Financial Forecasting for Serious-Minded Entrepreneurs (and CFOs)

A powerful tool for driving growth, profitability, and cash flow in your company

Rapid Learning Guide

By Philip Campbell, CPA

FINANCIAL RHYTHM

Business | Money | Freedom

 http://financialrhythm.com/

A Reliable Financial Forecast Will Help You Survive and Thrive in Business

Thank you very much for downloading this Free Rapid Learning Guide. I'm excited to be sharing it with you because I'm confident it will help make your business stronger financially.

I am providing this information to you FREE of charge and with no obligation on your part.

Why? In order to introduce you to one of the most powerful tools in business – **a reliable financial forecast.** Most small to medium size businesses don't have the benefit of a seasoned, strategically oriented CFO. So they end up winging it when it comes to creating the view through the financial windshield of their business. As a result, they end up flying blind financially. They make some really bad decisions because they are cruising along on the highway of business with a blindfold wrapped across their eyes. The question isn't whether they will be an accident. The question is how bad will the crash be… and will they survive it.

I would like to help change that by teaching you how to put a reliable financial forecasting tool in place.

My Sincere Goal

My goal is to have you implement the process I set out in this guide. It would be a failure on my part if you read the guide, agree with the logic and rationale I teach, then were unable to actually implement the process in your business.

To help achieve my objective I worked hard to keep the information simple and to the point. Making financial information simple is actually hard work! One of my favorite sayings goes like this: "It is a simple matter to make things complex, but a complex matter to make things simple". ☺

I also worked hard to write this in the language every business owner can relate to. Here is how one business owner described my approach to writing and teaching after buying my [online cash flow course](): "Your course appealed to me mainly due to the fact that you speak in laymen's terms in a way that a non-financially trained person can understand."

Let's Get Going

I encourage you to use the tips and strategies in this Free Guide to put your business back on the path to financial success. Take advantage of the lessons so many other business owners have learned the hard way.

OK, are you ready to create the view through your financial windshield? You will be so glad you put a reliable and repeatable financial forecasting process in place to help guide you on your path to creating (and having) money in your business.

To your success,

Philip Campbell, CPA
Austin, Texas
Email: pcampbell@pdq.net
Web: www.FinancialRhythm.com
(Financial Rhythm is not a CPA firm)

Meet the Author

Philip Campbell is a CPA, financial consultant, and author of the book *Never Run Out of Cash: The 10 Cash Flow Rules You Can't Afford to Ignore*. He is also the author of a number of online courses including *Understanding Your Cash Flow – In Less Than 10 Minutes*. His books, articles, blog and online courses provide an easy-to-understand, step-by-step guide for entrepreneurs and business owners who want to win financially in business.

Philip's focus is on putting the structure and tools in place so the financial side of your business is strong and provides the insights you need to make money, improve cash flow, and grow your business successfully.

His career began in public accounting where worked first in a local CPA firm then in an international accounting firm in Houston, TX. Since 1990, he has served as a financial officer in a number of growing companies with revenues ranging from $5 million to over $1 billion.

Philip has been involved in the acquisition or sale of 33 companies (and counting) and an IPO on the New York Stock Exchange.

What really sets Philip apart from the average financial person you meet is his passion and excitement about helping entrepreneurs and CEOs create financial health, wealth, and freedom. Philip believes strongly that growing a successful business makes it critical that management has an achievable plan for always improving profitability and cash flow.

In fact, early on in his career, he focused and "preached" so much about the importance of cash flow that people now call him CASH.

Now Philip Gets to Talk

I love everything about business. I love the whole concept of providing a valuable product and service and making good money in return. That's the essence of business. A true win-win.

And most of all, I love helping entrepreneurs and business owners make sense of the financial side of their business. I believe that making money is not only good. It's smart. And it is the only path to creating a company that takes care of its owners as well as its employees and customers.

It was when I made the transition from working as a CPA in two public accounting firms to working as a Chief Financial Officer (CFO) in the retail industry that I created the financial principles I use every day now. Once I solved the problem of having the right tools for the job, I realized how easy it is to take control of your profitability and cash flow.

I was amazed at how much easier it was to run the business. I would say to myself "Surely, I need to be worrying about the cash. I always did before." That was a big turning point for me in my business career.

My Personal Commitment to You

I have been sharing these strategies and principles with hundreds of business owners for years. I'm extremely excited now to have put this information together for you in a step-by-step process. I passionately believe these principles will make a huge difference in your life and in your business. In fact, I guarantee it.

At Financial Rhythm, I provide you advice and strategies that are:

- Presented in a language every business owner can understand and relate to. No CPA jargon here.
- Focused on helping you take control of the financial side of your business.
- Intended to help you focus on what you do best - grow your business and make more money.

- Based on the proven rules and principles I use every day with business owners small and large.
- Direct and to the point (no fluff).

The goals that are front and center for me at Financial Rhythm are to:

- Help you eliminate financial struggle.
- Provide a process you can follow that methodically makes your business stronger financially.
- Reinforce your commitment to winning financially in business.
- Improve your profitability, cash flow and your net worth.
- Help you learn, grow and succeed in business.

Remember, creating a company that is strong financially is smart. I am here to help you make that happen. Please email me if you have any questions at all. I would love to help you in any way I can.

Free Goodies, Tools and Downloads

I invite you to accept a **free membership** to the Financial Rhythm website. When you join during the initial launch of the Financial Rhythm website, your membership will always be free. That's my way of saying thank you for joining.

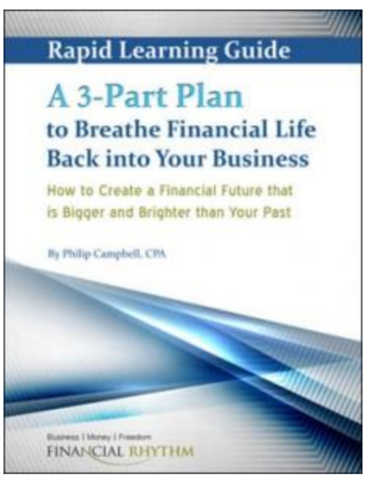
The member area is loaded with free goodies, tools, and downloads. All free for members at Financial Rhythm. **(Including the full Excel financial model you will learn about in this guide.)**

Just enter your sign up information and you'll get instant access to tips and strategies to help make your business stronger financially. All at no cost and no obligation.

Making your business financially strong is not only smart, it's one of your most important goals in business. That's not greed. That's just recognizing the reality of business. Your business has to be healthy in order for you, your employees, and your customers to survive and thrive.

Here are just two of the resources available to you when you start your free membership today:

A 3-Part Plan to Breathe Financial Life Back Into Your Business



Too many companies today are careening along on the highway of business as they wonder and worry about where their business might end up financially. But that's not wise... and it's certainly not fun.

What if you had a sensible plan, a roadmap, you could follow that would guide you on your path to building a strong, wealth generating business?

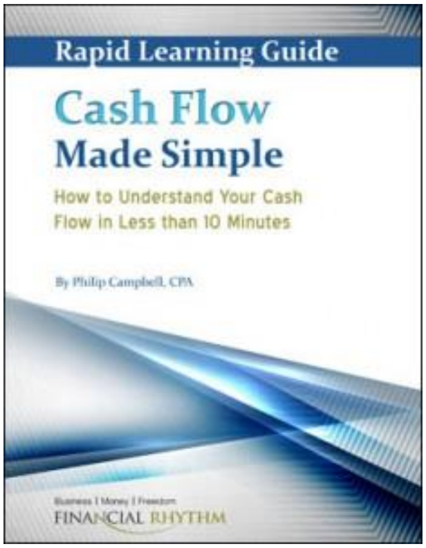
You would have the clarity of knowing what your next steps are. You would have the confidence that comes from having a simple system to follow. That's what this free rapid learning guide is all about.

It provides you with a step-by-step plan for managing and improving the financial health of your company.

It's a 3-part, 10 step process that you can begin implementing today. And it is written in a way that is simple and easy to understand and implement.

[Download Your PDF Copy of the 3-Part Plan]

Cash Flow Made Simple



In this Rapid Learning Guide, I'll show you how to **understand your cash flow in less than 10 minutes**, and I'll show you how to explain what happened to the cash in your business last month (to your spouse or business partner) in **a 2-minute conversation**.

It's my brand new, surprisingly fast and common-sense approach to understanding your cash flow.

When you truly understand your cash flow each month, you unlock the door to an amazing new world. Financial decisions become easier. You will feel a weight lifted from your shoulders.

It even makes it easier to see what's about to happen financially in your business. You will feel a brand new sense of confidence and control. And best of all, it will free up your time and so you can focus your unique abilities on what you do best in the business.

And it all starts with learning a simple approach to understanding and managing your cash flow.

[Download Your Rapid Learning Guide Now]

If you are not already a member, sign up for free. There are lots of goodies and powerful tools waiting for you on the inside. :-)

“A business, like an automobile, has to be driven in order to get results”

- B C Forbes

Introduction

The purpose of this Rapid Learning Guide is to give you a straightforward, easy-to-implement guide to using one of the most powerful financial tools in business: **a reliable financial forecast.**

Creating the forward looking view of financial performance is a surprisingly effective way to transform the financial future of your company. It will:

- Help you drive growth, profitability and cash flow higher
- Create confidence and clarity about where your business is going financially
- Provide the roadmap for turning your vision and strategy for your business into a crystal clear view of what success should look like financially
- Enhance confidence and credibility with lenders and investors so they provide the capital and support you need to grow your business

In short, a reliable financial forecast will help you win financially in business.

How This Guide is Organized

I wrote a series of three in-depth articles on financial forecasting for a fantastic organization that exists to help companies in the construction industry, the Construction Financial Management Association (CFMA). I wrote the series on financial forecasting for their first-class, members-only magazine called *Building Profits*.

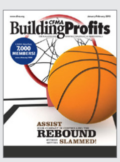
In the three articles, I go step-by-step through the full financial forecasting process. It includes a real-world example complete with the ability to download the example in an XLS format. The download also provides you a forecasting template you can use to get your own forecasting process up and running.

The articles are written for business owners and financial managers in the construction industry. You will see the abbreviation CFM throughout the article. It is referring to construction finance managers. You can just read “CFO” when you see that abbreviation. **The forecasting principles in each article apply to every company, regardless of industry.** Enjoy the articles.

TURNING NUMBERS INTO INSIGHT

ENHANCE YOUR INFLUENCE AND CREDIBILITY

AS THE ECONOMY STRENGTHENS, CONSTRUCTION FINANCIAL PROFESSIONALS HAVE AN EXCITING OPPORTUNITY TO DEMONSTRATE FINANCIAL LEADERSHIP, ADD VALUE, AND ENHANCE THEIR INFLUENCE AND CREDIBILITY WITHIN THEIR ORGANIZATIONS.



BY PHILIP CAMPBELL

The challenge many CFMs face today is that they are too often seen as the company "historian" who is focused on what happened in the past as well as control and compliance. However, you can turn your role – and that of your accounting department as a whole – into a valuable strategic asset on which management relies.

You have an incredibly powerful tool in your toolkit: a reliable financial forecast. Creating a forward-looking view of financial performance is the secret for turning financial information into valuable insight. Providing insight to your leadership team helps you become part of making history rather than just recording it.

This article will show how to tap into the unique and exciting benefits that financial forecasting can unlock for you, your company, and your career.

The Monthly Financial Rhythm

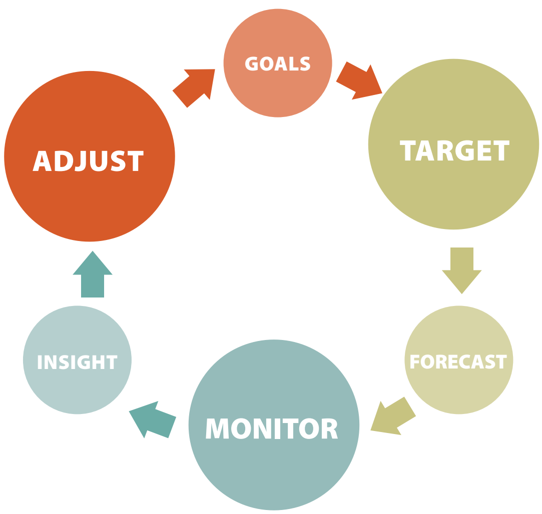
Just as a construction business moves in a rhythm or cycle, so does its financial management. As you can see in the illustration on the next page, it's about setting financial goals and targets, monitoring forecasts and actual financial results, and making adjustments in strategy and execution inside the business when results differ from the target or expectation.

A monthly rhythm orchestrated by the CFM provides financial feedback and improves decision-making within the company.

Target

A target is a key financial goal that is derived from the company's vision and strategy, and can change depending on short-term financial goals. For example, one quarter might have specific goals related to collecting receivables faster, while another quarter might include a focus on increasing project margins or reducing certain expense categories. There are generally 3-5 targets at any time, and the mix of targets/metrics may vary during the year.

THE MONTHLY FINANCIAL RHYTHM



Monitor

Monitoring is about creating financial forecasts (expected financial results) and actual results (historical financials). The combination of the forecast and actual results must be converted into insight (not just numbers or financial statements) for the management team.

Adjust

Management then uses insightful financial information to determine whether the specific action plans and strategies being executed throughout the company are working as expected. The management team is on board because they understand the financial goals and related metrics being tracked. You have helped them learn how to use the monthly financial information to compare the actions taken in the field to the implications in the financial statements.

Now, management has a tight link between their plans and the actual financial results. Adjustments to strategies and tactics in the field can be made quickly when the financial information suggests something is not working as intended.

Construction projects move in this same rhythm. To bid on a project, the specific goals are evaluated and agreed upon. Then, financial targets are set to document the scope and arrive at the price. As a project progresses, accounting provides actual results for the project against the plan so that PMs and others can evaluate results and determine if adjustments need to be made as the project moves toward completion.

Once the project is complete, management must evaluate whether the profit targets for the job came in as they were forecasted/planned. That way, the bidding process can be improved based on the lessons learned from each completed contract.

This same financial rhythm is at work at the overall company level as well.

Financial Forecasting

Notice how the monthly financial rhythm begins with the financial goals and targets being defined and turned into a financial forecast. The forecast at the overall company level captures the financial expectations in the form of the key drivers of performance as well as an income statement, balance sheet, and statement of cash flows. Then, actual financial results are created and compared with the forecast to turn the financial information into insight for management.

The problem is that, as accountants, we were taught that our mission is to gather and record transactions so we can create historical financial statements. The historical financial statements show actual results for a specific period and present the financial position at a specific point in time (both of which are in the past). No doubt that is an important part of your role, but it's putting the cart before the horse from a business and financial management perspective.

A person leading a construction business is trying to make something happen. He or she has a plan for what the business should accomplish and starts with *expected* financial results, not *actual* financial results. Historical financial information only becomes insightful when it shows how actuals compare with expected results.

Enhance Your Influence & Credibility

Financial forecasting will change the way you are perceived by the leadership team in surprising ways. Each step in the forecasting process draws you into more value-added activities.

TURNING NUMBERS INTO INSIGHT

There are three phases to the process of creating a financial forecast. First, consider the company's goals and strategies as well as its financial history. Next, begin creating the actual forecast – an expectation of what the income statement, balance sheet, and cash flows will look like based on your assumptions about the near future. In the third phase, begin using the forecast to help management make decisions. This is where you turn financial information – both the forecast and the actual results – into valuable insight.

Here's how the three phases unfold.

Phase 1 – Understand the Vision & Strategy

One of the benefits of forecasting is that it makes you think about your company's vision and strategy. For example, what are the three most critical goals or initiatives for the coming year? Is the company planning to grow slowly or aggressively? Are there plans to bid on projects similar to the ones in the past, or is the company moving into new markets or new types of construction? Answering these types of strategic questions forces you to "get out of the ledger" and talk to management about the division's goals or the department's strategies. It requires you to talk to the CEO about his or her vision.

Now, you're talking about the larger goals and direction of the business with management throughout the company. You're thinking about the future rather than just the past. You begin to piece together a much clearer picture of where the company wants to go. Your understanding of the company grows. You're thinking more like a CEO, and the leadership team begins to notice.

Phase 2 – Define What Is Likely to Happen Financially

As you formulate the forecast assumptions, you must link the goals and strategies of the business to what you think is likely to happen financially. The intersection of the company's goals and strategies and your conclusions about what's actually going to happen is fascinating. You have to forecast profitability, cash flow, and financial position. You're not forecasting what someone wishes would happen, but rather what you believe will most likely happen based on your understanding of the business.

Let's say your company is a commercial GC and one of management's goals is to increase gross margin from 13% to 18%. You look at the work-in-progress (WIP) schedule, and 18% is a huge stretch based on existing projects. You talk with the CEO and others on the management team about the details behind the strategy to increase gross margin to 18%. Is the company planning to bid on different types of projects? Is it increasing prices? Will the company reduce subcontractor costs?

These types of discussions will help to adjust either the goal or the action plans necessary to turn the improvement goals into financial reality. Regardless, you will have led a forward-looking discussion with management that creates value for them and the company.

Phase 3 – Turn Numbers into Insight

Now that you have the forecast up and running, it's time to turn those numbers into insight for management. The challenge is that now you have twice as many numbers to

MEMO

TO: MANAGEMENT

THE GROSS MARGIN TARGET

The table below provides a summary view of gross margins on projects from last year as well as several recent projects and outstanding bids.

Overall margin on projects from last year (36 projects)	**13.3%**
Three highest project margins from last year	**18.6%**
Margin on the two most recently awarded projects	**14.8%**
Margin on bids currently outstanding (10 projects)	**15.5%**

The gross margin target/goal for the current year is 18%. This table shows we are making some progress in increasing gross margins from last year. The challenge we may face is the most recently awarded projects and the bids outstanding suggest we may fall short of hitting our target of 18% this year.

Let's include this on our agenda for next week's financial review so we can talk in more detail about whether the gross margin target of 18% for this year is in jeopardy or whether there are steps we can take to increase margins faster.

FORECAST SUMMARY

(Amounts in Thousands)

	Last Year (Actual)	This Year (Plan)	This Year (Forecast)
Revenues	$6,250	$7,500	$7,000
Gross margin	23.4%	24.0%	23.0%
Pre-tax income	**$813**	**$1,125**	**$800**
Cash	$875	$1,000	$500
Accounts receivable	$1,113	$1,000	$1,300
Distributions to owners	$325	$450	$600
Debt	**$2,500**	**$1,750**	**$2,500**

present – a full set of financial statements for the coming months *plus* the historical financial statements. So, think strategically; put yourself in management's shoes. What do they think about every day? How can you distill the essence of your financial information into something that's simple and easy for them to understand and digest? The information you provide should be viewed as an integral decision-making tool.

The key here is to simplify, simplify, simplify...then simplify some more. Consider summarizing the top 3-5 insights when you distribute the historical and forecast results. And, highlight the key drivers of performance so it clearly shows if the actual results are not aligned with the expected results. That way, management can quickly see the link between their areas of responsibility and the impact their actions have on the financial statements.

The sample memo on the previous page is an example of an insight (a focus area) that might be included in what you send to management. Based on the prior example of a target to increase gross margins from 13% to 18%, this memo would go with the monthly financial reporting package.

Although the financial reporting package would include all the financial statement details for management to eventually realize the gross margin target was in trouble, the summary simplified it, summarized it, and made it easy to understand and action-oriented. Sometimes it only takes a couple of paragraphs to turn financial information into insight.

Five Rules for Creating a Forecast You Can Trust

Creating a reliable financial forecast does not have to be a difficult process. It's a matter of using a few basic principles together with your intuition and knowledge about the business. Here are five rules for creating a forecast that you can trust.

Forecasting Rule No. 1: Think Decision-Making, Not Precision

One thing stopping you from creating a forecast is thinking that you don't know exactly what the future holds and what will happen if your forecast is wrong. Transaction processing and creating historical financial statements is about being right. (Here, precision is your friend.) On the other hand, forecasting is about improving the company's ability to make wise decisions. (Here, precision is your enemy.)

Let's say your CEO told the bank and outside investors at the beginning of the year that the company's plan was to increase pre-tax income to $1.2 million and reduce debt by $750,000 this year. Results for the first half of the year came in better than budget and management is feeling confident. It's mid-year and you are updating your forecast for the remainder of the year.

From a decision-making perspective, the question is whether or not the company has a good chance of hitting the pre-tax income and debt reduction targets. If the company is likely to hit the targets, then management should focus on continuing to execute the existing plan. If the targets are in jeopardy, then management needs to evaluate what's not working and make changes now to get back on track.

After you review the WIP schedule and a summary of bids outstanding, it becomes clear that the second half of the year is likely to come in far below the first half. The forecast summary above displays these results as compared to the prior year and the plan for this year.

Is a forecast always right? No. Is pre-tax income likely to come in at precisely $800,000? No. From a precision perspective, questions will arise. (How much might a specific project go over budget? Which bids will actually turn into projects? Will there be employee turnover that could disrupt project

PROVIDING INSIGHT TO YOUR LEADERSHIP TEAM HELPS YOU BECOME PART OF MAKING HISTORY RATHER THAN JUST RECORDING IT.

completion dates and costs? Will a specific customer be able to pay its invoice by the due date?) The answers to these questions along with a host of other details will all impact the precision of your estimate of pre-tax income and cash available for debt reduction.

But what is very clear in the forecast is that there is a substantial risk of missing the pre-tax income and debt reduction targets for the year. Based on the forecast, management's attention is required to get the company back on track for the second half of the year.

Chasing precision will only serve to cloud the message and distract from the importance of getting the company back on track to meeting its financial goals.

As you create and use forecasts, think decision-making, not precision.

Forecasting Rule No. 2: The Near Future Almost Always Looks Like the Recent Past

One of the biggest mistakes CFMs make in creating a forecast is to start with a clean slate – a blank spreadsheet to begin thinking about what the first month in the forecast will look like. The first step should be to drop in actual results for the past 6-12 months. Have the revenues and expenses been coming as expected? Can you see a trend developing? Are you surprised by any of the numbers now that you are looking at the past six months of actual results next to each other?

In order to increase the reliability of the forecast, the historical facts and trends and the company's goals and financial targets must be considered together when you create the forecast.

Forecasting Rule No. 3: Consider What Is Changing

Once you have a good view of what the financial results have been over the past 6-12 months, look at some of the factors that can make the next 6-12 months vary from the historical results. The WIP schedule is a great source of information (e.g., what revenues and cost of sales you can expect over the next few months).

Then, consider the types of outstanding bids. Are they targeted at construction projects similar to those in the past? Are they for smaller or larger projects? Are the gross margins consistent with current projects, or are they higher or lower?

Think through how the business is changing and its likely impact on financial results and cash flow. Talk to PMs and others about what they are seeing in the market. Does customer activity seem to be picking up or slowing down? Management and others inside the company are a wealth of information that will shed light on what's changing and what's about to happen.

Forecasting Rule No. 4: Be Conservative

Because we know the forecast will not be perfectly accurate, the challenge is keeping it in the "ballpark" since a wildly inaccurate forecast will hurt your credibility. Therefore, be conservative in your key assumptions.

Let's say you are working on the profitability component of your forecast. Last year, the company generated $6.5 million of net income. This year, profits could reach $10 million if results continue the way they have been going. Being conservative in your forecast of profitability means that you assume there could be some slips or slow downs before year-end. So, your forecast might guide the profit estimate down to around $9 million, which provides some room for error or surprise. It recognizes that not every "at bat" results in a home run.

While your estimates will not be perfect, err on the side of being conservative. That way the surprises are pleasant rather than unpleasant.

TURNING NUMBERS INTO INSIGHT

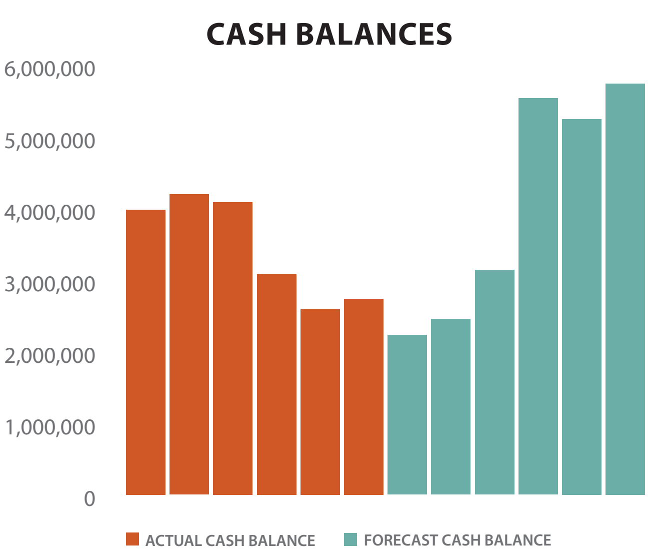
Forecasting Rule No. 5: Use the "Smell Test"

An important step in mitigating risk when creating a forecast is to give it a serious reality check, what I like to call a "smell test." You've created assumptions about profitability, the timing of collecting A/R, inventory and payables, capital expenditures, borrowing or payments on debt, distributions to owners, and a number of other important drivers of financial results.

Once you have a completed draft of the forecast, step back and look at the resulting financial statements. Are they consistent with your general expectations? Are they in line with actual results and the plan? Do they make sense given your intuition and knowledge of the business?

When forecasting a full set of financial statements, the real bottom line is cash. So take a hard look at the resulting cash balances for each of the forecast months, and look at both the numbers and a graph of the resulting cash balances.

In the graph below, the actual cash balances for the past six months and the forecast cash balances for the next six months are presented. Because every forecast assumption you make ultimately impacts the cash balance, pay very close attention to the forecast cash balances to ensure nothing looks unusual. The smell test is a quick way to check that nothing unexpected has made its way into your numbers.



Don't Just Report Profits, Build Them

At the beginning of CFMA's Cash Management course, Steve Lords starts by saying, "It is possible for a construction company's Controller/CFO to generate more profit for the company than a PM does on a construction project."

It is a bold and spirited statement designed to jolt us out of our traditional thinking as CFMs. We're not PMs. We're not estimating the jobs before the bidding process. We're not out in the field making the day-to-day decisions on the job. Yet, we can "generate more profit for the company than a PM does" on a project. How is that possible? It's because we have the facts, we know the numbers, and we have a clearer view of what's about to happen financially than anyone else in the company.

Right now is the ideal time to participate in the building of profits, not just the reporting of results. And when the economy weakens, as it will surely do at some point in the future, we need to be prepared to actively participate in protecting profits, not just delivering the bad news after the fact.

Remember, your role is not just about providing a view of the past. It's about adding real value and making a difference in the company's mission and ability to make money and grow. It's about presenting financial information in a way that turns numbers into insight. Financial forecasting is a great way to jump-start that process. ■

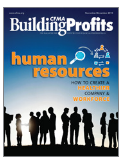
PHILIP CAMPBELL is a financial consultant based in Austin, TX. He has been working closely with CEOs and owners for more than 30 years.

As a consultant, Philip is focused on helping leaders keep the accounting and financial side of their business strong and providing the insights needed to improve cash flow, get access to capital, and grow successfully.

He is the author of the book *Never Run Out of Cash* and the online course *Understanding Your Cash Flow in Less Than 10 Minutes*.

Phone: 512-944-3520
E-Mail: pcampbell@pdq.net
Website: www.neverrunoutofcash.com

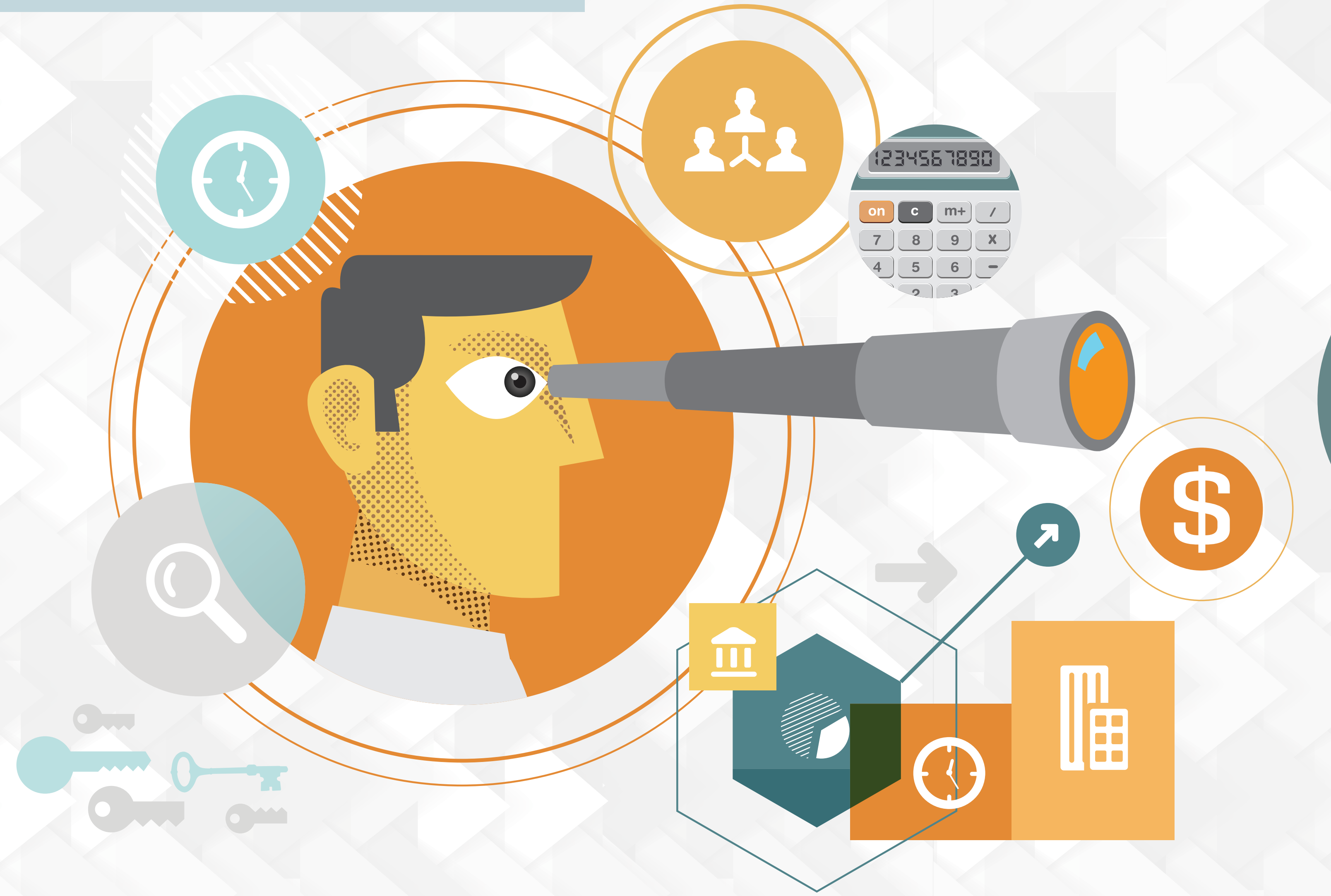
KEYS TO BUILDING A RELIABLE & REPEATABLE FINANCIAL FORECAST



BY PHILIP CAMPBELL

A RELIABLE FINANCIAL FORECAST IS A POWERFUL TOOL

IT CAN TRANSFORM YOUR ROLE AS CFM AS WELL AS YOUR ABILITY TO MAKE AN IMPACT AT A STRATEGIC LEVEL AND DRIVE PERFORMANCE.



In “Turning Numbers Into Insight” (January/February 2015), I discussed how a reliable financial forecast can enhance your influence and credibility as a CFM. In this article, I will explain:

- The definition of a reliable financial forecast
- The three keys to forecasting success
- The step-by-step process for planning, creating, and presenting a forecast

Reliable Financial Forecast – Defined

To fully understand this term, let’s break down the key components.

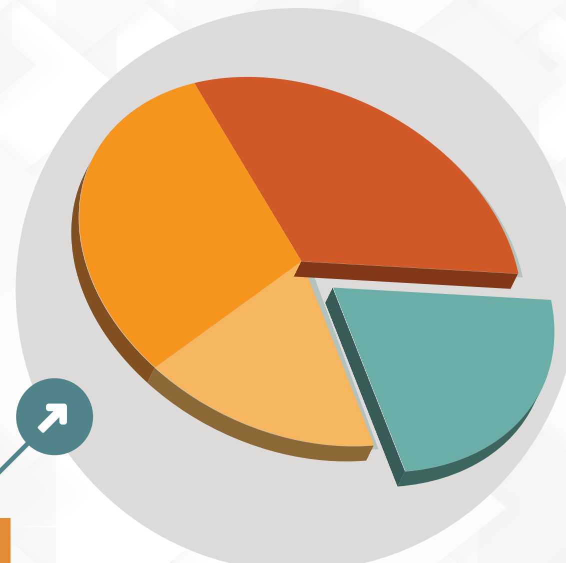
Reliable

This refers to the goal of providing a tool or process for strategic decision-making. In forecasting, reliability trumps precision. Exhibit 1 a few pages ahead summarizes the five rules for creating a forecast you can trust. As the first rule states, “Think decision-making, not precision.” Chasing precision when creating a forecast will distract your leadership team from making strategic decisions.

Financial Forecast

The forecast is a living, breathing tool that is updated monthly. The basic format should track with existing financial statements (income statement, balance sheet, and statement of cash flows in the same format as monthly financial reporting) for at least the next 18 months to compare forecast results side-by-side with actual results.

It should also include data that is not already in the historical financial statements, such as certain nonfinancial data as well as other drivers and metrics.



The Three Keys to Success

Like a successful construction project, forecasting work requires a strong foundation before the process can begin. The financial forecast is built on three key principles.

Key No. 1: Think Top-Down, Not Bottom-Up

While creating historical financial statements is a bottom-up process of gathering and recording thousands of transactions and reporting the results in the form of accurate financial statements, creating a financial forecast is a top-down exercise. You are connecting the company's vision and strategy to the *likely* financial implications of achieving that strategy.

Forecasting uses big-picture drivers and assumptions to create a model of what the financial statements may look like based on your knowledge and intuition. It's about the strategic view and direction of where the company is going – not the nitty-gritty details.

In order to create a reliable financial forecast, keep financial drivers and assumptions at the highest level possible. Given the nature of a construction company and the intensity of time and attention on the WIP schedule, this may seem counterintuitive.

Consider the many assumptions that go into creating a fully modeled set of financial statements. In the income statement, you forecast revenues, cost of sales, operating expenses, and net income. On the balance sheet, you forecast monthly balances for cash, A/R, inventory, the balances in percentage-of-completion-related accounts, property and equipment, A/P, accrued liabilities, debt, and equity balances. A bottom-up approach to create those assumptions is overly complex and counterproductive.

To get a better understanding, let's take a look at forecasting revenues: What two numbers can be multiplied to get the monthly revenue forecast?

Let's say your company uses the percentage-of-completion method (PCM) for recognizing revenue. In creating historical financial statements, the WIP schedule drives the monthly revenue number as a sum of revenues for each project. In fact, the WIP schedule is a forecast of sorts because it includes a forecast/estimate of expected revenues (and gross profit) over the life of each project.

If estimates at the project level drive actual financial results, then it would appear that you should just add an estimate for the amount of revenues that would be recognized each month over the remaining life of each project. Then, if you add those up, your monthly revenue forecast would be created using the same approach as actual revenues. But this approach has more flaws than benefits.

One Company's Challenge

For example, an engineering company was starting the financial forecasting process. The company began discussing how best to forecast revenues and gross profit. Most of its revenues were project related. Revenues bounced around from month to month, depending on how each project was progressing and when new projects began. It had 35 open projects, six about to start, and another five bids out. Projects ranged from $3,000 to $225,000, and each one was in a different phase of completion.

The company reasoned that the most accurate way to estimate revenues was at the project level; otherwise, it couldn't support the forecast number. So, the company took the WIP schedule and expanded it by adding columns for projected revenues and gross profit by month for each project over the next 18 months. Then it added projects the company expected to start in the near future and ones it had bid on and expected to win. From there, the company created the projected revenue and gross profit for each month.

It was an impressive spreadsheet and tied nicely to the monthly revenue forecast. But think about how many estimates were in that schedule:

- The timing and amount of possible change orders for each project.
- The timing and amount of changes to expected gross profit for each project.
- The timing and amount of cost and completion estimates for each project.
- The timing of new upcoming projects, the revenue and gross profit estimates for each new project.
- The timing of billings and monthly revenue, etc.

The schedule covered 46 projects; the number of estimates for a single month of revenues was *at least* 108.

The challenge wasn't to answer the question: "What are the *108* different estimates we can use to arrive at a forecast of revenues for one month?" It was to figure out what two numbers can be multiplied to get the revenue forecast for the month. Let's look at the answer:

EXHIBIT 1: FIVE RULES FOR CREATING A FORECAST YOU CAN TRUST

Creating a reliable financial forecast does not have to be a difficult process. It is a matter of combining a few basic principles with your intuition and knowledge about the business. Here is a five-step process for creating a forecast you can trust.

#1: Think Decision-Making, Not Precision

One holdup from creating a forecast is the fear of what will happen if your forecast is wrong. Transaction processing and creating historical financial statements is about being right. (Here, precision is your friend.) However, forecasting is about improving the company's ability to make wise decisions. (Here, precision is your enemy.) As you create and use forecasts, think decision-making, not precision.

#2: The Near Future Almost Always Looks a Lot Like the Recent Past

One of the biggest mistakes CFMs make in creating a forecast is starting with a blank spreadsheet to begin thinking about what the first month in the forecast will look like. The first step should begin by using actual results from the past 6-18 months. Are the revenues and expenses aligned with expectations? Is a trend developing? Are you surprised by any of the actual results?

#3: Consider What Is Changing

Once you have a good view of the financial results over the past 6-18 months, look at some of the factors that can make the next 6-18 months vary from the historical results. The WIP schedule is a great source of information (e.g., expected revenues and cost of sales over the next few months).

#4: Be Conservative

Because the forecast will not be perfectly accurate, the challenge is to keep it in the "ballpark" since a wildly inaccurate forecast will hurt your credibility. Therefore, be conservative in your key assumptions to avoid unpleasant surprises.

#5: Use the "Smell Test"

To mitigate risk when creating a forecast, give it a serious reality check – what I like to call a "smell test." You've created assumptions about profitability, the timing of collecting A/R, inventory, payables, capital expenditures, borrowing or payments on debt, distributions to owners, and a number of other important drivers of financial results. Remember, when forecasting a full set of financial statements, the real bottom line is cash. So take a hard look at the resulting cash balances for each of the forecast months, and look at both the numbers and a graph of the resulting cash balances.

Revenues = Number of Open Projects x Average Monthly Revenue per Project

A quick look at the company's historical results showed surprisingly consistent average monthly revenue per project over the past 24 months, especially considering the wide variety of projects open at any given time. And the number of open projects during each of those months was fairly consistent. The two-driver forecasting approach proved that it was more reliable and dramatically simpler.

Use your most recent WIP schedule, and certain project level data for upcoming projects, to confirm that your forecast of revenues over the next few months passes the smell test. (See Forecasting Rule #5 in Exhibit 1.) And resist the urge to drive your estimates and assumptions down to the project level.

Key No. 2: Design the Forecast for Your Audience

A successful construction project begins with understanding your customer's vision of the finished project. The same is true with your forecasting process. Spend some time thinking about:

- Who will receive the forecast each month?
- Who will make business decisions based on the forecast?
- What is most important to them?
- Are they operations oriented or financially focused?
- How do they benefit if the company is financially successful?
- What happens to them if the company struggles financially?

In a larger company, the forecast audience is primarily the CEO and board of directors. Since the CEO is involved in the day-to-day business, the forecast must link the company's vision and strategy to its financial goals and the likely implications of achieving those goals. The CEO will use the forecast to make important decisions about strategy and how it is being implemented throughout the organization.

The board of directors is generally not involved in the day-to-day operations of the business; it is focused on overseeing and monitoring shareholder interests as well as evaluating management and its strategy for the company. The forecast information the board receives should be highly summarized and focus on the key drivers of financial results. In a smaller company, the same person might fill all of these roles, including owner and/or lender.

Understanding how each group (and each person within each group) will use and interpret the forecast is critical to how you develop and present it.

Key No. 3: Create a Repeatable Process

Since the forecast will be updated every month with actual figures based on current information, repeatability is very important to the forecasting process.

The software or tool you choose will impact the success of your forecasting process. The tool must include the underlying logic for forecasting (or modeling) a full set of financial statements and perform a number of additional functions. It should at least:

- Provide the ability to forecast with financial and nonfinancial data
- Import historical (actual) financial results
- Present both historical and forecast results in reports, report packages, and exports
- Be easy to update and maintain
- Make monthly financial reporting simple and fast
- Display graphical views of data and trends (this is a powerful feature for communicating insight)

Forecasting tools fall into two categories: homegrown spreadsheets and forecasting software. Creating a forecast tool can work well in a company with spreadsheet "power users," analysts on staff to maintain the financial model, or an organization that prefers "roll your own" solutions to acquiring software from outside vendors. Spreadsheets can be fully customized and are relatively inexpensive to get started.

However, spreadsheets are not ideal for a company in which a complex legal entity consolidation is required to present consolidated actual and forecast results, or one that is moving its system to a cloud-based solution with anytime, anywhere access to financial data. Spreadsheets can become clunky and difficult to maintain, involve a lot of manual input, and are prone to human error.

Forecasting software is specialized, dynamic, and built for mass amounts of data as well as the ability to import data and perform complex reporting. However, it can be a costly solution that requires professional assistance and extra time to set up and maintain.

Building the Forecast

As a CFM, your natural tendency may be to open a spreadsheet or software and start plugging numbers into a forecast; you want to see what the forecast is going to look like. But that's like sending equipment to a jobsite before the project

EXHIBIT 2: THE RECIPE FOR FINANCIAL FORECASTING

PLAN	CREATE	PRESENT
• Set the objectives • Decide on the historical & future periods to present • Identify the key drivers (financial & nonfinancial)	• Gather financial & nonfinancial data • Discuss where the business is going • Create the forecast	• Create a two-minute summary • Show historical & forecast results side by side • Make the forecast part of your Monthly Financial Rhythm

plan has been created. Also like a construction project, there are distinct phases to building a forecast: Plan, Create, Present. (See Exhibit 2.)

Plan

In this phase, you'll plan and design the ultimate end product and build a foundation that will support your forecasting goals.

Set the Objectives

Write down the primary goals and objectives of the forecast you're about to create. Begin with the end in mind to help define what success will look like once the forecast is complete.

For example, one company recently summarized its objectives as follows:

1) Implement a reliable financial forecasting/projections process.
2) Ensure the forecast can be easily updated and published monthly.

The company was growing and wanted to become a more metrics-driven organization. The forecast would help plan and manage its different legal entities as well as the key drivers/metrics of financial performance at the overall company/consolidated level.

The "easily updated and published monthly" part of the second objective was critical; the CEO had previously done a forecasting exercise, but the result was too difficult to maintain and therefore provided limited benefits for only a couple months.

Decide on the Historical & Future Periods to Present

Consider how many months of historical financial statements to include in the model. When possible, two to three years of historical monthly results is ideal since they provide insight into the drivers of results, trends over time, month-to-month variation in results, etc. The results will also help assess where the company has been according to the actual numbers.

EXHIBIT 3: FINANCIAL CATEGORIES & FORECAST APPROACH

FINANCIAL STATEMENT CATEGORIES	FORECAST APPROACH
INCOME STATEMENT	
Revenues	Number of Open Projects x Average Revenue per Project
Gross profit	Gross Margin x Revenues
Operating expenses	Estimates by expense category based on trend, budget, etc.
BALANCE SHEET	
Cash	The net impact of all other assumptions
Accounts receivable	Days Sales Outstanding (DSO) x Revenues
Inventory	Days Inventory Outstanding (DIO) x Cost of Goods Sold
Property and equipment	Estimate based on growth and maintenance capital expenditure plans
Costs and estimated earnings in excess of billings on uncompleted contracts	Percentage of the billings in excess of costs liability balance
Accounts payable	Days Payable Outstanding (DPO) x Cost of Goods Sold
Billings in excess of costs and estimated earnings on uncompleted contracts	Percentage of trailing two months of revenues
Third-party and related party debt (short-term and long-term)	Estimates based on debt service requirements and borrowing plans
Owners' equity related accounts	Estimates based on investment and owner distribution plans

Forecast periods should occur monthly for the upcoming 12-18 months. While there are times when you may want to forecast further into the future (e.g., when presenting a long-term plan, raising capital, or attracting a lender), 12-18 months is sufficient for month-to-month decision-making.

Identify the Key Drivers (Financial & Nonfinancial)

Identify key components of the financial statements that you will be forecasting. Since the forecast doesn't consist of actual transactions, consider the larger influences that will drive expected results in the financial statements, such as:

- Number of projects
- Size of projects
- Gross profit margin on projects
- Current operating expense structure
- Company growth plans
- Existing debt service requirements
- Capital expenditure plans

Next, consider what drives those balances at the highest level possible. Exhibit 3 on the previous page lists the financial statement categories along with suggestions for forecasting those balances.

Create

In this phase of the forecasting process, you will insert historical financial and nonfinancial information into your forecasting tool. Then, use information about trends and metrics in those results, together with information from management and others, and begin creating the assumptions that will drive the forecast results.

Gather Financial & Nonfinancial Data

Most accounting systems have a feature for exporting financial statements that show each month in the range side-by-side so that information can be easily imported or pasted into your forecasting software or spreadsheet. I generally export an income statement and balance sheet for the historical periods and rely on the forecasting tool to create the statement of cash flows.

Also, gather and incorporate the nonfinancial data. In Exhibit 3, the only purely nonfinancial data element is the number of open projects each month. Use your project management software or historical WIP schedules to gather that number for each historical period. (Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), and other calculations will be added shortly.) The backlog report is also a valuable tool used to inform the projection, especially when compared to the historical trend.

Discuss Where the Business Is Going

One of the benefits of the financial forecasting process is that it forces you to think deeply about your company's vision and strategy. For example, what are the three most critical goals or initiatives for the coming year? Is the company planning to grow slowly or aggressively? Are there plans to bid on projects similar to the ones in the past, or is the company moving into new markets or new types of construction?

Answering strategic questions like these helps you think beyond the ledger and encourages conversations with management about its goals, strategies, and expectations.

Create the Forecast

Now it is time to enter the assumptions that will create the forecast results. You will draw on a unique blend of historical results and trends, your understanding of the company's vision and strategy, and your intuition about what is most likely to happen financially.

Exhibit 4 at right shows the format for the assumptions sheet where most of the forecast assumptions will be entered (actual results for the first six months of the current year are shown in this example). Take a look each of the key drivers (a few pages ahead) used to create the forecast months.

Once you've drafted your forecast, take some time to review your work. Here are some questions to consider:

- Given my knowledge of the business and existing trends, does the forecast make sense?
- Does it show the company as a net generator or net user of cash?
- When discussing the forecast results with the CEO, will he or she be surprised by the overall plan for the company's financial future?
- When discussing the critical assumptions and key drivers used to create the forecast with the CEO, will he or she agree that the assumptions and drivers seem reasonable?

Present

Presenting the forecast is more art than science. It's about how you turn the forecast into insight for your leadership team; how you present the key insights will ultimately determine the success of your forecast.

EXHIBIT 4: ASSUMPTIONS SUMMARY

ABC Construction Company	CURRENT YEAR					
	Actual Jan	Actual Feb	Actual Mar	Actual Apr	Actual May	Actual Jun
Net increase (decrease) in number of open projects	0	-2	3	2	-1	-2
Number of projects	15	13	16	18	17	15
Change in average revenue per project from same month prior year	10.1%	47.1%	-11.2%	-6.0%	-17.8%	-20.6%
Average revenue per project	$142,592	$196,529	$138,358	$108,227	$108,864	$102,081
Sales	$2,138,875	$2,554,881	$2,213,736	$1,948,087	$1,850,683	$1,531,217
Gross Margin	14.1%	16.1%	15.9%	12.8%	15.3%	14.9%
Days Sales Outstanding (DSO)	52.1	37.4	37.4	43.4	46.7	48.1
Average daily sales (last two months)	$54,723	$78,229	$79,477	$69,364	$63,313	$56,365
Accounts receivable	$2,850,865	$2,927,512	$2,971,787	$3,010,748	$2,955,228	$2,709,291
Days Inventory Outstanding (DIO)	5.3	2.7	2.1	1.8	2.8	4.1
Average daily cost of sales (last two months)	$46,172	$66,347	$66,755	$59,341	$54,438	$47,843
Inventory	$243,163	$178,857	$141,622	$107,647	$154,673	$193,765
Capital expenditures	$(11,250)	$0	$(18,752)	$0	$0	$0
Days Payable Outstanding (DPO)	28.0	23.6	25.8	26.4	26.5	24.9
Average daily cost of sales and expenses	$47,976	$68,364	$68,825	$61,363	$56,459	$49,923
Accounts payable	$1,341,438	$1,610,436	$1,777,769	$1,622,104	$1,496,818	$1,244,285
Principal payments on short-term debt	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)
Principal payments on long-term debt	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)
Owner distributions	$(100,000)	$(100,000)	$(100,000)	$(100,000)	$(100,000)	$(100,000)
Billings in excess liability as percent of trailing two months of revenue	22.6%	17.4%	17.6%	18.6%	20.0%	21.3%
Trailing two months of revenue	$3,283,398	$4,693,756	$4,768,617	$4,161,823	$3,798,770	$3,381,900
Billings in excess liability	$742,741	$817,016	$841,526	$774,204	$758,720	$720,784
Relationship of costs and estimated earnings asset to the liability	28.0%	39.0%	40.0%	33.0%	33.0%	31.0%
Costs and estimated earnings asset	$207,968	$318,636	$336,610	$255,487	$250,378	$223,443
Cash balance	$975,032	$1,323,412	$1,523,480	$1,335,275	$1,176,083	$1,051,409

EXHIBIT 4: ASSUMPTIONS SUMMARY KEY DRIVERS

Net Increase (or Decrease) in Number of Projects

Use the estimate of the net change in the number of open projects for each month. Even though the number of projects for each month could be entered, you may want to see the change computed. (It is easier to think in terms of the net change as the input variable.)

Change in Average Revenue Per Project from the Same Month Prior Year

While the average monthly revenue per project will generally fluctuate, it can be a very reliable basis for forecasting. This number is multiplied by the open projects for the month to get the revenue forecast.

Gross Margin

Generally, use a single gross margin estimate to drive gross profit (and therefore cost of goods sold).

Operating & Nonoperating Expenses

Operating expenses are not included in the assumptions sheet because those estimates will be entered for each expense line directly into the income statement.

Days Sales Outstanding

Days Sales Outstanding (DSO) is the number of days of average sales sitting in A/R. It is a good shortcut for forecasting the A/R on the balance sheet each month. Accounts receivable at the end of a month is a function of the balance at the end of the prior month plus revenues minus collections.

Rather than estimating the amount to be collected, using DSO multiplied by revenues is a reliable way to estimate the ending balance. Then the forecast model can calculate how much was assumed to be collected during the month.

Days Inventory Outstanding

Days Inventory Outstanding (DIO) is the number of days of cost of goods sold sitting in inventory. It is a good shortcut for fore-casting the inventory on the balance sheet each month. Inventory at the end of a month is a function of the balance at the end of the prior month plus purchases minus cost of goods sold.

Rather than estimating the amount of inventory purchased during the month, multiply DIO by cost of goods sold to estimate the ending inventory balance. Then the forecast model can calculate how much was assumed to be purchased during the month.

Capital Expenditures

This amount is used to estimate capital expenditures for each month, which are a function of management plans and expectations for capital expenditures.

Days Payable Outstanding

Days Payable Outstanding (DPO) is the number of days of expenses sitting in A/P. It is a good shortcut for forecasting the A/P on the balance sheet each month. The model can then adjust cash according to the change in payables for the month.

Principal Payments on Debt

This is used to estimate principal payments on debt based on existing debt service requirements as well as any additional long-term plans for borrowing or paying debt down faster than the existing schedule.

Owner Distributions

Use a dollar amount to estimate owner distributions.

Billings in Excess Liability as a Percent of Trailing Two Months of Revenues

Because you are not rolling up numbers from a WIP schedule, a top-down approach is needed to estimate the balance in the PCM-related balance sheet accounts; using a percent of trailing revenues is a reliable approach.

This percent is heavily driven by what the historical financial statements reveal about the relationship of this account to revenues.

Relationship of Costs & Estimated Earnings Asset to the Related Liability

If you normally have an asset as well as a liability balance in these accounts, use the relationship of the asset to the liability to forecast this balance.

Create a Two-Minute Summary

Creating a reliable forecast and effectively communicating it to your audience starts with making the forecast results simple and easy to understand. Here is a helpful exercise that works especially well when implementing a forecast process for the first time.

Imagine you will sit down with your CEO tomorrow morning. In that meeting, you will have two minutes to convey the essence of the forecast (key insights, implications, and assumptions) to him or her. The CEO will then step into another meeting with the company's key shareholders and lenders to present his or her insight about where the company is going financially. Your mission: Ensure the CEO can share this insight with confidence and clarity.

This exercise will force you to distill the insights and implications of the forecast down to what matters most so that you can clearly identify and communicate the most important high-level drivers and assumptions. (See the example in Exhibit 5 below.)

Show Historical & Forecast Results Side by Side

Presenting financial results and financial statements for each month side by side makes the trends and business direction jump off the page for your audience. After the two-minute summary, this is one of the first views of the detailed forecast results provided to the CEO.

To clarify the forecast results, the CEO should see the forecast periods together with actual results. Show the CEO what has been happening, educate the CEO about the financial statements, and help him or her get comfortable with the assumptions used to create the forecast.

Make the Forecast Part of Your Monthly Financial Rhythm

Just as a construction project moves in a rhythm or cycle, so does financial management and forecasting. The forecast is a key part of your monthly financial rhythm. It should be updated every month with actuals and the forecast months should be updated based on current information. In your monthly reporting package, use a cover memo or similar document to summarize the key insights from the forecast.

The Next Step

As a CFM, you have an opportunity to make a difference at a strategic level. You can influence the direction of your company and play an exciting role in helping it grow and succeed financially.

A reliable forecast is one of your most powerful and valuable tools. There is no better time than now to solidify your influence and credibility by turning financial information, especially the forward-looking view of financial performance, into real insight for your leadership team.

In my next article, I will walk through each step of the forecasting process using a GC as an example, including potential obstacles and resistance, and specific steps to overcome them. ■

PHILIP CAMPBELL is a CPA and financial consultant based in Austin, TX. He has been working closely with CEOs and owners for more than 30 years.

Philip has served as a financial officer in a number of growing companies with revenues ranging from $10 million to more than $1 billion. He has been involved in the acquisition or sale of 33 companies and an IPO on the New York Stock Exchange.

He is the author of the book *Never Run Out of Cash* and the online course *Understanding Your Cash Flow in Less Than 10 Minutes.*

Phone: 512-944-3520
E-Mail: pcampbell@pdq.net
Website: www.neverrunoutofcash.com

EXHIBIT 5: TWO-MINUTE SUMMARY

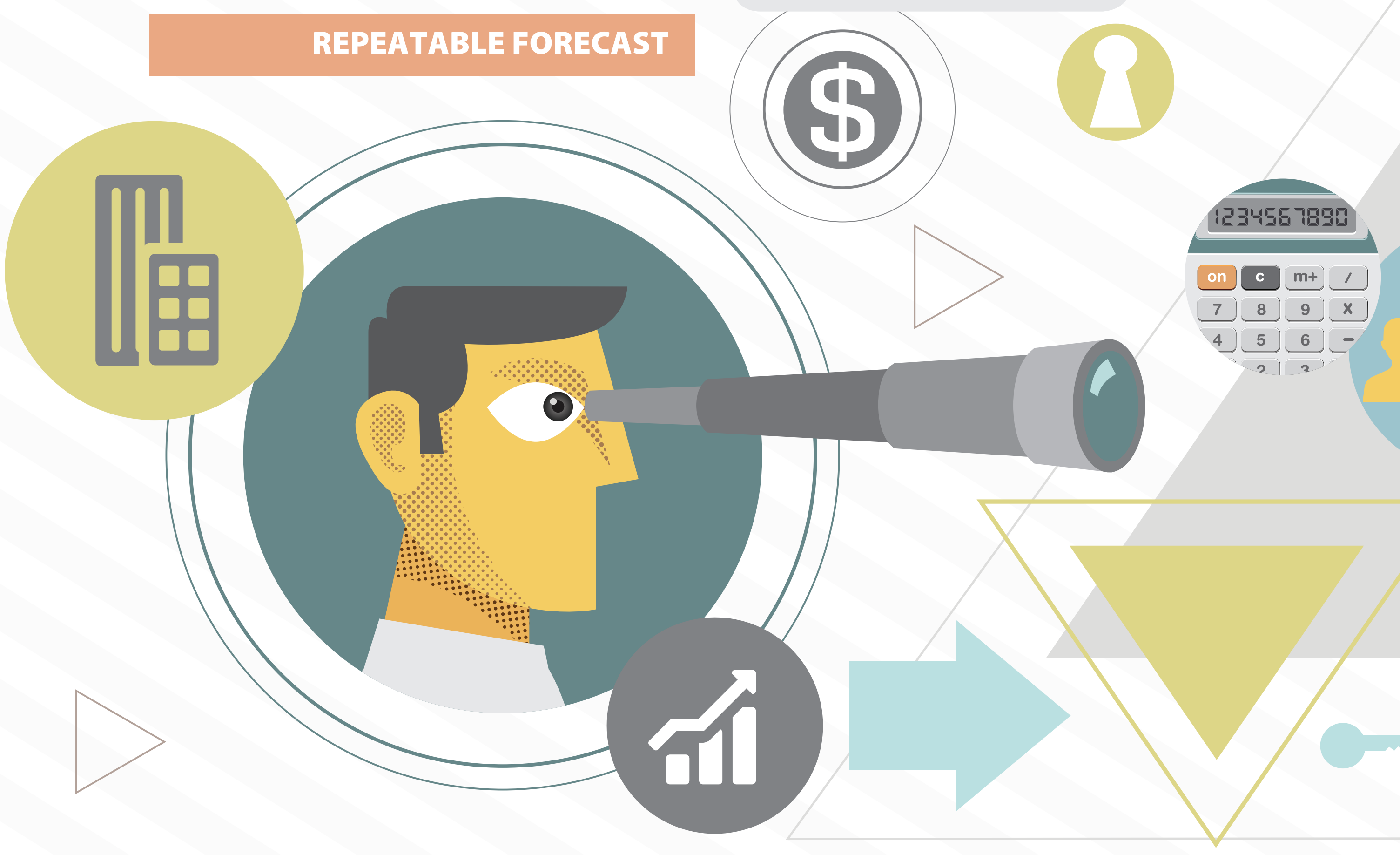
Based on our growth plan for the coming year, we will need to raise $1.1 million to $1.3 million in cash by June 30. The primary driver of the need to raise cash is the plan for launching a new division in Texas. The expansion is forecast at $3.0 to $3.5 million driven primarily by the capital expenditure and first-year operating losses.

In this example, there is one key insight because the expansion into Texas is a significant event. It will take about one minute to communicate that summary. The remainder of the meeting with the CEO will be spent answering any questions he or she has about the key assumptions and the conclusion. The number of questions the CEO has will be determined by the degree to which your conclusions or insights come as a surprise.

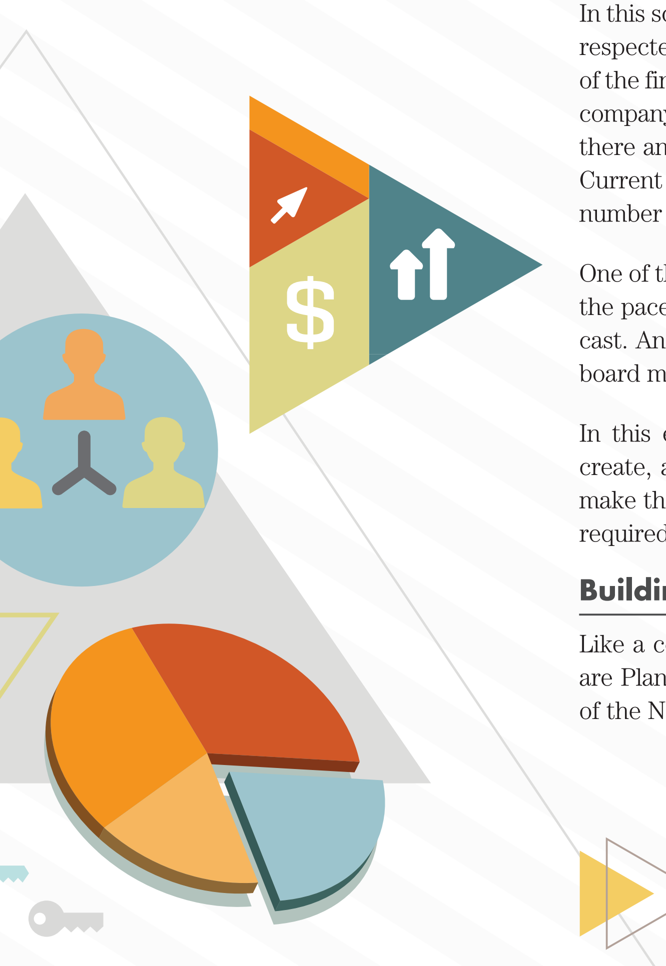
WALKING THROUGH THE FINANCIAL FORECAST

BY PHILIP CAMPBELL

WALK THROUGH THE PROCESS OF CREATING A RELIABLE & REPEATABLE FORECAST



THE PREVIOUS INSTALLMENT OF THIS ARTICLE SERIES, WHICH APPEARED IN THE NOVEMBER/DECEMBER 2015 ISSUE, DETAILED THE STEP-BY-STEP PROCESS FOR PLANNING, CREATING, AND PRESENTING A RELIABLE AND REPEATABLE FINANCIAL FORECAST. TO HELP YOU BETTER UNDERSTAND EACH STEP AND OVERCOME POTENTIAL OBSTACLES AND RESISTANCE, THIS ARTICLE WILL WALK YOU THROUGH A SAMPLE GC'S FIRST TIME CREATING A FINANCIAL FORECAST.



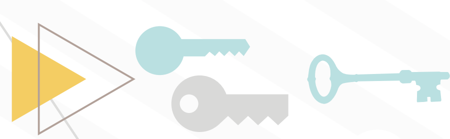
In this scenario, ABC Construction's CEO/owner plans to recruit a number of respected and experienced entrepreneurs, executives, and savvy members of the financial community to join his Board of Directors. He wants to take his company to the next level and believes that having people who have "been there and done that" will be critical to his success in growing the company. Current annual revenues are about $25 million and he wants to double that number over the next three years.

One of the tools the CEO and Board of Directors will use to plan and monitor the pace and progress of ABC's growth strategies is a reliable financial forecast. And, the CEO wants the forecasting process in place before recruiting board members.

In this example, ABC's CFM and I worked through the process to plan, create, and present the company's first financial forecast. The goal was to make the process a "top-down" rather than "bottom-up" exercise – one that required very little input or effort from others in the company.

Building the Forecast

Like a construction project, the three distinct phases of building a forecast are Plan, Create, and Present. (For more on these phases, refer to page 34 of the November/December 2015 issue.)



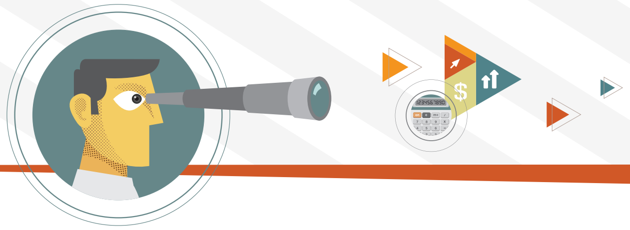


EXHIBIT 1: INCOME STATEMENT

	ACTUAL Prior Year	ACTUAL Jun YTD Current Year
Number of projects	15	15
Average revenue per project	$1,602,864	$815,832
Revenues	$24,042,956	$12,237,479
Other	0	0
Total	24,042,956	12,237,479
Cost of goods sold	20,411,717	10,411,917
Gross profit	3,631,239	1,825,562
	15.1%	14.9%
Operating expenses		
Employee wages and taxes	1,348,598	705,356
Rent	180,950	95,906
Advertising and marketing	63,016	33,931
Insurance	147,606	79,370
Telephone and utilities	41,916	22,098
Travel, meals, and entertainment	33,744	18,169
Professional fees	53,223	28,469
Office expenses	35,246	18,978
Depreciation and amortization	70,575	35,100
All other	65,003	35,001
Total	2,039,877	1,072,378
Operating income	1,591,362	753,184
Interest expense	93,900	42,900
Other expense (income)	0	0
Total	93,900	42,900
Pre-tax income	$1,497,462	$710,285
As percent of revenues	6.2%	5.8%
EBITDA	$1,661,937	$788,284

EXHIBIT 2: BALANCE SHEET

ASSETS	ACTUAL DEC Prior Year	ACTUAL JUN Current Year
Current Assets		
Cash	$826,313	$1,051,409
Accounts receivable	2,915,032	2,709,291
Inventory	188,045	193,765
Costs and estimated earnings in excess of billings on uncompleted contracts	245,177	223,443
Other current assets	23,376	23,376
Total current assets	4,197,942	4,201,284
Property		
Machinery and equipment	249,927	279,929
Furniture, fixtures, and equipment	251,590	251,590
Gross property	501,517	531,519
Less: accumulated depreciation	(215,100)	(250,200)
Net property	286,417	281,319
Total Assets	$4,484,359	$4,482,603
LIABILITIES & EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$1,266,001	$1,244,285
Short-term notes payable	368,250	308,250
Billings in excess of costs and estimated earnings on uncompleted contracts	721,108	720,784
Total current liabilities	2,355,360	2,273,319
Long-Term Debt		
Notes payable	1,114,245	1,084,245
Equity		
Owner's investment	500,000	500,000
Owner distributions	(1,720,000)	(2,320,000)
Retained earnings	2,234,755	2,945,039
Total equity	1,014,755	1,125,039
Total Liabilities and Equity	$4,484,359	$4,482,603

Since the CFM was a spreadsheet "power user," we decided to create the financial model in Excel so that it could be updated monthly and would track the company's existing financial statement format.

EXHIBIT 3: STATEMENT OF CASH FLOWS

	ACTUAL Prior Year	ACTUAL Jun YTD Current Year
Pre-tax income	$1,497,462	$710,285
Depreciation and amortization	70,575	35,100
Decrease (increase) in accounts receivable	15,520	205,741
Decrease (increase) in inventory	(21,039)	(5,721)
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts	(47,788)	21,734
Decrease (increase) in other current assets	2,750	0
(Decrease) increase in accounts payable and accrued liabilities	(437,290)	(21,716)
(Decrease) increase in short-term notes payable	(120,000)	(60,000)
(Decrease) increase in billings in excess of costs and estimated earnings on uncompleted contracts	76,812	(325)
Net cash provided by operating activities	1,037,003	885,098
Cash Flows - Investing Activities		
Purchase of property and equipment	(71,134)	(30,002)
Net cash provided (used) by investing activities	(71,134)	(30,002)
Cash Flows - Financing Activities		
Payments on long-term debt	(60,000)	(30,000)
Distributions to owners	(1,325,000)	(600,000)
Net cash provided (used) by financing activities	(1,385,000)	(630,000)
Increase (decrease) in cash	(419,131)	225,096
Cash at beginning of year	1,245,444	826,313
Cash at end of year	$826,313	$1,051,409

Plan

Set the Objectives

The objectives were heavily influenced by the CEO's desire to create a tool to support a robust financial planning and monitoring process for the Board. The objectives were documented as:

1) Implement a reliable financial forecasting/projection process to provide a clear view of likely financial results in order to evaluate various growth plans and strategies.

2) Incorporate the forecast into the monthly financial reporting process for the Board.

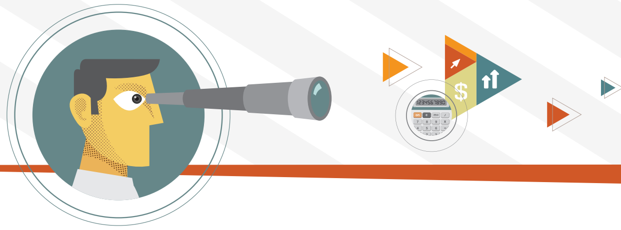
These two objectives guided the implementation. At the end of the project, we referred back to them to ensure we accomplished the original intent of the forecast.

Decide on the Historical & Future Periods to Present

The most recent financial statements are from June 30 of the current year. Eighteen months of actual financial data and 18 months of forecast data were included in the model to provide a solid view of recent monthly financial performance and extend the forecast through the end of the next calendar year.

Exhibits 1, 2, and 3 at left show the income statement, balance sheet, and statement of cash flows for the prior year and the six months ending June 30 of the current year. Exhibit 4 on the next page shows the WIP schedule at June 30 of the current year.

The full Excel financial model for this article example, including the article exhibits, monthly historical financial statements, and monthly forecast financial statements, are available at *www.cfma.org/jf16forecast* to help your company adopt a similar process.



Identify Financial & Nonfinancial Key Drivers

Exhibit 5 at right shows the format for the assumptions sheet where most of the forecast assumptions will be entered. (The actual monthly results for the first six months of the current year are shown.) The assumptions sheet brings the relevant information and metrics together in one place. It will be used to review actual results for each driver or metric and to enter assumptions for the forecast periods. The shaded rows are the primary drivers that will be used to forecast. Operating expenses are not shown here; those estimates will be entered directly into the income statement.

Create

Gather Financial & Nonfinancial Data

ABC's accounting system exported 18 months of income statements and balance sheets, with each month shown side by side. The Statement of Cash Flows logic was created in the financial model to generate that statement for both the historical and forecast periods.

The number of open projects per month came from ABC's project management system and prior month WIP schedules, which were manually entered for each of the 18 months of actual data.

Discuss Where the Business Is Going

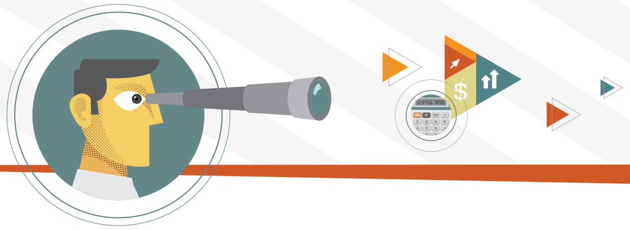
Luckily, ABC's CFM was very involved in the business, had a good handle on the market, and knew what kinds of projects were in progress. Most of our discussions about the future were with the company's CEO. We talked about the general trend in gross margins for new projects and his existing plans for bidding on projects outside of ABC's specialty area (with much larger customers than with which it had previously worked).

EXHIBIT 4: CONTRACTS IN PROGRESS

CURRENT YEAR										
Contract	Total Contract		From Inception to June 30						At June 30	
	Revenues	Estimated Gross Profit	Total Costs Incurred	Percent Complete	Revenue Earned	Gross Profit	Billed to Date	Estimated Costs to Complete	Costs & Estimated Earnings in Excess of Billings	Billings in Excess of Costs & Estimated Earnings
Project 1	$1,554,605	$233,191	$145,356	11%	$171,007	$25,651	$224,500	$1,176,059		$53,493
Project 2	745,690	149,138	387,759	65%	484,699	96,940	409,800	208,793	$74,899	
Project 3	460,000	59,800	112,056	28%	128,800	16,744	164,000	288,144		35,200
Project 4	800,000	88,000	534,000	75%	600,000	66,000	695,000	178,000		95,000
Project 5	925,000	166,500	189,625	25%	231,250	41,625	185,000	568,875	46,250	
Project 6	1,202,500	204,425	39,923	4%	48,100	8,177	-	958,152	48,100	
Project 7	962,000	153,920	775,757	96%	923,520	147,763	1,005,000	32,323		81,480
Project 8	769,600	92,352	541,798	80%	615,680	73,882	725,000	135,450		109,320
Project 9	615,680	104,666	178,855	35%	215,488	36,633	246,800	332,159		31,312
Project 10	700,000	91,000	401,940	66%	462,000	60,060	500,000	207,060		38,000
Project 11	320,000	52,800	120,240	45%	144,000	23,760	184,675	146,960		40,675
Project 12	256,000	44,800	63,360	30%	76,800	13,440	133,873	147,840		57,073
Project 13	750,000	105,000	96,750	15%	112,500	15,750	58,306	548,250	54,194	
Project 14	600,000	66,000	357,780	67%	402,000	44,220	500,486	176,220		98,486
Project 15	480,000	86,400	236,160	60%	288,000	51,840	368,745	157,440		80,745
	$11,141,075	$1,697,991	$4,181,359		$4,903,843	$722,484	$5,401,185	$5,261,725	$223,443	$720,784

EXHIBIT 5: CURRENT ASSUMPTIONS SUMMARY

	CURRENT YEAR					
	Actual Jan	Actual Feb	Actual Mar	Actual Apr	Actual May	Actual Jun
Net increase (decrease) in number of open projects	0	-2	3	2	-1	-2
Number of projects	15	13	16	18	17	15
Change in average revenue per project from same month prior year	10.1%	47.1%	-11.2%	-6.0%	-17.8%	-20.6%
Average revenue per project	$142,592	$196,529	$138,358	$108,227	$108,864	$102,081
Sales	$2,138,875	$2,554,881	$2,213,736	$1,948,087	$1,850,683	$1,531,217
Gross margin	14.1%	16.1%	15.9%	12.8%	15.3%	14.9%
Days Sales Outstanding (DSO)	52.1	37.4	37.4	43.4	46.7	48.1
Average daily sales (last two months)	$54,723	$78,229	$79,477	$69,364	$63,313	$56,365
Accounts receivable	$2,850,865	$2,927,512	$2,971,787	$3,010,748	$2,955,228	$2,709,291
Days Inventory Outstanding (DIO)	5.3	2.7	2.1	1.8	2.8	4.1
Average daily cost of sales (last two months)	$46,172	$66,347	$66,755	$59,341	$54,438	$47,843
Inventory	$243,163	$178,857	$141,622	$107,647	$154,673	$193,765
Capital expenditures	$(11,250)	-	$(18,752)	-	-	-
Days Payable Outstanding (DPO)	28.0	23.6	25.8	26.4	26.5	24.9
Average daily cost of sales and expenses	$47,976	$68,364	$68,825	$61,363	$56,459	$49,923
Accounts payable	$1,341,438	$1,610,436	$1,777,769	$1,622,104	$1,496,818	$1,244,285
Principal payments on short-term debt	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)
Principal payments on long-term debt	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)
Owner distributions	$(100,000)	$(100,000)	$(100,000)	$(100,000)	$(100,000)	$(100,000)
Billings in excess liability as percent of trailing two months of revenue	22.6%	17.4%	17.6%	18.6%	20.0%	21.3%
Trailing two months of revenue	$3,283,398	$4,693,756	$4,768,617	$4,161,823	$3,798,770	$3,381,900
Billings in excess liability	$742,741	$817,016	$841,526	$774,204	$758,720	$720,784
Relationship of costs and estimated earnings asset to the liability	28.0%	39.0%	40.0%	33.0%	33.0%	31.0%
Costs and estimated earnings asset	$207,968	$318,636	$336,610	$255,487	$250,378	$223,443
Cash balance	$975,032	$1,323,412	$1,523,480	$1,335,275	$1,176,083	$1,051,409



Create the Forecast

Since this was a new process for ABC, the first few iterations of the forecast focused on the next six months. Once we were comfortable with the results and insights, we could then forecast the following year by month.

The key drivers used to create the forecast for the next six months are on the next page. (For a better understanding of each aspect, refer to page 38 in the November/December 2015 issue.) Exhibit 6 a few pages ahead shows the key assumptions for each of the next six months.

As you create the forecast, it's natural to want to begin sharing it. However, try to keep it "for your eyes only" – at least to start. That means don't sell the CEO or the leadership team on the value of having a forecast, don't talk to them about the assumptions or specifics as you create the forecast, and don't send the results of the forecast to them – yet.

Instead, spend a few months beta testing the forecast to experiment with and learn from the process before rolling it out to the management team. Create assumptions at the highest level possible to prove to yourself that you don't need to forecast at the project level. Create the forecast for the next three months, then compare the actual results each month. What worked well? Are you surprised at the difference between your forecast and the actual results?

After running the forecast process for three months, you will become more confident and knowledgeable about the benefits of forecasting and how best to create and present the results. You will learn firsthand where the land mines are to avoid. And, you will develop a better sense of the kinds of monthly and strategic decisions that the forecast can help answer and influence.

Present

Create a Two-Minute Summary

Here is the summary of the key insights and the primary drivers/assumptions in the forecast created for the CEO:

We have completed the financial forecast that covers the next 18 months of results. While profitability is expected to be generally aligned with our expectations, there are two important insights that we need to discuss. Each one is influenced by our plans to win projects with a number of new, and very large, customers over the next six months.

Here are the key insights to focus on in the forecast, which shows taxable income of $1.5 to $1.7 million in the current year and $2.2 to $2.5 million for next year:

1) We have adjusted the distributions to owners from $100,000 per month down to zero beginning in August. We restart the owner distributions in the forecast in March and assume a larger distribution in December of next year.
2) We assume that the previous plan to begin aggressively paying down debt is put on hold until July of next year. The assumption is we will pay debt down to zero by December of next year.

The negative assumptions about owner distributions and debt are driven by the temporary cash shortfall created by the new customers. The new customers are large and we have not done business with them in the past. From our experience, large customers typically take longer to pay than our traditional customers. And the problem is usually more pronounced in the early months of a project. As a result, we have increased the DSO assumption and assumed that we will be paid slower than normal between October and April.

To prepare for follow-up questions from the CEO, a summary of cash flow was created to highlight the monthly impact on cash. Exhibit 7 a few pages ahead is the Summary Cash Flow for each of the next six months. It shows that the primary driver of negative net cash flow is the increase in A/R associated with the assumption that DSO will go up near the end of the year as ABC brings on new, larger customers. This temporary slowdown in cash created the need to reduce the usual level of owner distributions and only pay the normal debt service requirements.

Exhibit 8 a few pages ahead shows a graph of Days Sales Outstanding (DSO) for the next six months of the current year. The move up to, and above, the 50-day level in the fourth quarter is the key driver of the negative cash flow in the forecast (and the corresponding weaker cash balances).

Once the CEO was informed on what was likely to happen after contracting with the new (and much larger) customers, the discussion shifted to ways to mitigate the potential negative impact on cash and handle a cash shortage if the actuals came in worse than the forecast.

FORECAST KEY DRIVERS

Net Increase (or Decrease) in Number of Projects

The key assumption was that ABC would add one to two net new projects each month. We estimated two for July and one for each month of August through December. For ABC, the fourth quarter is traditionally slow; in the fourth quarter of the prior year, the number of open projects was flat. But in the upcoming fourth quarter, ABC expected to win some bids from larger customers for projects outside of the company's usual focus.

Change in Average Revenue Per Project from the Same Month Prior Year

The average monthly revenue per project fluctuated in the actuals. The trend was toward increasing average revenue. For the next six months, we estimated a 3% increase in average revenue per project for each month.

Gross Margin

Overall gross margins did not vary widely in the actuals. The estimate was 15% for July through September and 14% for October through December. The lower gross margin for the fourth quarter factored in the new projects outside of its normal project type that ABC expected to win.

Operating & Nonoperating Expenses

Operating expenses were not included in the assumptions sheet because those estimates were entered directly into the income statement section of the forecast model. The estimates were based on a combination of actual results, budget, and current expectations.

Days Sales Outstanding

A company's DSO (the number of days of average sales sitting in A/R) will fluctuate based on the number and size of open projects and whether a specific customer is slow to pay its invoices. Over the past 18 months, ABC's DSO ranged from the high 30s to the low 50s.

An estimate of 43 was used for the months of July through September, and was increased for the months of October through December. The higher DSO estimate in the fourth quarter is related to ABC's expectation that the new, larger company projects will pay slower than its typical customers.

Days Inventory Outstanding

DIO is the number of days of cost of goods sold sitting in inventory. ABC did not carry much inventory and was working on several initiatives to reduce inventory further. The estimate for each of the next six months was 3.0.

Capital Expenditures

A dollar amount was used to estimate capital expenditures for each month.

Days Payable Outstanding

ABC's DPO (the number of days of expenses sitting in A/P) did not vary much from month to month and was expected to continue at recent levels. The estimate for the next six months was 25.0.

Principal Payments on Debt

ABC was paying a flat amount each month to reduce principal on debt, and those amounts were used as the estimates. The management team had discussed plans to pay debt down more aggressively but these plans were not included in the assumptions. (This assumption is discussed in the Present phase.)

Owner Distributions

It was assumed that owner distributions would stop in August. (See discussion in the Present phase.)

Billings in Excess Liability as a Percent of Trailing Two Months of Revenues

Because numbers are not rolled up from a WIP schedule, a top-down approach is needed to estimate the balance in the PCM-related balance sheet accounts; using a percent of trailing revenues is a reliable approach. This percentage had bounced around from month to month. Based on recent actuals and expectations, 18% was estimated for each of the next six months.

Relationship of Costs & Estimated Earnings Asset to the Related Liability

Over the past 18 months, the relationship of costs and estimated earnings to the related liability account (expressed as a percentage) varied from 22% to 40%; over the past six months, the trend was in the mid-30s. We decided to use 32% as the estimate for the next six months.

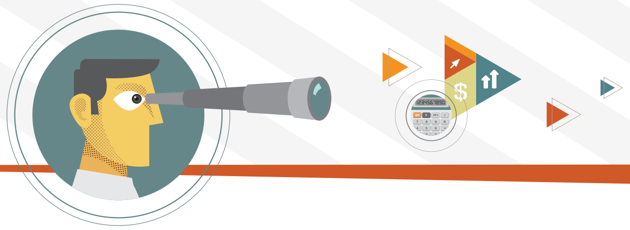


EXHIBIT 6: FORECAST ASSUMPTIONS SUMMARY

	NEXT SIX MONTHS					
	Forecast Jul	Forecast Aug	Forecast Sep	Forecast Oct	Forecast Nov	Forecast Dec
Net increase (decrease) in number of open projects	2	1	1	1	1	1
Number of projects	17	18	19	20	21	22
Change in average revenue per project from same month prior year	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Average revenue per project	$112,572	$134,467	$147,582	$139,149	$123,379	$102,081
Sales	$1,913,730	$2,420,414	$2,804,065	$2,782,982	$2,590,956	$2,245,785
Gross margin	15.0%	15.0%	15.0%	14.0%	14.0%	14.0%
Days sales outstanding (DSO)	43.0	43.0	43.0	50.0	50.0	55.0
Average daily sales (last two months)	$57,416	$72,236	$87,075	$93,117	$89,566	$80,612
Accounts receivable	$2,468,879	$3,106,136	$3,744,210	$4,655,873	$4,478,282	$4,433,680
Days inventory outstanding (DIO)	3.0	3.0	3.0	3.0	3.0	3.0
Average daily cost of sales (last two months)	$48,829	$61,400	$74,013	$79,614	$77,026	$69,327
Inventory	$146,487	$184,201	$222,040	$238,841	$231,079	$207,980
Capital expenditures	$(25,000)	-	-	$(15,000)	-	-
Days payable outstanding (DPO)	25.0	25.0	25.0	25.0	25.0	25.0
Average daily cost of sales and expenses	$50,880	$63,485	$76,107	$81,716	$79,137	$71,446
Accounts payable	$1,271,998	$1,587,121	$1,902,665	$2,042,889	$1,978,429	$1,786,157
Principal payments on short-term debt	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)	$(10,000)
Principal payments on long-term debt	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)	$(5,000)
Owner distributions	$(100,000)	-	-	-	-	-
Billings in excess liability as percent of trailing two months of revenue	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Trailing two months of revenue	$3,444,947	$4,334,144	$5,224,479	$5,587,047	$5,373,938	$4,836,741
Billings in excess liability	$620,091	$780,146	$940,406	$1,005,668	$967,309	$870,613
Relationship of costs and estimated earnings asset to the liability	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Costs and estimated earnings asset	$198,429	$249,647	$300,930	$321,814	$309,539	$278,596
Cash balance	$1,254,188	$1,165,844	$1,133,264	$560,804	$813,697	$731,685

That discussion focused on three steps:

1) Do everything possible to influence the speed of payment so invoices are paid in accordance with the contract terms.

The primary insight here was that the company would focus on expediting rather than collecting A/R with the new customers. Management and accounting would meet with new customers long before the first invoice was issued in order to learn exactly how the customer's approval and payment process worked.

The goal was to adhere to the new, larger customers' established A/P process and provide everything they needed and in the format required; thus, ABC could help invoices move through the A/P process without delay.

2) Meet with the bank in the coming weeks to walk the lenders through the forecast and make them aware that ABC may need to draw on the bank line between November and February. If ABC did draw on the line, it expected to pay the loan back in full by April.

3) Closely monitor financial results (especially A/R and cash) in the coming months and meet regularly to review the steps being taken to mitigate the negative impact of a higher DSO.

Show Historical & Forecast Results Side by Side

The financial model was set up to easily present the monthly forecast next to the monthly actual results. It could be shown on a calendar year basis or a trailing (or forward-looking) 12-month basis. This is an impactful way to make trends and direction obvious to the reader. One of the added benefits of this approach is that management becomes more knowledgeable about the financial statements and therefore more likely to pay closer attention to the numbers and trends each month.

Make the Forecast Part of Your Monthly Financial Rhythm

This final step in the process is what creates lasting value in the company. An updated forecast was included in the monthly reporting package every month going forward. The process was created so the last actual month was loaded and the forecast months updated with new information.

The cover memo in the monthly reporting package included a paragraph on key changes in the forecast. And, specific comments were included each month about how the company was doing on the two key focus areas with respect to cash: the impact of a higher DSO on owner distributions and ABC's ability to pay down debt faster. Shortly after receiving the monthly reporting package, the CEO and the Board could quickly see what mattered most.

EXHIBIT 7: SUMMARY CASH FLOW

	Forecast Jul	Forecast Aug	Forecast Sep	Forecast Oct	Forecast Nov	Forecast Dec
Beginning cash balance	$ 1,051,409	$ 1,254,188	$ 1,165,844	$ 1,133,264	$ 560,804	$ 813,697
Pre-tax income	97,205	171,818	227,962	195,551	167,234	117,461
Accounts receivable	240,412	(637,257)	(638,073)	(911,663)	177,591	44,602
Accounts payable	27,713	315,123	315,543	140,224	(64,460)	(192,272)
Distributions to owners	(100,000)	0	0	0	0	0
Debt	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
All other changes, net	(47,551)	76,973	76,988	18,428	(12,473)	(36,803)
Net cash flow	202,779	(88,343)	(32,580)	(572,460)	252,892	(82,012)
Ending cash balance	$ 1,254,188	$ 1,165,844	$ 1,133,264	$ 560,804	$813,697	$ 731,685

Overcoming Obstacles & Resistance

It is smart to prepare for potential obstacles – especially if you are implementing the process for the first time. Common challenges and questions include:

- I have a hard time getting timely and reliable information from PMs and management that I need to create and update the forecast each month.
- What happens to my credibility if my forecast is wrong?
- My CEO doesn't see the value in having a forecast.

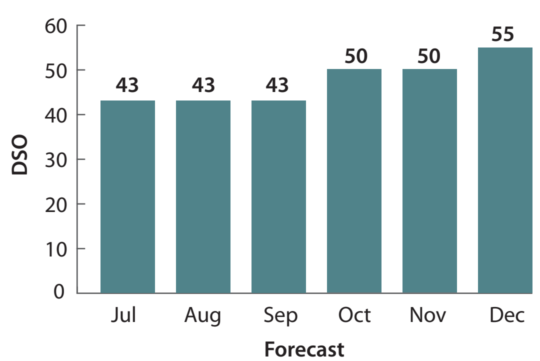
Here are some tips to combat such resistance:

1) The secret to a successful start is to begin the forecasting process "for your eyes only" for the first three months. You will be surprised how this one step will knock down almost every obstacle you might encounter.

2) Avoid the tendency to gather assumptions at the lowest level and roll them up. That way you won't need to ask PMs to provide specific data. Create your own assumptions at the highest possible level based on your bigger picture discussions with management, your intuition, and your knowledge of the business.

3) Summarize the results of your forecast at a high level – and use a range to guide the forecast user away from a single number. For example, "I expect pre-tax income for the year to come in between $1.7 and $2.0 million." Consistently speak in terms of the strategic impact of forecast results and where the company is headed financially.

EXHIBIT 8: DAYS SALES OUTSTANDING BY MONTH



4) If your CEO is leery about the value of forecasting, gradually begin talking about the financial future of the business with him or her. Ask how he or she defines financial success for the company and for its owners. Engage his or her curiosity (and knowledge) about what is about to happen financially.

Playing a More Strategic Role as CFM

A CFM has an opportunity to play a more strategic role in creating a bigger and brighter financial future for the company. Building a reliable and repeatable forecast will help you and your leadership team:

- Define where your company is going financially (and where the CEO wants it to go);
- Expose the dangers and opportunities that lie ahead;
- Create a road map to get the company there successfully and on time; and
- Monitor the financial pace and progress on the journey to success.

Providing a clear view of the business is an important step in adding value as a CFM. And it all starts with a reliable financial forecast. ■

Note: The full Excel financial model for this article example, including the article exhibits, monthly historical financial statements, and monthly forecast financial statements, are available at *www.cfma.org/jf16forecast* to help your company adopt a similar process.

PHILIP CAMPBELL is a CPA and financial consultant based in Austin, TX. He has been working closely with CEOs and owners for more than 30 years.

Philip has served as a financial officer in a number of growing companies with revenues ranging from $10 million to more than $1 billion. He has been involved in the acquisition or sale of 33 companies and an IPO on the New York Stock Exchange.

He is the author of the book *Never Run Out of Cash* and the free report *A 3-Part Plan to Breathe Financial Life Back into Your Business.*

Phone: 512-944-3520
E-Mail: pcampbell@pdq.net
Website: financialrhythm.com

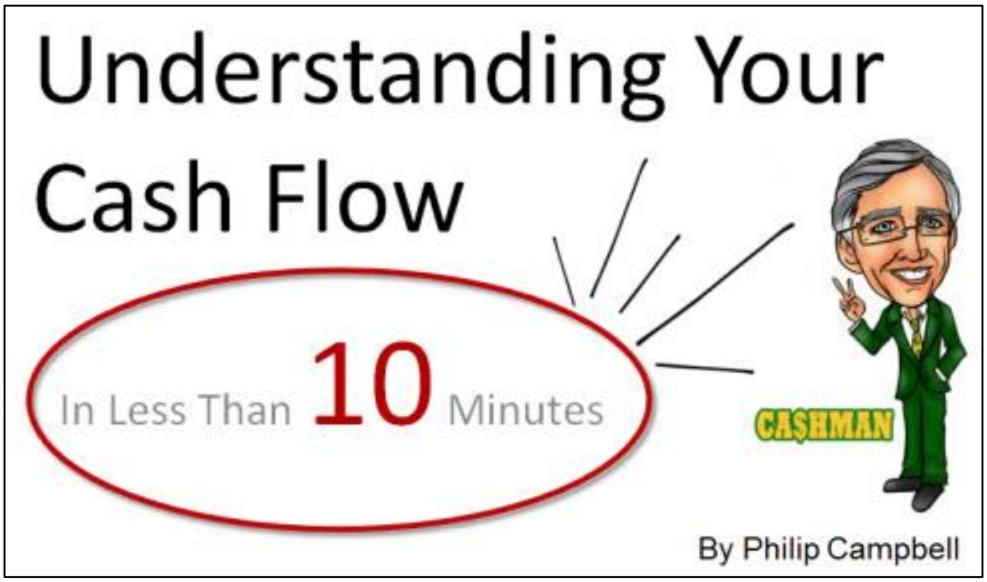
Download the Financial Forecasting Model

I hope you enjoyed the step-by-step process for creating a reliable financial forecast. I worked really hard to make sure each article provides value for you and shows you the path to putting this powerful tool to work in your company.

I have included the full financial model in the free member area. Click here to download the Excel financial model including the article exhibits, monthly historical financial statements, and monthly forecast financial statements.

Feel free to make changes to adopt a similar process in your company.

Understanding Your Cash Flow – In Less Than 10 Minutes



The online course **Understanding Your Cash Flow – In Less Than 10 Minutes** goes deeper into the Cash Flow Focus Report and the process. I walk you through each step of the process while you watch, listen, read and try it yourself using your own cash flow numbers. It is very affordable. And there are also coaching options available where I help you get up and running fast.

It's a fantastic way to learn the process.

Here's What You Get When You Purchase the Course Right Now

When you buy now, you get instant access to the course materials so you can get started right away (or save the materials for a time that is convenient for you). You get:

1. **The video presentation of the course.** This is a screencast that you can watch and listen to on your favorite device. I walk you through the step-by-step process and show you how to understand your cash flow in less than 10 minutes a month.

2. **The course workbook.** This is a downloadable workbook to help you get a fast start with the course material. It has all the examples and everything you need to complete your first Cash Flow Focus Report.
3. **The Cash Flow Focus Report.** You get the links to download the PDF or spreadsheet version of the Cash Flow Focus Report. 10 minutes a month with this unique and simple tool and you will wonder how you ever got by without it.
4. **The slides from the presentation.** You can download a document with a copy of each slide from the presentation so you can go back to any specific example or portion of the recorded presentation.

I take off my CPA hat and I speak in the language every business owner can relate to. No jargon. No stuffy financial rambling. Just a simple, common sense approach that only takes 10 minutes a month.

Here is how one business owner describes the benefits of the course.

> "I googled cash flow projections and found your website online and it appealed to me mainly due to the fact that you speak in laymen's terms in a way that a non-financially trained person can understand.
>
> The fact that you said you can understand your cash flow in less than 10 minutes a month was also a big reason I bought it. And the fact that you acknowledge that most accountants and CPA's speak in terms that the normal owner cannot understand and that you would be able to put things in understandable terms really got me.
>
> The monthly cash flow focus report was the best feature for me because learning to do it helped me understand my cash flow statements and the biggest drivers of cash flow.
>
> Another significant benefit is the definitions of cash flow drivers and descriptions of how a negative or positive sway in cash within those drivers affects cash flow. Being able to see at a quick glance monthly what happened to your cash using the focus report is a huge benefit."

Click here to learn more about the course.

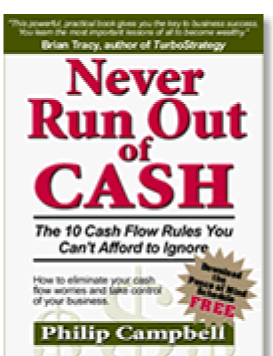
Download the Book - *Never Run Out of Cash*

Remember to grab your free PDF of my book ***Never Run Out of Cash: The 10 Cash Flow Rules You Can't Afford to Ignore***. You can grab it in the free member area. The book teaches you the 10 cash flow rules that will transform the way you manage your business forever.

You will see your business in a whole new light after you learn these principles and put them into action. Here are just a few of the skills and techniques you will learn:

- The 4 secrets for creating cash flow projections you can trust.
- How you can use the Peace of Mind schedule to create an almost magical feeling of control.
- The simple process for ensuring your cash balance is accurate.
- How to dramatically increase the quality of your business decisions.
- How the Peace of Mind schedule fills the enormous gap that the standard financial statements create.
- How to recognize and understand the cash flow "timing differences" in your business.
- How to use the "Smell Test" and the "90% Test" to create an amazingly accurate estimate of what your cash balance will be six months from now.
- How to avoid falling into the trap of worrying about your money.

I'm super-excited to be sharing it with you.



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Amazon paperback or Kindle | Barnes & Noble paperback and Nook
iTunes (available on iPhone, iPad or iPod touch) | Google Play

Grab your copy NOW. You'll love it.

Need Help Getting Started?

I'd be happy to help you get started with financial forecasting. Just email me and I will be glad to learn more about what you are trying to accomplish.

Every business is in a little different phase of its financial life. And every business owner has very pressing problems they want to solve.

But one thing is certain, every business must succeed financially. There really is no other option.

As I say in my book *Never Run Out of Cash*, "Either you do the work or have someone else do it". That is the formula for getting things done. In this case, it's the formula for making your company strong financially.

Let me know if I can help you in any way.

To your success,

Philip

Philip Campbell, CPA
Austin, Texas
Email: pcampbell@pdq.net
Web: www.FinancialRhythm.com
(Financial Rhythm is not a CPA firm)

PS – I'd love to hear from you if you find any misspellings, errors, or anything that you feel needs to be fixed. If you find it… I'll fix it. ☺

