BDA Tool Three — Preparatory meditation and writing for conference registrants:

Please read BDA Tool Three in the BDA tools pamphlet, then spend 15-20 minutes meditating on the details below. Will you pursue clarity and accuracy for your business records now that you know how?

> *BDA Tool Three: "We keep clean, orderly and accurate financial records, including Accounts Receivable, Accounts Payable, Cash on Hand, Inventory, Assets, and Outstanding Debts, and put all tax and bill due dates on our calendar."*

On the next two pages we will see sample 20xx financial statements — Income Statement and Balance Sheet — for a small nonprofit organization. (While the third primary financial statement, the Statement of Cash Flows, is often quite useful, it is beyond the scope of this workshop.) We'll go into detail about these examples because *if we understand one set of financial statements, we can understand any set.* We've heard objections that the nonprofit financial statements presented here are not relevant for small business owners. Nothing could be further from the truth. Every balance sheet is more alike than different. Income statements have more differences than similarities, but the key elements — total income, cost of sales, gross profit, total expenses, pre-tax profit, and post-tax profit — remain the same.

When we talk about clean, orderly, and accurate financial records, this is what we're talking about. As we'll see, this organization has none of the EXTRA items listed in BDA Tool Three — *Accounts Receivable, Accounts Payable, Inventory, Assets, and Outstanding Debts.* Many of our businesses, especially for freelancers, don't have these items either, although we can decide to offer payment terms to clients and request payment terms from vendors, just like any other business.

Most of us need to use an accounting software to enter our data and prepare our financial statements, and many of us need the help of bookkeepers, payroll services, accountants, tax preparers, consultants, etc. (See BDA Tool Twelve for reference.) We should seek help, including outside help if necessary, in order to gain a clear picture of our business's financial activities and results. If we set up our accounting software correctly, most will automatically create our financial statements for us.

For review, let's turn to the Balance Sheet on the next page first. This statement is viewed as a snapshot of a business's financial picture on any given day. An informed viewer will immediately know the business's liquidity (or cash availability), asset to liability comparison, use or misuse of credit, viability in the short- and long-term, and year-to-date or year-end profitability. Here are some things we might notice immediately:

> The balance sheet is in balance based on the "accounting equation," Assets = Liabilities + Equity. The top half of the Balance Sheet must be in balance with the bottom half. That's true here; see highlights.
>
> This organization has three Current Assets, all checking accounts, and one Other Current Asset, a bond account. (These Current Assets would also be considered *Cash on Hand*, which includes both actual cash, such as petty cash funds, and up-to-date, reconciled bank balances in both checking and savings accounts.) Other Current Assets — "other" being different than cash or bank accounts but relatively easy to convert to cash — would also include Accounts Receivable. Inventory and Fixed Assets would be considered Non-Current assets, since it would usually take longer to convert them to cash.
>
> This nonprofit has no liabilities. If we have Accounts Payable or Outstanding Debts they belong on our Balance Sheets after Assets and before Equity. Liabilities get subtotaled with Equity.

Balance Sheet at Dec 31, 20xx

ASSETS	
Current Assets	
Checking/Savings	
Key Bank – 20xx Business C...	2,867.49
Key Bank – Business Checking	7,884.33
Key Bank – Money Market	12,602.86
Total Checking/Savings	23,354.68
Other Current Assets	
Wells Fargo - Bond Account	33,779.26
Total Other Current Assets	33,779.26
Total Current Assets	57,133.94
TOTAL ASSETS	**57,133.94**
LIABILITIES & EQUITY	
Equity	
Opening Bal Equity	0.00
Retained Earnings	75,562.89
Net Income	**-18,428.95**
Total Equity	57,133.94
TOTAL LIABILITIES & EQUITY	**57,133.94**

A few more notes on the Balance Sheet, specifically the equity section:

"Opening Balance Equity" is zero. This usually means that the current accounting system includes all transactions ever processed on this organization's accounts. A system change during the life of an organization would usually include the carryover of previous equity balances.

"Retained Earnings" recognizes all previous years accounted for in the current system. In this case, the books were setup more than seven years before this income statement, so all auditable periods are included in one place.

"Net Income," in this case a year-end loss, calculates only the net profitability for the current year and must balance to the bottom-line of the related Income Statement. On January 1st, the Net Income amount will roll into the Retained Earnings line, adding to the amount already there, and the Net Income line will then include only January 1st transactions.

Based on its 20xx expenses, if they are normal, this nonprofit is funded for two to three more years, even if its income remains lower than its expenses. This organization is sustainable in the short-term. On the other hand, if they return to a slow build of cash each year, they will be sustainable long-term.

Income Statement for Jan - Dec 20xx

Income			% of Income
Membership Dues		2,500.64	23.78%
Income from Board		7,200.00	68.47%
Interest - Bonds/Long-Term		785.00	7.46%
Interest - Savings/Short-Term		30.59	0.29%
Total Income		**10,516.23**	**100%**
Gross Profit		**10,516.23**	**100%**
Expense			
Donations / Charity		**11,699.76**	**111.25%**
Membership Expenses			
District Events	776.60		7.38%
Dues to National	1,704.25		16.21%
Officers Retreat	567.09		5.39%
Total Membership Expenses		**3,047.94**	**28.98%**
Necessary Services Expenses			
Musician	240.00		2.28%
Secretary	2,400.00		22.82%
Treasurer	1,200.00		11.41%
Tyler (aka Event Greeter)	660.00		6.28%
Officers Expense - Withholding	836.02		7.95%
Professional Fees - Accounting	1,256.25		11.95%
Total Necessary Services		**6,592.27**	**62.69%**
Operations Expenses			
Bank Fees	48.15		0.46%
Supplies	219.98		2.09%
Total Operations Expenses		**268.13**	**2.55%**
Special Events Expenses			
Event Supplies	2,574.02		24.48%
Installation Ceremony Expenses	707.27		6.73%
Refreshments	4,055.79		38.56%
Total Special Events Expenses		**7,337.08**	**69.77%**
Total Expense		**28,945.18**	**275.24%**
Net Income		**-18,428.95**	**-175.24%**

Now let's turn to the related Income Statement shown on the previous page. The Income Statement is usually seen as the story of the period being reported. Before beginning analysis, please note that the Net Income balance matches the Net Income balance on the Balance Sheet. If those two amounts are not the same, we have a "snapshot" and a "story" that are unrelated and will cause no end of confusion. Since these statements are aligned, let's jump in:

Income

This organization has four distinct income streams: Membership Dues, Income from the Board, and two Interest Income sources. Membership dues are self-explanatory but not this group's primary income source. Most of their members paid for lifetime memberships years ago.

Their main income is received from their Board, which manages the building they own and provides them with any proceeds. In most years, the Board sends an auto-transfer of $600 per month, which adds up to $7,200 annually, and then they send a large deposit by check sometime mid-year. Total income from the Board is usually $30,000-$40,000 per year. In the year reported here, the Board invested $75,000 in a new roof and other building upgrades, so sent only the auto-transfers. That's why the organization realized a loss for the year, which would be immediately obvious if we compared this year's Income Statement with any other years. The last two income sources are Interest from two of the accounts listed as assets on the Balance Sheet: Bond Account and Money Market. Neither are big money makers, nor are they losers.

Expenses

The bulk of this organization's expenses, and all of its Cost of Goods Sold, in this case the cost of maintaining rental space and tenants, are reflected on their Board's financial statements, which are completely separate. *This is an excellent example* of the separation of financial records and bank accounts between entities or, in our case, between ourselves and our businesses. (See BDA Tool Two for reference.)

Like our example for DA Tool One, the leadership of this nonprofit is primarily concerned with categories and uses subcategories only for additional information and troubleshooting when there is significant variance from expectations. They have an annual expense budget of $30,000. They try to give away 40% or $12,000 through charitable contributions and donations. They have an equal amount to spend on their membership costs, which shows up as a combination of Membership Expenses and Special Event Expenses. And, finally, they budget 20% or $6,000 each year for administration costs, which shows up as a combination of Necessary Services Expenses and Operations Expenses. For 20xx, they were a little heavy on Necessary Services Expenses but were satisfied that they had stayed within their total expense budget of $30,000.

Had the Board contributed cash within its normal amount range, this arm of the non-profit would have had money left over to pass on to the 20xx committee responsible for charitable donations and member services instead of a loss.

Before moving on, let's pause and consider a process for writing our annual business plans (ABPs), as a support in keeping "clean, orderly, and accurate financial records." We think BDA Tools Two and Three may be out of order or, more likely, BDA Tool Two should be BDA Tool Twelve, but we're working with what we've got.

We usually focus on our record maintenance, and the first three Steps, for at least three months before we're ready to tackle any sort of business planning in a solvent and spiritually principled way. So, we need a few months of numbers to create the best income and spending plans for our businesses. (If we're starting a new business, we need to engage with friends, fellows, and professionals who can help guide us through start-up planning and actions.) Once we have three calendar months of business income and expense numbers:

1. We suggest first choosing someone and asking them for help with our business planning. This might be our sponsor or PRG, our accountant or consultant, or a fellow recovering business debtor with whom we can share reciprocity and mutual support, doing our planning together.
2. We can spend an hour talking with our selected person about what we're planning to do. We can get to know each other, establish trust and rapport, share some of our debting history and DA and BDA recovery and experience. In the second half hour we can talk about our visions and businesses in solvent BDA terms — especially being "stewards of Higher Power's businesses" (from the BDA Tools pamphlet) — and of service as solvent recovering business owners.
3. We might spend 60-90 minutes, next time, creating custom spending plan templates for each of our businesses based on understandable, consistent, and well-defined categories and subcategories. (See BDA Tool Two materials for a standardized ABP / Income Statement.) We also make sure we've created functioning *percent of revenue (or gross income) columns*, then view our previous period — 3, 6, 9, or 12 calendar months — income and spending through the lens of this new format.

    Once our fixed costs have been paid, and we've begun to take advantage of economies of scale: our cost of sales and gross profit percentages should remain the same; our expense percentages should consistently go down as total income increases, except our own salaries and benefits, which should go up as income goes up; and our profits should go up with unexpected spikes or ongoing rises in income. That's the value of "% of Revenue (or Gross Income)."

4. We can then meet several more times, slowly filling in our annual plans, in a one-month, three-month, or 12-month detail format. (By this we're referring to the three pages in the ABP workbook template on the home page at **https://www.hopefordebtors.org**.) We can start our year in ANY month although only on the 1st day of ANY month, and ideally on the 1st day of the 1st month of a calendar quarter. We also suggest the three-month detailed planning format, especially but not only for new businesses and new business owners.
5. Once we have inserted our projections into our customized templates, and we have reviewed the percentage columns and bottom lines together, we want to "own" our plans. This doesn't mean that we can't continue to pray and meditate about our plans and continue to make changes as new information becomes available. But we need to "own" our plans, even as we change them.

    Not the words, but the spiritual approach we are encouraging is something like: "I have created this plan in faith, and it is my plan, at this moment, knowing that my plan will change, and my actual income and expenses will change even more." We also encourage praying for the manifestation of "this plan or something better," for alignment of our will with Higher Power's will, and for clarity and redirection if we are not in alignment.

BDA Tool Three — Preparatory meditation and writing for conference registrants — continued:

Finally, let's look at putting "all tax and bill due dates on our calendar," breaking this activity down between the two types of payments — taxes and bills.

There are many online resources, including the IRS website, for discovering tax due dates by specific date, month, and year. For instance, for April 20xx the following Business and Personal Income Tax due dates apply in the US. (This is not legal or tax advice. Please verify tax due dates and details with a professional tax preparer, and please reach out for help from expert professionals in your own country, wherever you may be, ensuring compliance with your own governmental and other requirements.) If we've never understood the big deal about April 15th, we may understand it now:

> **April 1, 20xx:** The deadline for filing 1099s electronically is April 1. If we don't file electronically, mailing them instead, the deadline is February 28 (or February 29 in leap years).
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> **April 15, 20xx:** If our business is a sole proprietorship or a single-member LLC, we'll want to report our business income taxes on Schedule C with our personal tax return. Schedule C is the business profit and loss form that must be submitted with our personal income taxes on Form 1040. Our Schedule C net income is included with our other sources of income to determine our taxable income.
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> **April 15, 20xx:** If we have a corporation with a year-end of December 31, our business must file Form 1120 Corporate Income Tax Return. If we want to file an extension application, it's due on this date, using IRS Form 7004.
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> **April 15, 20xx:** If we pay estimated taxes, the first installment of estimated taxes for the current year is due now.
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> **April 15, 20xx:** If we want to file an extension application for our personal, partnership, or LLC tax return, it must be filed by this date. We must also pay income taxes on this date. Corporations receive an automatic extension, but they don't receive an extension on payment.
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> **April 15, 20xx:** If we make payroll tax deposits monthly, our payroll tax deposit for March is due now.
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> **April 30, 20xx:** File Form 941 - Employer's Quarterly Federal Tax Return for our first quarter (January through March) payroll taxes. If we've made all required payments in full by the due dates, we have 10 more days to submit this form (by May 10).

Wouldn't it help us to have these tax due dates on our April 20xx calendars with appropriate reminders?

<u>BDA Tool Three — Preparatory meditation and writing for conference registrants — continued:</u>

Next, for the payment of our bills, and tracking on our calendars, we again suggest selection and use of a business-oriented accounting software. If our business is bigger than just us, if we can afford it, and if we are organized enough to delegate our bookkeeping and accounting needs, support from paid, trained professionals would likely save us money, even in the short-term. (Again, see BDA Tool Twelve for reference.) We suggest retaining vendor or contract relationships with accountants in this order:

1. **Tax professional**, not just a preparer, but also willing to provide us with guidance throughout our tax year, often on a quarterly basis, via review of our financial statements, bookkeeping and banking procedures, credit and collections policies, and tax benefits and liabilities.

    From the tax professional, there will be quarterly tax transaction commitments, at minimum, plus monthly and / or annual tax transactions.

2. **Payroll service** which prepares not only our weekly or bi-weekly payroll checks and / or employee direct deposits, but also prepares and files our payroll-related tax returns.

    From the payroll service, there will be weekly or biweekly payroll commitments, plus tax deposits due within every week or month that follows, plus quarterly and annual payroll and tax commitments. The complexity of our business's payroll processing will multiply quickly as we include a variety of compensation plans and employee benefits.

3. **Bookkeeper**, either onsite or off, who is responsible for taking care of our financial data entry, tasks related to payments and receipts, preparation of financial statements (to our specifications), and many more similar duties. External bookkeeping services can often be found with reasonable rates and terms; hiring a bookkeeper in-house may allow us to delegate administrative and / or lead-generation tasks in addition to financial duties.

    From the bookkeeper, there will be weekly or bi-weekly check runs for accounts payable, plus manual or emergency checks and payments. Savvy and engaged business owners and operators need and allow for *<u>few emergency payments</u>*. Unnecessary urgency is never the business owner's or compulsive debtor's friend.

Whether the tasks above are done by us or delegated to others, someone in our businesses will need to be responsible for ensuring that transactions and payments are fully funded on an often-tight schedule. Here we return to keeping payment due dates on a calendar and watching the calendar closely.

Even the most fiscally-talented owners and managers need cash requirements on their calendars, or we delegate to someone within our organization who fulfills this role. Managing the short- and long-term cash flows of an organization is called the "treasury function." Qualified professionals can help, but we usually must lead them. We encourage being our own businesses' treasurers for as long as we can.

TRY IT: Based on the cash (non-debting) priorities we've described on this and the previous page, we encourage you to put all your tax and bill due dates on your calendar for the upcoming month or two or three and review those details with your sponsor, PRG, and / or study buddy, seeking feedback and input.