the Business of the Arts

Professional Development Series

Entrepreneurial and Technical Training for Artists and Small Business Owners

Spring 2019

LEARN & TEST

BUSINESS FINANCIALS

Presented by the DC Commission on the Arts and Humanities, the Department of Small and Local Business Development, and the Office of Cable Television, Film, Music, and Entertainment

WELCOME

Thank you for joining us for the 2019 spring semester of The Business of the Arts. During the six-week program, facilitators from the Department of Small and Local Business Development (DSLBD), Washington Area Lawyers for the Arts, and the DC Commission on the Arts and Humanities (CAH) will provide arts, humanities and creative professionals the knowledge and technical support to improve the sustainability of their business operations. From managing finances to perfecting your brand story, each session guides you through key components of building a successful business and increasing your revenue.

The Business of the Arts Professional Development Series is presented in partnership by CAH, the DSLBD Innovation & Equitable Development Office, and the Office of Cable Television, Film, Music & Entertainment (OCTFME).

Upcoming classes:

Storytelling and Personal Statement, March 27

Landscape on Access to Capital, April 3

How to File Your Taxes, April 10

Copyright and Trademark, April 17

Register online at **dcarts.dc.gov**

OVERVIEW

LEARN & TEST BUSINESS FINANCIALS

Participants will learn stripped down fundamentals about basic business financials. Taking away fancy tools, participants will engage in a full class discussion about the bottom line.

At it's heart, all business is selling, and all selling is storytelling.

Module two is about knowing the story that you need to tell yourself and others about the money you have and the money you need to move your business forward.

FOUR BASIC STATEMENTS

There are four basic financial statements that are commonly used by small business. There are example templates for each, but there is no one standard for how these statements could and should be presented. Businesses should use or develop versions that meet their specific needs. The reporting periods varies by business and industry, but monthly, quarterly and annual statements are common.

INCOME STATEMENT

The income statement is a quick, comprehensive look at revenues, expenses, and profits/losses. It is the ups and downs of how well the company is doing. These should be done on a regular cycle, often monthly or quarterly. This is the most commonly used statement.

BALANCE SHEET STATEMENT

This is the financial health of the business. It outlines all assets, liabilities, and equity. This demonstrates the overall capitalization and liquidity of a business. This helps understand what a company would be worth if you sold it.

STATEMENT OF CASH FLOWS

Cash flow is the lifeblood of business finance, and is the strongest day-to-day management tool. This statement shows inflows and outflows of money based on due dates, and may present a very different picture than the income statement. Many business fail due to cash flow crunches.

STATEMENT OF RETAINED EARNINGS

This highlights any changes in equity during the reporting period through sale or repurchase of stock, dividend payments, and changes caused by reported or losses. This is the least used of the financial statements, and is commonly only included in the audited financial statement package. We will not cover this statement in today's workshop.

WORKING
WITH AN ACCOUNTANT

The A, B, C's of small business are working with an Attorney, a Banker, and a Certified Public Accountant (CPA). Many small businesses delay the expected expense of an accountant until they attempt to get a loan, at which point they spend time catching up. For small amounts of accounting, which is all that most small businesses need, accounting services can be affordable and are recommended.

FINDING AN ACCOUNTANT

The best way to find an accountant is to ask other small businesses for a referral. There are some peak organizations, as well, such as the Greater Washington Society of CPA, http://www.gwscpa.org, which can do referrals.

WHAT TO ASK AN ACCOUNTANT

If you feel you can do some of the work yourself, only ask the accountant to help set up or review the structure you set in place, and to do a review when you prepare for tax or a loan. You can also ask your account for legal, banking, and other business services.

ESTABLISHING BUSINESS ACCOUNTS

Work with your accountant to set up a structure for your accounts that are entirely separate from your personal finances. While your personal finances may be required to guarantee a loan, keeping these accounting separate helps you monitor the risk of the business venture. If you need to infuse more personal capital into the business, ensure you have a way to track those inflows overtime.

If you need help with debt remediation, cleaning up your credit second chance bank accounts, or first loans, seek government support for programs that can support you. It is never too late to get back on track financially.

DETERMINE A FEE STRUCTURE FOR QUICK ADVICE

Sudden cash flow shocks are one of the immediate reasons for business failure or extreme personal debt for many small businesses. Having a reliably structure for monitoring your cash flow, and for adjusting it as needed, can be highly beneficial. Working out a fee arrangement with an accountant for quick advice for quick pivots can be helpful.

INCOME STATEMENT
WORKSHEET

Income statements can have complex accounting behind them, but in their most basic form they total income, subtract expenses, and thus derive at net profit. (Income – Expenses = Profit)

For today's exercise, we are simply going to map out and estimate some expenses, add in a profit target, and use that to estimate the number of sales required to get to that profit. Choose a unit of number of contracts or sales for the exercise. Assume this is one financial quarter (so three months).

Alternatively, you can use the sheet below as your startup expenses in the first three months.

Revenue (Sales)	
Expenses	
Net Profit:	

BALANCE SHEET
WORKSHEET

Balance sheets may take more time to develop, but in essence these are tools for being able show the overall value that is in the business. The balance sheet shows everything that is of value against everything that is owed to someone else.

Assets = Liabilities (+ Equity if someone has it)

A positive balance sheet is when the business has more overall assets (positive value) than liability (money owed to someone else). A negative balance sheet is when the company owes more than the company is worth.

For today's exercise, we are going to briefly talk through the elements on the sample balance sheet.

ASSETS		LIABILITIES	
Current Assets		**Current Liabilities**	
Cash on Hand		Accounts Payable	
Accounts Receivable		Utilities Payable	
Office Supplies		Unearned Revenue	
Prepaid Rent		Interest Payable	
Total Current Assets		Notes Payable	
Non-Current Assets:		**Total Liabilities**	
Equipment		Common Stock	
Accumulated Depreciation		Retained Earnings	
Net Non-Current Assets			
Total Assets		**Total Liabilities and Equity**	

CASH FLOW WORKSHEET

Your cash flow statement can be based on any number of templates or on software. They key is to making sure the timeframe at which you update and review your cash flows are sufficient to ensure that you can meet all of our bill payments as you potentially wait on money coming into the business. Some businesses monitor this monthly or even weekly.

For today's exercise, estimate one month in your business and when money will flow in and out of your businesses, totaling the dollars each week on the inflows and outflows that you built into your lean canvas model.

Inflows

Cash In	Week 1	Week 2	Week 3	Week 4
Total In				

Outflows

Cash Out	Week 1	Week 2	Week 3	Week 4
Total Out				

Totals

Total	Week 1	Week 2	Week 3	Week 4

Sometimes the total is a negative number (in the red).

FINANCIAL ANALYSIS METHODS

In the business and startup worlds, there are a lot of financial terms of art that are used. You should always conduct your own research, but below are a few helpful concepts.

RISK MITIGATION

All projects and all companies have an inherent amount of risk that something will not work out, or that money will be lost. By regularly reviewing financial statements and making plans for something going wrong, businesses can mitigate, or reduce, risk. This may include a cash buffer, but can also include other strategies like cost-saving options, allowing more time, or reducing the amount of cash outlay for starting up. Don't just look at past mistakes, plan for future possible risks!

TRACTION

Traction is evidence of market demand for a business' product or service. This is proof that there is a market interested in the business, and in the best cast shows the likelihood of increased adoption of the product or service over time.

BREAKEVEN ANALYSIS

Breakeven analysis is used to determine when your business will be able to cover all its expenses and begin to make a profit. It is important to identify your startup costs, which will help you determine your sales revenue needed to pay ongoing business expenses.

RETURN ON INVESTMENT (ROI)

Return on investment is not only the amount, but also how quickly and how likely a profit will be seen from a business endeavor. There is a specific formula that investors use for ROI that results in a percentage:

ROI = (Gain on Investment – Cost of Investment)/Cost of Investment.

For example, if you made $100 on a $50 investment, then the ROI is 50%. You can find ROI calculators online.

($150 -$50)/ $50 = 0.50 (50%)

BASIC
FINANCIAL PROJECTIONS

Lenders will have standard requirements for your financial projections, but in the main you are using the above documents, personal financial statements and analysis to forecast how expenses and profit will work for the next year. You will use any historical documents, educated guesses, and show what these statements will look like for the next year broken down month by month.

MANY STARTUPS STRUGGLE WITH FINANCIAL PROJECTIONS.

In the lean startup philosophy as a company works to build a minimal viable product, they need light and fast financial documents and projects. They frequently start with monitoring cash flow, and build into better financial documents. However, that can also hurt them when they pitch to investors.

As we will develop in our practice pitches, financial projections are a key element to pitching. In the main, a startup must demonstrate that they have a strong understanding of costs, of key expenses to get to market, and a plan for scaling to growth.

While having these documents prepared, either through financial software or an accountant, when pitching this information is helpful, it is usually insufficient to just provide financial statements. Instead, talking through a few high-level items that are key:

> *This is how much it costs, this is how much I have, this is how much I need, this is why it will be successful, and this is how long it will take to come to breakeven and become profitable.*

ABOUT

CAH

Established in 1968, the DC Commission on the Arts and Humanities supports programs that promote progress in the arts and humanities through grants, professional opportunities, and other services to individuals and nonprofit organizations in all communities within the District of Columbia. CAH is the designated state arts agency for the District of Columbia, and is supported primarily by District government funds and in part by the National Endowment for the Arts.

DSLBD

The Department of Small and Local Business Development supports the development, economic growth, and retention of District-based businesses, and promotes economic development throughout the District's commercial corridors.

OCTFME

The mission of the Office of Cable Television, Film, Music, and Entertainment is to produce and broadcast programming for the District of Columbia's public, educational, and government access (PEG) cable channels and digital radio station; regulate the District of Columbia's cable television service providers; provide customer service for cable subscribers; and support a sustainable creative economy and labor market the District of Columbia.

DC COMMISSION ON THE ARTS & HUMANITIES 50th ANNIVERSARY

DSLBD

GOVERNMENT OF THE DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR