



Tallwood Venture Capital
Finance/CFO Best Practices

635 Waverley Street
Palo Alto, California 94301



Tallwood Venture Capital Proprietary

Copyright © 2002 Tallwood Venture Capital. All rights reserved.
635 Waverley Street
Palo Alto, California 94301



Table of Contents

I. Finance Key Tasks	5
II. Getting Started as a Corporate Entity	8
A. Obtain a Federal Tax ID and State Employer Number	8
B. Establish a Full-Service Commercial Banking Relationship	8
C. Set Up Your Payroll Service	8
D. Develop Internal Controls	8
a) Recommended check signers and authorization levels. See Check Signing and Wire Transfer Authorization Policy in the Appendix	8
b) Segregation of duties surrounding cash-related transactions such as: A/P vouchering, issuance of checks, reconciliation of the monthly bank statements, custody of petty cash, issuance of customer sales invoices, and posting of customer cash receipts	8
2. Recommended purchasing policy, and guidelines and procedure for the issuance of purchase orders (POs), including approval authorization guidelines and signature controls, tracking and approval of materials received, and completion of services in accordance with authorized POs. See Sample Purchase Order Policy in the Appendix	8
E. Signature Authorization Policy	9
III. Installing Essential Accounting and Finance Infrastructure	9
A. Accounting Software	9
B. Basic Accounting Policies and Procedures	9
C. Financial Reporting Policy	9
D. Staffing	10
E. Hiring a CPA Firm	10
F. Control of Fixed Assets	11
G. Employment Policy	11
H. Control of Stock Certificates	11
IV. Implementing Company-wide Financial Planning Discipline	12
A. Strategic Plan	12
B. Annual Operating Plan	12
V. Facilities and Security Arrangements in Support of Business Expansion	13
A. Office Space	13
B. Leasing	13
C. Corporate Document Control	13
D. Risk Management	13



VI. Expanded Financial Management of Operations and Related Issues	14
A. Pricing Policy	14
B. Customer Credit Policy	14
C. Inventory Management Policy	14
D. Warranty Policy	15
E. Inventory Control Policy	15
VII. Working Capital and Equipment Lease Financing	16
VIII. Independent Audits and Corporate Governance	16
About the Author	17
Appendix	18
Sample Investment Policy Guidelines	19
Check Signing and Wire Transfer Authorization Policy	24
Sample Fixed Asset Capitalization Policy	25
Sample Purchase Order Policy	27
Sample Travel Authorization and Expense Reimbursement Policy	29
Sample Chart of Accounts	32
Sample Monthly P&L Report	35
Sample Monthly Balance Sheet	36
Sample Monthly Analysis of Cash Flow	37
Sample Monthly Waterfall Reporting	38
Sample Annual Operating Plan Timeline	39



I. Finance Key Tasks

Formation	Series A	Series B+
0-5 employees; Pre-revenue	5-50 employees; Rev < \$2M	50-100 employees; Rev up to \$20M
1 project		Multiple projects
Typical staff: Office mgr/accountant Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr 1-3 clerical staff CFO
<p><i>Getting started as a corporate entity:</i></p> <p>Obtain a Federal Tax ID by filing IRS Form SS-4 and obtain a State Employer Number by filing FTB form DE-1 for California (or equivalent for other states).</p> <p>Establish a full-service business banking relationship:</p> <ul style="list-style-type: none"> ➤ Open a checking account for commercial transactions and a money management account to invest non-operating cash balances. ➤ Establish authorized check signers and a disbursement approval policy. <p>Contract with an on-line payroll service that will provide tax reporting, automatic deposit of tax withholdings and other specialized administration.</p> <p><i>Installing essential accounting and finance infrastructure:</i></p> <p>Establish basic policies and procedures:</p> <ul style="list-style-type: none"> ➤ Investment Policy Guideline. ➤ PO Guidelines and signature levels. ➤ Check signing authorities and basic segregation of duties policy. ➤ Travel authorization and expense reimbursement policy. ➤ Engagement of independent contractors detailing company and contractor reporting requirements. <p>Staff or out-source the accountant and controller/CFO functions, based upon the needs of the company at various stages. Typical staff guidelines are noted above, but must be determined based upon individual company needs and considerations over time.</p> <p>Set up the basic accounting and finance infrastructure on an appropriate web-enabled or PC-based accounting software solution, to include:</p> <ul style="list-style-type: none"> ➤ General Ledger with a chart of accounts tailored to semiconductor industry. ➤ Accounts Payable function with vendor information ➤ Ability to support basic financial reporting including P&L, balance sheets, and analysis of cash flow. <p>Solicit and appoint a licensed independent public accounting firm, which will produce certified audited financial statements and reviews of internal</p>	<p><i>Continue all processes from Formation stage – PLUS:</i></p> <p>Review, expand upon, update, and formalize the signature authorization policy approved by the Board of Directors setting approval guidelines and limits for: purchasing, staff additions, compensation, travel, and other contract commitments:</p> <ul style="list-style-type: none"> ➤ Communicate this in writing to key personnel. ➤ Identify each person in the authority matrix based on existing staff. ➤ Update at regular intervals. <p>Establish pricing policy and controls for products and services.</p> <p>Establish customer credit policies and related internal controls governing order processing, ship authorization, credit limit authorization, and collections administration.</p> <p>Solicit and negotiate an asset-based loan facility with a financial institution, to fund working capital requirements and/or provide equipment-leasing arrangements as required.</p> <p>Establish inventory management and control policy and physical control measures:</p> <ul style="list-style-type: none"> ➤ Tracking and control must be tied to purchasing authorization, cost accounting, and credit/ship authorization policies. ➤ Build and staff a secure warehouse as appropriate. ➤ Sales demo, engineering, and/or prototype materials must be segregated and tracked. <p>Formulate state sales tax reporting and control policy and procedure in connection with product shipments and internally consumed materials.</p> <p>Establish Master scheduling and repetitive inventory purchasing controls (MRP).</p> <p>Establish customer return policy (RMA).</p> <p>Establish appropriate product warranty</p>	<p><i>Continue all processes from Series A stage – PLUS :</i></p> <p>Establish Corporate Governance policy.</p> <p>Appoint audit and compensation committees of the Board of Directors, to be comprised of 100% outside directors if possible.</p> <ul style="list-style-type: none"> ➤ Define roles and responsibilities. ➤ Establish linkage with internal executive officers and other key personnel. ➤ Establish linkage with outside counsel and audit firm. <p>Establish comprehensive department and/or functional profit centers.</p> <p>Establish regular planning, budgeting, and forecasting policy and organizational accountabilities.</p> <p>Develop and implement budget and control templates, which are tailored to each fiscal accountability segment, and IS logistics to consolidate.</p> <p>Establish company-wide employee performance appraisal system and standards linked to compensation policy.</p>



I. Finance Key Tasks

Formation	Series A	Series B+
0-5 employees; Pre-revenue	5-50 employees; Rev < \$2M	50-100 employees; Rev up to \$20M
1 project		Multiple projects
Typical staff: Office mgr/accountant Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr 1-3 clerical staff CFO
<p>audited financial statements and reviews of internal controls.</p> <p>Establish physical control of all equipment and office furniture:</p> <ul style="list-style-type: none"> ➤ Establish capitalization cost level for tools, equipment, and furniture. ➤ Affix pre-numbered tags. ➤ Maintain a record of issuance by tag number as each asset is placed in service, to include the name of the person responsible for the asset. <p>Establish control of Capital Stock:</p> <ul style="list-style-type: none"> ➤ Compile a detailed list of shareholders and a consolidated capitalization schedule by class. ➤ Create and maintain an incentive stock option plan and an active participant database (consult legal counsel and HR professionals). <p><i>Implementing a company-wide financial planning and control discipline:</i></p> <p>Develop a Summary Five-Year Plan.</p> <p>Develop an Annual Operating Plan (AOP) with an integrated methodology linking top-level five-year goals to annual milestones (see detail).</p> <ul style="list-style-type: none"> ➤ Gather market intelligence; perform situation analysis, and define multiple scenarios. ➤ Define corporate objectives and strategy and build consensus at all levels. ➤ Develop functional objectives, and staff and equipment requirements. ➤ Prepare financial projections and detailed budgets (seek experts). <p>Establish financial reporting policy including report formats (P&L, balance sheets, analysis of cash flow, product margins, etc.) and budget/plan comparisons and analyses. Include:</p> <ul style="list-style-type: none"> ➤ Reporting frequency and time deadlines. ➤ Control and distribution of confidential data. ➤ Backup support and detail reconciliation integrity. <p>Develop a Private Placement Memorandum (PPM) to solicit investor interest for Series A round.</p> <p>Implementing facilities and business expansion.</p> <p>Determine space requirements and locate facilities suitable to support operations for at least 24 months.</p>	<p>policy.</p> <p>Establish appropriate inventory turns guidelines.</p>	



I. Finance Key Tasks

Formation	Series A	Series B+
0-5 employees; Pre-revenue	5-50 employees; Rev < \$2M	50-100 employees; Rev up to \$20M
1 project		Multiple projects
Typical staff: Office mgr/accountant Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr Part-time CFO (outsource)	Typical staff: Office mgr/accountant Controller/Accounting mgr 1-3 clerical staff CFO
<p>Negotiate and complete the lease arrangements for new office space. If applicable, establish sources of financing for tenant improvements.</p> <p>Establish secure files and responsible personnel as custodians of financial reports, material agreements, minute books, licenses, etc.</p> <p>Establish property and casualty insurance coverage with an insurance broker.</p> <p>➤ Implement data protection measures including backup and remote storage of corporate data and computer programs/source code.</p> <p>Select broker to establish employee group benefits plan.</p>		



II. Getting Started as a Corporate Entity

A. *Obtain a Federal Tax ID and State Employer Number*

To obtain a Federal Tax ID number, complete and file IRS Form SS-4 (<http://www.irs.gov/formspubs/lists/0,,id=97817,00.html>). Obtain a State Employer Number by completing and filing the appropriate form. A link to downloadable forms for any state can be found at:

<http://www.taxadmin.org/fta/link/forms.html> (for California, file Form DE-1 with the Franchise Tax Board).

B. *Establish a Full-Service Commercial Banking Relationship*

Establish a full-service commercial banking relationship encompassing commercial checking, on-line balance tracking, and electronic funds transfer services. Also, establish a money market account into which cash in excess of 30 days requirements can be invested to earn interest income. In most cases, all of these services can be obtained from one institution. It is extremely important to establish a disciplined approach to managing cash resources. For a [Sample Investment Policy Guideline](#), see the Appendix.

C. *Set Up Your Payroll Service*

Contract with an on-line payroll service that will establish regular payroll processing, tax reporting, automatic deposits of amounts withheld from employee paychecks, and other specialized reporting services. Leading service providers include Intuit, ADP, and Paychex.

D. *Develop Internal Controls*

Establish basic policies and procedures as the initial step in creating a system of internal control. Include:

1. Cash management and control policy identifying:
 - a) Recommended check signers and authorization levels. See [Check Signing and Wire Transfer Authorization Policy](#) in the Appendix..
 - b) Segregation of duties surrounding cash-related transactions such as: A/P vouchering, issuance of checks, reconciliation of the monthly bank statements, custody of petty cash, issuance of customer sales invoices, and posting of customer cash receipts.
2. Recommended purchasing policy, and guidelines and procedure for the issuance of purchase orders (POs), including approval authorization guidelines and signature controls, tracking and approval of materials received, and completion of services in accordance with authorized POs. See [Sample Purchase Order Policy](#) in the Appendix.
3. Recommended travel authorization and expense reimbursement policies. See [Sample Travel Authorization and Expense Reimbursement Policy](#) in the Appendix.
4. Recommended capital equipment and investment policy. See [Sample Fixed Asset Capitalization Policy](#) in the Appendix.



5. Guidelines for engagement of independent contractors for temporary or project-related resources. Consult legal counsel and accounting professionals to insure compliance with employer payroll tax guidelines. The goal is to avoid misclassification of payments to contractors and insure that unanticipated payroll taxes and workers' compensation insurance liabilities are not incurred.

E. Signature Authorization Policy

Establish a signature authorization policy approved by the Board of Directors, setting approval guidelines and limits for: purchasing, staff additions, compensation, travel, and other contract commitments.

1. Communicate this policy in writing to key personnel.
2. Identify each person in the authority matrix based on existing staff.
3. Update at regular intervals.

III. Installing Essential Accounting and Finance Infrastructure

A. Accounting Software

Set up the basic accounting and finance infrastructure on a traditional PC-based or web-enabled accounting software solution, to include:

1. A General Ledger with a chart of accounts tailored to a typical semiconductor company. See [Sample Chart of Accounts](#) in the Appendix.
2. Cash Management function with on-line tracking and other bank-related information.
3. An Accounts Payable module linked to a vendor master and open PO file, as well as open-item tracking and aging analysis functions.

B. Basic Accounting Policies and Procedures

Establish the basic accounting policies and procedures for the following:

- Fiscal accounting calendar.
- Payroll.
- Accounts payable.
- General ledger maintenance.
- Cash management.
- Accounts receivable.
- Fixed assets and depreciation. See [Sample Fixed Asset Capitalization Policy](#) in the Appendix.

C. Financial Reporting Policy

Establish financial reporting policy, including:

1. Recommended report formats:



- P&L. See [Sample Monthly P&L Report](#) in the Appendix.
 - Balance sheet. See [Sample Monthly Balance Sheet](#) in the Appendix.
 - Analysis of cash flow. See [Sample Monthly Analysis of Cash Flow](#) in the Appendix.
 - Operating expense by function.
 - Plan comparisons and analyses, such as actual versus plan/budget with “waterfall” tracking and concise narrative explanations of significant variances. See [Sample Monthly Waterfall Reporting](#) in the Appendix.
2. Reporting frequency and time deadlines:
 3. Typically, key metrics such as cash status and operating results are reported at least monthly at staff meetings, in order to accommodate questions and feedback dialogue in real time. A well-organized accounting cycle will allow reporting of final data with comparisons to plan/budget within 10 calendar days from the end of the prior accounting period.
 4. Control and distribution of confidential data.
 5. Supporting detail/sub-ledgers and reconciliation integrity.

D. Staffing

Evaluate the complexity and workload associated with the accounting function. Decide whether to recruit and hire a qualified staff or select an outsourced service provider (a typical staff matrix is shown in the Timeline Overview). This is an iterative, qualitative process, with daily requirements evolving in concert with the growth and development of the business.

E. Hiring a CPA Firm

Solicit, evaluate, and select a licensed certified public accounting (CPA) firm to conduct annual audits of financial records and systems of internal controls. If the accounting and control environment is sufficiently complex, a formal RFP process may be justified to insure that all relevant issues are clearly communicated for prospective service providers.

Wherever possible, the CPA firm should be qualified to assist the company in the preparation and timely filing of annual income tax returns and benefits plan compliance reports.

The appointment of the CPA firm must be approved by the Board of Directors (subject to ratification by shareholder vote in most cases).

Solicit competitive bids from multiple firms. Negotiate a predetermined fee for these services on an annual basis. If budgets and staffing allow, the audit firm should perform a review (at least once per year) of the financial reports, systems, and controls. Pertinent observations should be documented in a letter to the CEO and Board of Directors. When the company’s business approaches the scale sufficient to begin considering a filing for an Initial



Public Offering (IPO), the independent auditor reviews should be increased to quarterly.

F. Control of Fixed Assets

Establish physical control of the Company's fixed assets:

1. Each purchased item at or above capitalization cost levels and with qualifying useful life shall be entered in a fixed assets log or database when placed in service. Costs incurred for capital equipment requiring assembly of multiple components, special site preparation, or freight must be collected in a temporary cost ledger and consolidated as one item at completion for the purpose of physical control and tracking.
2. Affix individual pre-numbered tags or labels to each capitalized item.
3. Maintain a database log that records issuance of fixed assets by tag number, as each asset is placed in service, and lists original cost and person responsible for each item.

G. Employment Policy

Establish a fundamental employment policy and guidelines for engagement of independent contractors. Seek expert advice from a tax accountant and obtain rules and criteria used to determine employee versus independent contractor status.

1. Utilize legal guidance to insure proper classification of wages, payroll taxes, and workers' compensation insurance coverage.
2. For temporary and part-time employees, set guidelines for eligibility under group insurance and other benefits.

H. Control of Stock Certificates

Establish and maintain control of the issuance of the company's capital stock certificates and maintain secure audit-able records.

1. Seek advice of Corporate Counsel to initiate printing and control of stock certificates.
2. Maintain a stock book of record, indicating owner names, addresses and denomination of each share certificate.
3. Compile a capital stock capitalization summary table by class, indicating total issued and outstanding shares as well as shares reserved for issuance under stock option plans. This compilation must be regularly updated to ensure it is accurate and audit-able at all times.
4. Draft a detailed employee incentive stock option plan in compliance with Articles of Incorporation/Bylaws, to be approved by the Board of Directors and ratified by shareholder vote.
5. Obtain approval of the Board of Directors, or the Compensation Committee comprised of outside directors, prior to granting of employee stock options.



IV. Implementing Company-wide Financial Planning Discipline

A. *Strategic Plan*

Develop a summary-level five-year Strategic Plan for update and approval annually by the Board of Directors.

1. Start with the company's initial seed-level funding proposal to create a more comprehensive planning document. Include a description of the proprietary IP, and product differentiation that will create or expand upon a measurable market opportunity.
2. Focus on refining the company's vision and major overriding objectives to be achieved in the five-year time horizon.
3. State the principal strategy to deliver results, given a well defined set of assumptions or anticipated market conditions.
4. Develop financial projections consistent with the main components of the Strategic Plan outlined above.

B. *Annual Operating Plan*

Develop an Annual Operating Plan (See [Sample Annual Operating Plan Timeline](#) in the Appendix), with an integrated methodology linking annual objectives to those established in the five-year Strategic Plan.

1. Gather market intelligence from reliable third-party sources, prepare the current situation analysis, and define multiple planning scenarios.
2. Define the annual corporate objectives and principal strategy, building consensus at all levels.
3. Once top-level goals are set, develop cascaded goals for each functional responsibility or line organization, with commitments from responsible staff.
4. Develop detailed staffing plans, operating expense budgets, sales projections, product shipment projections, and manufacturing and fulfillment cost projections.
5. Consolidate and finalize the financial plan linked to the execution of strategy and attainment of objectives.
6. Conduct internal executive review and approval, and then submit to the Board of Directors for review, approval, and adoption.
7. Integrate detailed financial budgets and operating targets into regular financial reporting methodology as a basis for actual performance measurement and feedback.



V. Facilities and Security Arrangements in Support of Business Expansion

A. *Office Space*

Determine office and operations space requirements sufficient to support the company's operations for at least 24 months. A general guideline is to allow about 250 square feet for each employee, with separate consideration for lab space, warehouse, and shipping/receiving dock.

B. *Leasing*

Select a location and negotiate a lease for an appropriate term. If financing of tenant improvements is required, select the lowest cost alternative (explore options for landlord financing with costs amortized into the lease payment versus external financing sources). Other critical negotiation points in commercial lease agreements are likely to include:

1. Term and options to extend, conditions of early termination, and ability to sublease.
2. Lease costs, subject to cost of living adjustment.
3. Tenant/landlord responsibility to maintain and pay the costs of liability insurance. This insurance should cover damage to the building and personal property from all risks, subject to possible exclusions for flood, earthquake, acts of God, etc.
4. Tenant/landlord responsibility for regular building maintenance and landscaping expenses.
5. Parking privileges, signage, multiple tenant building access, and other parcel-specific issues.

C. *Corporate Document Control*

Maintaining sound record keeping and file retention discipline are both extremely important. Conducting annual audits, defending litigation claims or threats, supporting investor due diligence, and filing for an Initial Public Offering are examples of major corporate milestone activities that will require efficient and extensive access to critical files and records. Begin by establishing secure physical files on the premises and assign an employee as custodian of key records such as: material agreements, certified Board of Directors meeting minutes, capital stock records, confidential HR files, licenses, etc.

D. *Risk Management*

1. Solicit quotes, and acquire property and casualty insurance coverage at appropriate levels and deductibles. Coverage limits and premium costs are ostensibly tied to the value of the Company's tangible assets and revenue run-rate. Review coverage limits and deductibles for general



liability and business interruption coverage at least once per year. Consult with the insurance broker or utilize outside experts to guarantee a thorough and comprehensive analysis.

2. Implement data protection measures including daily backup of computer files, and remote storage of backup media containing copies of critical data such as financial records, computer source code, and design files.

VI. Expanded Financial Management of Operations and Related Issues

The following must be developed and implemented prior to the Company reaching the initial commercialization and revenue phase:

A. *Pricing Policy*

Establish pricing policy and controls for products and services. Key points to consider include:

- Issuance of a standard pricing schedule (may require internal and “external” lists that can be viewed by customers).
- Override procedure and approval authority for special cases.
- Overlay of competitive pricing status compiled by marketing staff.
- Underlying cost dynamics compiled by finance staff as key ingredients to the decision process.

B. *Customer Credit Policy*

Establish customer credit policies and related internal controls governing: order processing, ship authorization, credit limit authorization, and collections administration. Key points to consider include:

- Lead finance executive is responsible for setting credit policy and maintaining controls.
- Set credit limit amounts at levels appropriate for the customer’s credit-worthiness *and* order backlog or anticipated monthly purchasing demand.
- Establish a consistent format for compiling reference-checking information.
- Use independent third-party credit information sources (such as D&B) for payment track record on like commodities for prospective customers, and to enhance internally-generated credit information.

C. *Inventory Management Policy*

Establish inventory management and control policy and physical control measures:

1. Tracking and control must be tied to purchasing authorization, cost accounting, and credit/ship authorization policies.
2. Build and staff a secure warehouse as appropriate.
3. Sales demo, engineering, and/or prototype materials must be segregated and tracked.



4. Formulate state sales tax reporting and compliance policy, and procedure covering product shipments and internally consumed materials.

Establish a cross-functional master scheduling policy — to coordinate customer contract/backlog and credit status, and overall demand forecasting, with fulfillment. This policy should include repetitive purchasing of inventories, and manufacturing schedules and delivery mechanisms (MRP). This requirement comes to light when production volume begins to grow at a rapid rate and early-stage planning and control systems are pushed to their limit.

D. *Warranty Policy*

Establish customer return (RMA) and product warranty policy commensurate with industry practice and customer adoption stage. Procedures must be set to rapidly evaluate and segregate materials returned from customers and to process RMA lot tracking. Early diagnosis of the nature of the return is important, particularly to determine whether the repair is warranty-covered (company expense) or non-warranty (customer expense). To summarize the main role of Finance in controlling in-warranty returns and non-warranty returns:

1. Establish accurate visibility for all transactions impacting the assets of the company (returns to inventory) and proper inventory classification and valuation.
2. *For in-warranty returns:* maintain tracking of customer's inventory as evaluation and/or repair is conducted.
3. *For all RMA transactions:* when shipment back to the customer is made, timely internal tracking and the complete cost of the warranty or repair effort for the transaction must be recorded.

E. *Inventory Control Policy*

Establish inventory control guidelines and measurement metrics such as: inventory turnover, slow-moving inventory, and other appropriate criteria. Appropriate inventory accounting valuation adjustments will be required as internal control and management accountability guidelines evolve.

Inventory turnover is calculated as follows:

$$\text{Turnover} = [\text{Annualized cost of goods sold}] / \text{Ending (or average) inventory value}$$

Operating companies in the fab-less semiconductor industry typically target the inventory turnover ratio as follows:

Initial product, after 12 months of production:	10 – 12X
Multiple products, mature phase:	7 – 9 X.



VII. Working Capital and Equipment Lease Financing

Solicit and negotiate an asset-based loan facility with a financial institution, to fund working capital requirements and/or provide equipment- leasing arrangements as required.

- For an accounts receivable line of credit, be cognizant of the qualifying terms that will determine collateral eligibility in loan formulas, such as: aging, degree of concentration of the portfolio due from any one customer, eligibility for export customers, amounts due from related-party entities, or amounts due from creditors (cross-aging).
- Carefully analyze loan covenants and other financial restrictions that may be implicit in loan and security agreements.

VIII. Independent Audits and Corporate Governance

The CEO and CFO are responsible for directing the organization to respond to the requests of the independent audit firm, so as to deliver annual certified audited financial statements and reviews of internal controls on a timely basis and to avoid excessive (higher than anticipated) audit fees.

Establish a Corporate Governance policy with assistance from legal counsel. Appoint audit and compensation committees of the Board of Directors comprised of 100% outside directors if possible.

- Define roles and responsibilities at all levels.
- Establish accountabilities linking responsible executive officers with key personnel assigned to carry out functional duties.
- Establish linkage between responsible employees (officers) to relevant directors, outside counsel, and the company's audit firm.
- Establish company-wide employee performance appraisal standards and policy, linked to compensation policy approved by the Board of Directors.



About the Author

Finance/CFO Best Practices was written by The Brenner Group, Inc., an interim executive management and financial advisory services firm. Their work focuses on the most prevalent challenges confronting a company: implementing operational infrastructure and controls, building efficient and effective organizations, developing strategically sound business plans, and achieving financial stability. Since 1987, they have worked with more than 700 emerging growth businesses to develop and implement the right strategies for meeting these challenges. Contact: The Brenner Group at 408-873-3400; Richard M. Brenner rbrenner@thebrennergroupp.com or Gary Potts gpotts@thebrennergroupp.com.



Appendix



Sample Investment Policy Guidelines

1. **Purpose**

To establish guidelines for the investment of surplus cash balances. Surplus cash balances are balances in corporate accounts not immediately required for working capital, capital investment, debt repayment, or other outstanding near-term financial obligations.

2. **Objectives**

The objectives of the policy are, in order of priority:

- 2.1 Preservation of capital.
- 2.2 Fulfillment of liquidity needs.
- 2.3 Above-market returns versus industry averages.
- 2.4 Fiduciary control of cash and investments.

3. **Eligible Investments**

All investments must be U.S. dollar-denominated.

Borrowing for investment purposes is prohibited.

Investment in securities with underlying leverage risk or esoteric structures is prohibited.

- 3.1 U.S. Treasury bills, notes, and bonds:
 - 3.1.1 Includes put-able, callable, and floating-rate obligations.
- 3.2 U.S. agency debt obligations:
 - 3.2.1 Includes obligations issued by government-sponsored enterprises.
 - 3.2.2 Includes put-able, callable, and floating-rate obligations.
- 3.3 Corporate debt obligations:
 - 3.3.1 Rated one of the following:
 - 3.3.1.1 A or better by Moody's and Standard & Poor's.
 - 3.3.1.2 P1 by Moody's and A1 or better by Standard and Poor's.
 - 3.3.2 Includes variable-rate demand notes.
 - 3.3.3 Includes put-able, callable, and floating-rate obligations.
 - 3.3.4 Includes Eurodollar and Yankee debt obligations.
- 3.4 Bank debt obligations:
 - 3.4.1 Rated one of the following:
 - 3.4.1.1 A or better by Moody's and Standard & Poor's.



- 3.4.1.2 P1 by Moody's and A1 or better by Standard and Poor's.
 - 3.4.2 Includes variable-rate demand notes.
 - 3.4.3 Includes put-able, callable, and floating-rate obligations.
 - 3.4.4 Includes Eurodollar and Yankee debt obligations.
- 3.5 Taxable, tax-exempt, and tax-advantaged municipal debt obligations:
 - 3.5.1 Rated one of the following:
 - 3.5.1.1 A or better by Moody's and Standard & Poor's.
 - 3.5.1.2 MIG1 or VMIG1 by Moody's and SP1 or better by Standard & Poor's.
 - 3.5.1.3 P1 by Moody's and A1 or better by Standard & Poor's.
 - 3.5.2 Includes variable-rate demand notes.
 - 3.5.3 Includes put-able, callable, and floating-rate obligations.
 - 3.5.4 Tax-exempt and tax-advantaged municipal debt obligations are eligible only when TALLWOOD PORTFOLIO COMPANY is a tax-paying entity.
- 3.6 Money market funds:
 - 3.6.1 SEC-Registered.
 - 3.6.2 Maintain a net asset value of \$1.00/share.
 - 3.6.3 Consist of a minimum of \$1 billion in assets.
- 3.7 Repurchase agreements:
 - 3.7.1 Collateralized at a minimum of 102% with one of the following:
 - 3.7.1.1 U.S. Treasury bills, notes, or bonds.
 - 3.7.1.2 U.S. agency debt obligations.
 - 3.7.2 Collateral may not have maturities in excess of 24 months.
- 3.8 Asset-backed securities:
 - 3.8.1 Rated one of the following:
 - 3.8.1.1 AAA by Moody's or Standard & Poor's.
 - 3.8.1.2 P1 by Moody's or A1+ by Standard & Poor's.
 - 3.8.2 Asset-backed commercial paper rated P1 by Moody's and A1+ by Standard & Poor's.



4. **Concentration Limits**

- 4.1 There is no limit to the percentage of the portfolio that may be maintained in U.S. Treasury debt obligations, U.S. agency debt obligations, or SEC-registered money market funds.
- 4.2 With the exception of those investments listed in Section 4.1, no one issuer or group of issuers from the same holding company is to exceed fifteen (15) percent of the book value of the portfolio at the time of purchase.

5. **Maturity Limits**

- 5.1 The maximum maturity of individual securities in the portfolio may not exceed twenty-four (24) months.
- 5.2 The weighted-average days to maturity of the portfolio may not exceed twelve (12) months.
- 5.3 For securities that have put, reset, or expected average maturity dates, the put, reset, or expected average maturity dates will be used instead of the final maturity dates for maturity limit purposes.
- 5.4 The liquidity requirement stated in Section 6 would always take priority over the maturity limits stated in Sections 5.1, 5.2., and 5.3.

6. **Liquidity Requirement**

- 6.1 A minimum of two times the amount of expected monthly cash outflow must be liquid each business day.
 - 6.1.1 Liquidity may be reduced below the amount of two times expected monthly cash outflow upon written notice by TALLWOOD PORTFOLIO COMPANY.
 - 6.1.2 For purposes of determining liquidity, book value will be used.
- 6.2 The sale of securities prior to maturity is permitted only for managing liquidity and must be pre-approved by TALLWOOD PORTFOLIO COMPANY for fiduciary control purposes.

7. **Investment Performance**

- 7.1 Capital Advisors Group will issue a quarterly investment performance analysis using time-weighted measures.
- 7.2 A quarterly meeting will be held with the individual appointed by the Board for fiduciary controls, to review performance figures and any updated liquidity needs.



8. Credit Quality

- 8.1 Trends for a given company or industry must be reviewed periodically by the investment manager, and adjustments in percentage positions must be made accordingly.
- 8.2 Should any investment held in TALLWOOD PORTFOLIO COMPANY's portfolio fall short of prescribed guidelines, immediate notification must be made to the individual appointed by the Board to oversee fiduciary control.

9. Marketability

- 9.1 All securities must be purchased through investment banking and brokerage firms of high quality and reputation, and with a history of making markets for the securities in which TALLWOOD PORTFOLIO COMPANY invests.
- 9.2 In the unlikely event that securities must be sold before their maturity, the securities must be easily remarketed. To accomplish this, the securities must be conventional products with strong name recognition.

10. Trading Guidelines

- 10.1 Normal investing practice is to reinvest the funds on the day a security matures, to minimize lost interest.
- 10.2 A daily transaction log is to be maintained and available for review at any time.
- 10.3 For each transaction, the trading firm must generate a hard copy document that is mailed to Capital Advisors Group, Inc. on behalf of TALLWOOD PORTFOLIO COMPANY.
- 10.4 Quarterly summaries of TALLWOOD PORTFOLIO COMPANY's investment holdings and cash usage are to be made available for Board review.

11. Custody

- 11.1 Assets are to be held in a segregated bank custody account with separate fiduciary documents executed by the bank. Assets shall not be held by any investment manager or securities dealer.



12. **Fiduciary Discretion**

- 12.1 The Chief Financial Officer or other individual appointed by the Board, and his/her authorized employees are responsible for securing and managing investments and cash for operations.
- 12.2 These individuals have full discretion to invest any excess capital subject to strict adherence to these guidelines.
- 12.3 These guidelines are to be reviewed periodically with the Chief Financial Officer or Chief Executive Officer and revisions made consistent with objectives set forth herein.

13. **Approval**

Date _____ BY _____
Title

BY _____
Title

BY _____
Title



Check Signing and Wire Transfer Authorization Policy

1. Operational Checking:

1.1 Authorized check signers:

1. Chairman of the Board (COB).
2. Chief Executive Officer (CEO).
3. Chief Financial Officer (CFO).
4. Corporate Controller (CONT).

1.2 Limits on amounts:

1. Check amounts under \$5,000 – single signature of any authorized signer.
2. Checks in excess of \$5,000 – two signatures, preferably CFO or CONT and either CEO or COB.

2. Wiring of Funds

Authorized individuals:

1. Chairman of the Board (COB).
2. Chief Executive Officer (CEO).
3. Chief Financial Officer (CFO).

3. Wire initiation – Accounts Payable

Any one may initiate.

4. Wire confirmation

Whichever authorized individual did not initiate a particular wire can confirm that wire.



Sample Fixed Asset Capitalization Policy

- 1.0 All capital expenditures, regardless of amount, require the approval and signature of the Chief Financial Officer and Chief Executive Officer.
- 2.0 All capital expenditures must follow the company's purchase order policy.
- 3.0 Entries to fixed asset accounts shall be recorded in the month during which the asset is first placed in service. Guidelines by asset classification are as follows:
 - 3.1 Furniture and equipment:
 - 3.11 All purchases of items costing greater than \$1,000.
 - 3.12 Multiple purchases with an aggregate value greater than \$1,000.
 - 3.13 All other purchases shall be charged to expense.
 - 3.2 Computer equipment:
 - 3.21 All purchases of items costing greater than \$1,000.
 - 3.22 Multiple purchases with an aggregate value greater than \$1,000.
 - 3.23 All other purchases shall be charged to expense.
 - 3.3 Software and related licenses:
 - 3.31 External software purchases greater than \$1,000.
 - 3.32 Multiple software purchases with an aggregate value greater than \$1000.
 - 3.33 External software purchases less than \$1,000.
 - 3.34 Consultant costs as part of external software purchase, e.g., Oracle implementation.
 - 3.35 Licenses greater than \$1,000.
 - 3.36 Multiple licenses with an aggregate value greater than \$1000.
 - 3.37 Software and licenses valued at less than \$1,000 shall be charged to expense.
 - 3.4 Leasehold improvements:
 - 3.41 All purchases of items costing greater than \$1,000.
 - 3.42 Project costs greater than \$1,000 for consultants and other IT-related installation.
 - 3.43 Multiple purchases with an aggregate value greater than \$1,000.
 - 3.44 All other purchases shall be charged to expense.
 - 3.5 Internally-developed software:



- 3.51 Internal staff and or contractor costs shall be capitalized per SOP 98-1; use salary reclassification method with depreciable life of one year.
- 3.52 Costs to develop software with intention to commercialize shall be expensed per FAS 86.
- 3.53 Web site development costs shall be expensed per FAS 86.



Sample Purchase Order Policy

- 1.0 All purchases greater than \$1000.00 require a Purchase Order.
- 2.0 Individual purchases over \$100.00 **will not** be reimbursed by the company through an expense report.
 - 2.1 PO Request Schedule:
 - 2.11 PO numbers will be issued twice a week. In order to receive a number on that day, you must submit your request by 10 a.m.
 - 2.2 How to Request a PO:
 - 2.21 Obtain a copy or download the form from the company Intranet. Fill out **ALL** of the information requested in this form. The BUDGETED BOX must be initialed if the cost is a budgeted line item. If the BUDGETED BOX is not initialed, you will need either the Chief Executive or Chief Financial Officer's approval before the PO is given to the Finance Department. Finance will not issue the PO without this information. If you are unsure about certain fields, please call Finance with questions.
 - 2.22 Authorization limits are as follows:

\$ 1 - 5,000	Department Vice President.
\$ 5,001 - 100,000	Department Vice President and Chief Financial Officer.
\$100,001- 250,000	Department Vice President, CFO, and CEO.
>\$ 250,000	Department Vice President, CFO, CEO, and Board of Directors.
 - 2.23 Give the approved PO form to Finance.
 - 2.24 Finance will issue a PO number and deliver a copy of the PO form to requester.
 - 2.25 When making a purchase, please give the PO number to the supplier, and inform them that no payment will be made without the PO number on their invoice. Also inform the vendor that all invoices must be mailed to the attention of the accounts payable department.
 - 2.26 Finance will not pay invoices without a PO. If a purchase is made without a PO, the employee is responsible for payment of that invoice. To be reimbursed, the employee will need to



have his or her expense report approved by the Chief Financial Officer.



Sample Travel Authorization and Expense Reimbursement Policy

TRAVEL AUTHORIZATION

- 1.0 All travel on company business requires advance authorization for financial and budget control and to enable procurement of lowest cost rates and fares. An expense report submitted for reimbursement for travel expenses is subject to rejection if not properly authorized.
 - 1.01 Travel authorization must be approved in writing by the employee's direct manager and the CFO or designated accounting representative prior to finalizing paid travel and/or lodging arrangements.

EXPENSE REIMBURSEMENT

- 1.0 All business travel and entertainment expenditures incurred by employees must be reimbursed through the following Expense Report procedures. Reimbursement of non-travel related items over \$100 requires an approved purchase order in accordance with the Purchasing Policy.
- 2.0 Expense reports should be completed and submitted to Accounting within one (1) week of return or incurring expenses.
- 3.0 An example Expense Report Form is attached. Expense report forms must be fully completed with numerical columns totaled. Use the appropriate headings and total on a daily basis.
 - 3.01 Original receipts must be submitted for all items requiring reimbursement, and should be properly attached to the report. Any questions regarding completion of the report should be directed to the employee's supervisor or the accounting department.
 - 3.02 Upon completion, the expense report along with all attachments should be turned into the requesting party's direct supervisor for approval. Receipts should be organized neatly and taped down to an 8-1/2" X 11" page. All staples are to be removed.
 - 3.03 Please keep duplicates or copies of all receipts submitted.
 - 3.04 After approval, the expense report must be submitted to the accounting department for processing and reimbursement. In order to expedite reimbursement, the employee should ensure that the report is completed properly, required documentation is attached, proper authorization is obtained, and any unusual items properly explained and documented.



- 4.0 Authorized expense reports will be reimbursed by a company check, normally within two or three weeks after receipt by the accounting department.



Expense Report

EXPENSE REPORT				
Employee Name:			Period Ending:	
Date	Type of Expense	Description/Business Purpose	G/L Account Number	Amount
Employee Signature		Date	TOTAL EXPENSES:	
Accounting			LESS ADVANCE:	()
Manager Approval		Date	TOTAL NET OWED:	



Sample Chart of Accounts

TYPICAL FAB-LESS SEMICONDUCTOR COMPANY

ACCOUNT NUMBER	TITLE	TYPE	BALANCE
1010	Cash - Checking	BAL SHEET - ASSET	DR
1020	Cash – Money market	BAL SHEET - ASSET	DR
1031	Cash – Short term investments	BAL SHEET - ASSET	DR
1100	Account receivable - trade	BAL SHEET - ASSET	DR
1110	Allowance for doubtful accounts	BAL SHEET - ASSET	DR
1120	Interest income receivable	BAL SHEET - ASSET	DR
1200	Employee loans and advances receivable	BAL SHEET - ASSET	DR
1300	Inventory – work in progress	BAL SHEET - ASSET	DR
1310	Inventory – consigned to vendors	BAL SHEET - ASSET	DR
1320	Inventory – service and repair	BAL SHEET - ASSET	DR
1330	Inventory – finished goods	BAL SHEET - ASSET	DR
1400	Prepaid expenses – current	BAL SHEET - ASSET	DR
1410	Deposits – current	BAL SHEET - ASSET	DR
1500	Office equipment	BAL SHEET - ASSET	DR
1510	Furniture and fixtures	BAL SHEET - ASSET	DR
1520	Engineering design equipment	BAL SHEET - ASSET	DR
1530	Test equipment	BAL SHEET - ASSET	DR
1540	Production tooling – consigned to vendors	BAL SHEET - ASSET	DR
1550	Technology licenses	BAL SHEET - ASSET	DR
1560	NRE charge	BAL SHEET - ASSET	DR
1600	Accum. depreciation – office equipment	BAL SHEET - ASSET	CR
1610	Accum. depreciation – furniture & fixtures	BAL SHEET - ASSET	CR
1620	Accum. depreciation – engr design equip.	BAL SHEET - ASSET	CR
1630	Accum. depreciation - test equipment	BAL SHEET - ASSET	CR
1640	Accum. depreciation – production tooling	BAL SHEET - ASSET	CR
1650	Accum amortization – technology licenses	BAL SHEET - ASSET	CR
1660	Accum. amortization – NRE charge	BAL SHEET - ASSET	CR
1700	Prepaid expenses – noncurrent	BAL SHEET - ASSET	CR
1710	Deposits – noncurrent	BAL SHEET - ASSET	CR
2000	Accounts payable	BAL SHEET - LIA	CR
2010	Accrued expense - nonpayroll	BAL SHEET - LIA	CR
2020	Accrued payroll	BAL SHEET - LIA	CR
2030	Accrued payroll taxes	BAL SHEET - LIA	CR
2040	Accrued vacation pay	BAL SHEET - LIA	CR
2050	Notes payable – current	BAL SHEET - LIA	CR
2060	Leases payable - current	BAL SHEET - LIA	CR
2070	Accrued income taxes	BAL SHEET - LIA	CR
2080	Accrued sales & use tax	BAL SHEET - LIA	CR
2090	Unearned revenue	BAL SHEET - LIA	CR
2095	Customer deposits	BAL SHEET - LIA	CR
2150	Notes payable – noncurrent	BAL SHEET - LIA	CR
2160	Leases payable – noncurrent	BAL SHEET - LIA	CR



2 SAMPLE CHART OF ACCOUNTS – page 2 of 3

3000 Common stock

BAL SHEET- LIA CR

BAL SHEET – EQUITY CR

ACCOUNT NUMBER	TITLE	TYPE	BALANCE
3010	Preferred stock – Series A	BAL SHEET – EQUITY	CR
3090	Notes receivable for stock	BAL SHEET – EQUITY	CR
3100	Retained earnings	BAL SHEET – EQUITY	CR
4000	Revenue – domestic	INC	CR
4010	Revenue – export	INC	CR
4100	Sales discounts & allowances	INC	DR
5000	Cost of goods sold – direct materials	INC	DR
5010	Cost of goods sold – outside processing	INC	DR
5020	Cost of goods sold – direct labor	INC	DR
5030	Cost of goods sold – royalty & license	INC	DR
5040	Cost of goods sold – scrap & rework	INC	DR
5050	Cost of goods sold – packaging	INC	DR
5060	Cost of goods sold – freight in	INC	DR
5070	Cost of goods sold – freight out	INC	DR
6000	Indirect wages and salaries	INC	DR
6010	Sales commissions	INC	DR
6020	Bonus compensation	INC	DR
6030	Overtime premium pay	INC	DR
6040	Benefits - vacation pay	INC	DR
6050	Benefits - group health insurance	INC	DR
6060	Benefits - group life & disability insurance	INC	DR
6070	Benefits – workers’ comp. insurance	INC	DR
6080	Payroll taxes	INC	DR
6090	Employee recruitment	INC	DR
6100	Outside contractor charges – indirect	INC	DR
6200	Consulting fees – technical	INC	DR
6210	Consulting fees – accounting & finance	INC	DR
6220	Consulting fees – HR & admin.	INC	DR
6230	Legal fees – general corporate	INC	DR
6240	Legal fees – patent & IP	INC	DR
6240	Audit & tax fees	INC	DR
6300	General supplies	INC	DR
6310	Expensed tools & equipment	INC	DR
6320	Software & computing supplies	INC	DR
6330	Prototype materials	INC	DR
6340	Equipment calibration & maintenance	INC	DR
6350	Equipment rental	INC	DR
6400	Business conferences	INC	DR
6410	Employee training	INC	DR
6420	Travel & Ent. – meals	INC	DR
6430	Travel & Ent. – lodging	INC	DR
6440	Travel & Ent. – air fare	INC	DR
6450	Travel & Ent. – rental car	INC	DR
6460	Travel & Ent. – parking & mileage	INC	DR
6500	Advertising	INC	DR
6510	Company promotion	INC	DR
6520	Product and marketing promotion	INC	DR



6530	Trade shows	INC	DR
------	-------------	-----	----

ACCOUNT NUMBER	TITLE	TYPE	BALANCE
6540	Product demonstration & displays	INC	DR
6550	Product literature	INC	DR
6560	Market research	INC	DR
6570	Industry association fees	INC	DR
6800	Building rent/lease	INC	DR
6810	Utilities	INC	DR
6820	Telephone – local PBX	INC	DR
6830	Telephone – cellular	INC	DR
6840	General property & liability insurance	INC	DR
6850	Property taxes	INC	DR
6860	Building maintenance & janitorial	INC	DR
6890	General postage & freight	INC	DR
7000	Interest income	INC	CR
7010	Capital gain on sale of assets	INC	CR
7100	Interest expense	INC	DR
7110	Capital loss on sale or disposal of assets	INC	DR
7120	Financial service charges & fees	INC	DR
7200	Other income	INC	CR
7250	Other expense	INC	DR
7300	Income tax provision – Federal	INC	DR
7350	Income tax provision – State	INC	DR



Sample Monthly P&L Report

CURRENT MONTH				QUARTER-TO-DATE			YEAR-TO-DATE		
ACTUAL	PLAN	VAR		ACTUAL	PLAN	VAR	ACTUAL	PLAN	VAR
			<u>Revenue:</u>						
\$0.0	\$0.0	\$0.0	Revenue – shipments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
0.0	0.0	0.0	Other	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Cost of Goods	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Gross profit - \$	0.0	0.0	0.0	0.0	0.0	0.0
			Gross margin - %						
			<u>Operating Expenses:</u>						
0.0	0.0	0.0	Research & Development	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Sales	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Marketing	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	General & Administrative	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Total Operating Expenses	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Operating profit (Loss)	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Other Expense (Income)	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	Income before taxes	0.0	0.0	0.0	0.0	0.0	0.0
			Provision for Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0
\$0.0	\$0.0	\$0.0	Net Income (Loss)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

			Headcount						
0	0	0	Research & Development	0	0	0	0	0	0
0	0	0	Sales	0	0	0	0	0	0
0	0	0	Marketing	0	0	0	0	0	0
0	0	0	General & Administrative	0	0	0	0	0	0
0	0	0	Total Headcount	0	0	0	0	0	0



Sample Monthly Balance Sheet

PRIOR MONTH		CURRENT MONTH		
		ACTUAL	PLAN	VAR
	<u>ASSETS:</u>			
	<u>Current Assets</u>			
\$0.0	Cash	\$0.0	\$0.0	\$0.0
0.0	Accounts receivable - net	0.0	0.0	0.0
0.0	Inventory	0.0	0.0	0.0
0.0	Prepaid expenses	0.0	0.0	0.0
0.0	Total Current Assets	0.0	0.0	0.0
	<u>Long-term Assets:</u>			
0.0	Fixed assets	0.0	0.0	0.0
0.0	Less: accumulated depreciation	0.0	0.0	0.0
0.0	Licenses and NRE	0.0	0.0	0.0
0.0	Less: accumulated amortization	0.0	0.0	0.0
0.0	Total long-term assets	0.0	0.0	0.0
0.0	Other Assets	0.0	0.0	0.0
\$0.0	Total Assets	\$0.0	\$0.0	\$0.0
	<u>LIABILITIES & EQUITY:</u>			
	<u>Current Liabilities</u>			
\$0.0	Accounts payable	\$0.0	\$0.0	\$0.0
0.0	Accrued expenses	0.0	0.0	0.0
0.0	Accrued wages & benefits	0.0	0.0	0.0
0.0	Current portion of long-term debt	0.0	0.0	0.0
0.0	Notes payable	0.0	0.0	0.0
0.0	Deferred revenue	0.0	0.0	0.0
0.0	Total Current Liabilities	0.0	0.0	0.0
	<u>Long Term Liabilities:</u>			
0.0	Notes payable	0.0	0.0	0.0
0.0	Lease obligations	0.0	0.0	0.0
0.0	Total Long-term liabilities	0.0	0.0	0.0
0.0	Total Liabilities	0.0	0.0	0.0
	<u>Shareholder's Equity</u>			
	<u>Preferred Stock:</u>			
0.0	Series A	0.0	0.0	0.0
0.0	Series B	0.0	0.0	0.0
0.0	Paid-in capital	0.0	0.0	0.0
0.0	Stock issuance costs	0.0	0.0	0.0
	<u>Common Stock:</u>			
0.0	Common stock	0.0	0.0	0.0
0.0	Notes receivable for stock	0.0	0.0	0.0
	<u>Retained earnings:</u>			
0.0	Retained earnings - Prior period	0.0	0.0	0.0
0.0	Retained earnings - Current year	0.0	0.0	0.0
0.0	Total shareholder's equity	0.0	0.0	0.0
\$0.0	Total liabilities & equity	\$0.0	\$0.0	\$0.0



Sample Monthly Analysis of Cash Flow

CURRENT MONTH				YEAR-TO-DATE		
ACTUAL	PLAN	VAR		ACTUAL	PLAN	VAR
		\$0.0	Net Profit / (Loss)			\$0.0
		0.0	Add: Depreciation & amortization			0.0
			<u>(Increase) Decrease in Assets:</u>			
		0.0	Accounts receivable			0.0
		0.0	Inventory			0.0
		0.0	Prepaid Expenses			0.0
		0.0	Other assets			0.0
			<u>Increase (Decrease) in Liabilities:</u>			
		0.0	Accounts payable			0.0
		0.0	Accrued expenses			0.0
		0.0	Accrued salary and benefits			0.0
		0.0	Deferred revenue			0.0
		0.0	Deferred costs			0.0
		0.0	Other current liabilities			0.0
\$0.0	\$0.0	\$0.0	Net Cash flow from Operations	\$0.0	\$0.0	\$0.0
			<u>Cash Flow from Investment Activities:</u>			
		0.0	Incr. (Decr.) in notes & leases			0.0
		0.0	(Incr) Decr in Equip & property			0.0
0.0	0.0	0.0	Net Cash flow from Investment activities	0.0	0.0	0.0
			<u>Cash Flow from Financing Activities:</u>			
		0.0	Notes payable - borrow/(repay)			0.0
		0.0	Preferred Stock			0.0
		0.0	Common Stock			0.0
		0.0	Stock issuance costs			0.0
0.0	0.0	0.0	Net Cash flow from Financing Activities	0.0	0.0	0.0
0.0	0.0	0.0	Net Cash Flow	0.0	0.0	0.0
		0.0	Cash balance - Beginning of period			
\$0.0	\$0.0	\$0.0	Cash Balance - End of Period	\$0.0	\$0.0	(\$0.0)



Sample Monthly Waterfall Reporting

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
TOTAL REVENUE													
APPROVED PLAN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FORECAST UPDATES:													
JAN													
FEB													0.0
MAR													0.0
APR													0.0
MAY													0.0
JUN													0.0
JUL													0.0
AUG													0.0
SEP													0.0
OCT													0.0
NOV													0.0
DEC													0.0
ACT VS. PLAN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCST VS. PLAN		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPERATING EXPENSES													
APPROVED PLAN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FORECAST UPDATES:													
JAN													
FEB													0.0
MAR													0.0
APR													0.0
MAY													0.0
JUN													0.0
JUL													0.0
AUG													0.0
SEP													0.0
OCT													0.0
NOV													0.0
DEC													0.0
ACT VS. PLAN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCST VS. PLAN		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



Sample Annual Operating Plan Timeline

			Resch.	Compl
Task	Week #	Resp.	Date	Date
Review Purpose of an Annual Operating Plan, and Timeline Overview	0	E-Staff		
First cut of Corporate Objectives	0	E-Staff		
Review and fine tune Corporate Objectives	1	E-Staff		
Finalize Corporate Objectives	2	E-Staff		
First cut of Departmental Objective and Key Results	3	E-Staff		
Finalize Departmental Objectives and Key results	4	E-Staff		
Deliver manpower loading, expense and capital spending templates to staff	4	Finance		
Deliver manpower loading to Finance	5	E-Staff		
Capital Spending requests to Finance	5	E-Staff		
Departmental Spending worksheets to Finance	5	E-Staff		
Review Capital Spending Requests	6	E-Staff		
Review Department Spending Requests	6	E-Staff		
Review manpower loading for company totals	6	E-Staff		
First cut of marketing narrative	6	Marketing		
First cut of Sales Plan	6	Sales		
Finalize Sales Plan	7	CEO/Sales/ Finance		
Finalize marketing plan narrative	7	Marketing/ CEO		
First cut of Executive Summary Narrative	7	CEO/CFO		
Review first cut of financial model	7	CEO/CFO		
Finalize Executive Summary Narrative	8	CEO/CFO		
Review Annual Operating Plan - All Departments	8	Finance with E-Staff		
Finalize financial schedules for Annual Operating Plan	8	CEO/CFO		
Finalize Annual Operating Plan	9	E-Staff		

