator will be a financial planner with a strong tax background, or perhaps an accountant with a financial planning credential. This person is likely to be the one you'll be dealing with most frequently.

Find the Players



Now that you understand the roles of the potential players on your team, it's time to find the players. Some important considerations are:

- Credentials
- Experience
- Reputation
- Expertise
- Cost

You can usually find the best professionals by asking those you know who they work with or recommend.

Check Them Out!



- Education: Be sure the candidate has the proper degree
- Training: Be sure the candidate has an appropriate number of years of recent experience and the appropriate professional designations
- Licenses: Be sure the candidate has all necessary licenses
- References: Ask for and follow up on at least three business references – preferably five to eliminate all the family members!

Check Them Out!



- Teamwork: Willingness to work with other advisors and not feel threatened by possible competition
- Communication: Ability to communicate ideas to you clearly and simply
- Personal Accessibility: If your accountant is too busy to take your phone calls or pay attention to the other advisors, he or she is probably not the best choice for your team
- Remember: Your own "gut feelings" play a big part in your decision

How Should I Pay Them?

There are many different strategies for paying advisors:

- Hourly Fees: CPAs, Attorneys, some Financial Planners
- Flat Fees: CPAs for Audits and other similar engagements, some Financial Planners
- Percentage of Asset Under Management: Registered Investment Advisors, some CPAs, some Financial Planners
- Commissions: Insurance Agents, some Securities Professionals, some CPAs
- Combination: More than one of the above methods



Questions?



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