NewsFlash *by Linda Swerling*

***September 12, 2013** – Fall – and the close of the third quarter – should trigger you to prepare for year-end to prevent any surprises.*

TAX, BANKING, AND FINANCIAL PLANNING FOR A NO-SURPRISE YEAR-END

Situation

An $18 million distribution business engaged Level II Solutions to provide financial management advisory services. As the first step, the firm completed an assessment.

Problem

With the continuing difficult economy causing another unusual year and the end of third quarter, Level II Solutions knew it made sense to focus on profitability, cash flow, banking covenants, and tax planning to be ready for the end of the fiscal year.

- Accounting firm – the client had not met with its CPA any time during the fiscal year
- Banking – no one had checked the loan covenants recently
- Financials – the financial data lacked the detail needed to establish trends for profitability and cash flow

Solution

One of the objectives of the analysis was to determine what areas needed help both for year-end and ongoing. If tracking systems are not set up well, it's difficult to determine where the "crack in the foundation" might be.

Accounting firm

- Set up a meeting with CPAs to review year-to-date financial information and how it compared to the previous year
- Worked with CPA to minimize taxable income, plan employee bonuses, and prepay expenses
- Set up tax planning worksheet for the last quarter to track tax liabilities as the end of year occurred.

Banking

- Level II Solutions reviewed bank loan and credit line documents, paying close attention to the covenants within the documents
- Calculated covenants at end of 3Q
- Held onto cash to maximize assets and bring a ratio requirement into alignment.

Financial Management

- Analyzed financial profit/loss, balance sheet, and cash flow for past two years, given that the CPA was not providing services in this area
- Determined what caused drop in 3Q profitability by looking at revenue streams for products and distribution sites to determine what was different and why
- Began researching new accounting software to provide staff access to real-time reporting and more detailed info
- Set up forecasting models to project profitability over rolling 12 months and cash flow over rolling 8 months

Results

The timing was right on target to review these financial areas. Lack of attention would have meant a very negative year-end close, costing the organization more than it should have. The results of the assessment allowed the client to meet year-end obligations more comfortably.

- The correction early in the 4Q met the year-end loan covenants
- Revenue and cash flow projections indicated a cash shortfall in the 2Q of next year, necessitating reduced expenditures now
- The projections allowed for 401(k) matches but no bonuses
- Monies were earmarked for tax obligations

If you want help with your year-end planning to ensure you meet tax and bank covenant obligations, please contact us at 617-277-0222 or linda@level2solutions.com.