

Preparing the Annual Report: for the Fiscal Year Spring

Conducted by Nick Chapman
nchapman@veinternational.org

Intro Activity:

Go to www.sec.gov

What is the SEC?

What is the role of the SEC?

Documents we will be referencing:

- 1. Annual Report – Guidelines & Rubric*
- 2. Annual Reports from real world companies*
- 3. Firm Financial Data Form*
- 4. VE Financial Statement Templates*
 - Income Statement*
 - Balance Sheet*
 - Cash Budget*

www.veinternational.org/resources

→ Reference Files

What is the SEC?

- **History**

- Created after the stock market crash of 1929
- Congress passed the Securities Act of 1933
 - This law, together with the Securities Exchange Act of 1934, created the Securities and Exchange Commission
- To restore investor confidence in capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing
- Sarbanes-Oxley Act of 2002, implemented some of the most far reaching reforms of American business practices since the time of Franklin Delano Roosevelt

- **Role of the SEC**

- The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.
- Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing.
- People who sell and trade securities – brokers, dealers, and exchanges – must treat investors fairly and honestly, putting investors' interests first.

- **The 10K report**

- Mandated annual report made available to all holders of the firm's securities (i.e. stockholders).
- A comprehensive overview of the company's business and financial condition and includes audited financial statements.

Goals of Sarbanes-Oxley Act of 2002

- A reaction to huge corporate finance scandals
 - i.e. the bankruptcies of Enron, WorldCom, and Tyco
- Raised financial standards in three main areas:
 - Corporate governance, securities analysis, and the performance of audit work
- To ensure that company directors and officers are aware of and accountable for the financial condition of the company
 - The CEO and CFO must certify in writing that the company's financials comply with the law and accurately represent the company's condition.
- The board of directors of most public companies must have an audit committee
 - In NYC, the Board of Directors (i.e. VE Central) uses and oversees the VE firm ASAP as auditors

What is an Annual Report?

- A report to shareholders
- A summary of firm operations
- Presentation of Financial Statements
- Based on the Fiscal Year (In VE: May 1st to April 30th)

Basic contents of the Annual Report:

- Letter to Shareholders
- Financial Highlights
- Management Discussion (summary of operations)
- Financial Statements
- Corporate Message

Examples of Annual Reports

- Go to www.annualreports.com
 - Search for the following companies and open the A.R.
 - **1-800-FLOWERS**
 - **Office Max**
 - **Sonic**
-
- Go to www.google.com
 - Search for Company + “Annual Report”
 - **Foot Locker**
 - **Aeropostale**

Examples of Annual Reports

- What is their story?
- What is their corporate message?
- What were the highlights of the fiscal year?
- What areas do they identify for development?

Annual Report Requirements for VE Firms

- **Review document:**

- *Annual Report – Guidelines & Rubric*

1. *Introductory Components*
2. *Letter to Stockholders*
3. *Board of Directors and Management*
4. *Corporate Message*
5. *Financial Highlights*
6. *Financial Statements and Footnotes*
7. *Management Discussion and Analysis*
8. *Supporting Documentation*

Developing your firm's Annual Report

- **What did you say you were going to do in your business plan?**
 - Outline your goals and objectives for the fiscal year
- **What actually happened?**
 - Present data that supports your analysis
 - Sales highlights – Graphs & Charts
 - Sales by product line
 - Results of customer surveys
 - Comparison of Actual vs. Projected
- **Explain any significant differences**
 - Why were you successful?
 - Why *weren't* you successful?
 - It's OK if you did not achieve everything you set out to do!
 - What did you learn from the experience?

Year End Reporting Requirements

- **Firm Financial Data Form:**
 - Income Statement, AKA *“Statement of Earnings”*
 - Balance Sheet, AKA *“Statement of Financial Position”*
 - Cash Budget, AKA *“Statement of Cash Flows”*
- **Corporate Tax Return, Form 1120**

Certification Letter

FOOT LOCKER, INC.

**Certification Pursuant to
18 U.S.C. Section 1350**

**As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Foot Locker, Inc. (the "Registrant") for the period ended February 2, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ken C. Hicks as Chief Executive Officer of the Registrant and Lauren B. Peters as Chief Financial Officer of the Registrant, each hereby certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: April 1, 2013



Ken C. Hicks
Chief Executive Officer



Lauren B. Peters
Chief Financial Officer

Firm Financial Data Form

- **Income Statement, AKA “*Statement of Earnings*”**
 - ☐ Revenue – Expenses = Profit (or loss)
- **Balance Sheet, AKA “*Statement of Financial Position*”**
 - ☐ A snapshot of your finances (think Instagram!)
 - ☐ Assets: Cash in the bank, office equipment, accounts receivable
 - ☐ Liabilities: What you owe to others (loans, bills, payroll, etc)
 - ☐ Shareholder’s Equity: The amount of investment and retained earnings
- **Cash Budget, AKA “*Statement of Cash Flows*”**
 - ☐ Cash Receipts and Cash Payments

Income Statement

For the period May 1, 2012 – April 30, 2013

Revenue

- Cost of Goods Sold

Gross Profit

- Total Operating Expenses

- Provide details
-

Income from Operations

- Corporate Tax

Net Income After tax

“Statement of Earnings”

- What was your revenue?
- What were your operating expenses?
- How much profit or loss did your firm have this year?

GROSS MARGIN %:

Gross Profit/ Revenue = **Gross Margin**

- The % of revenue that you keep after COGS.

PROFIT MARGIN %:

Net Income/Revenue = **Profit Margin**

- The % of revenue that you keep after all expenses and taxes.

Income Statement

	Company A	Company B
Revenue	\$300,000	\$300,000
COGS	\$150,000	\$200,000
Gross Profit	\$150,000	\$100,000
Gross Margin %	50%	33%
Operating Expenses	\$120,000	\$40,000
Net Income	\$30,000	\$60,000
Net Profit Margin %	10%	20%

Balance Sheet:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Things you have

What you owe other people

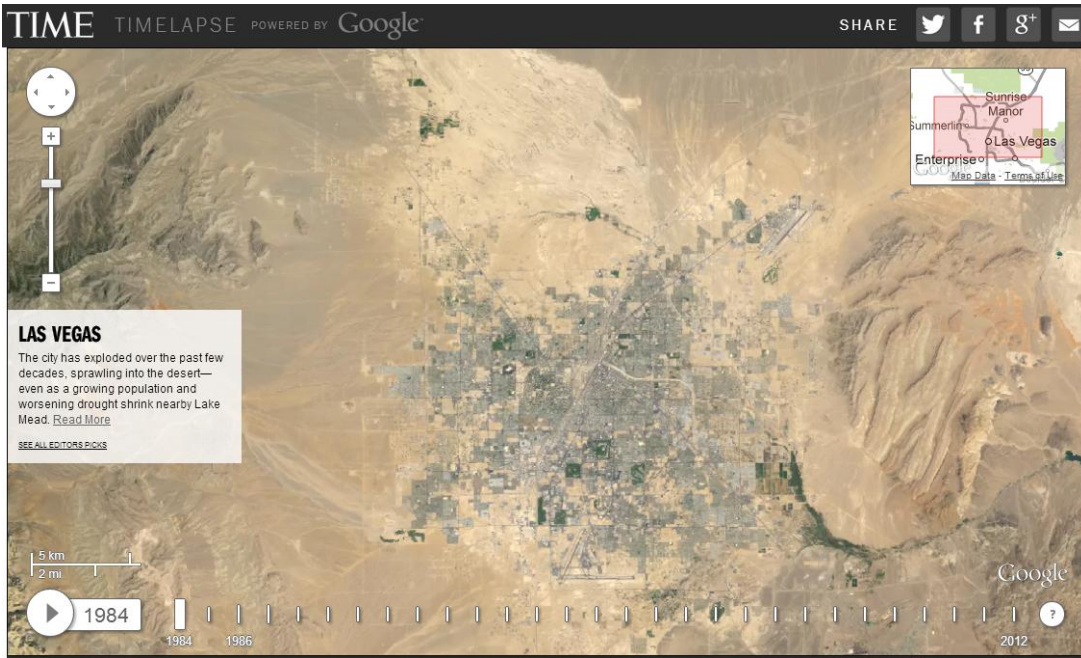
Who owns what?

“Statement of Financial Position”

- How much money do you have?
- What do you owe other people?
- What is the value of your company?

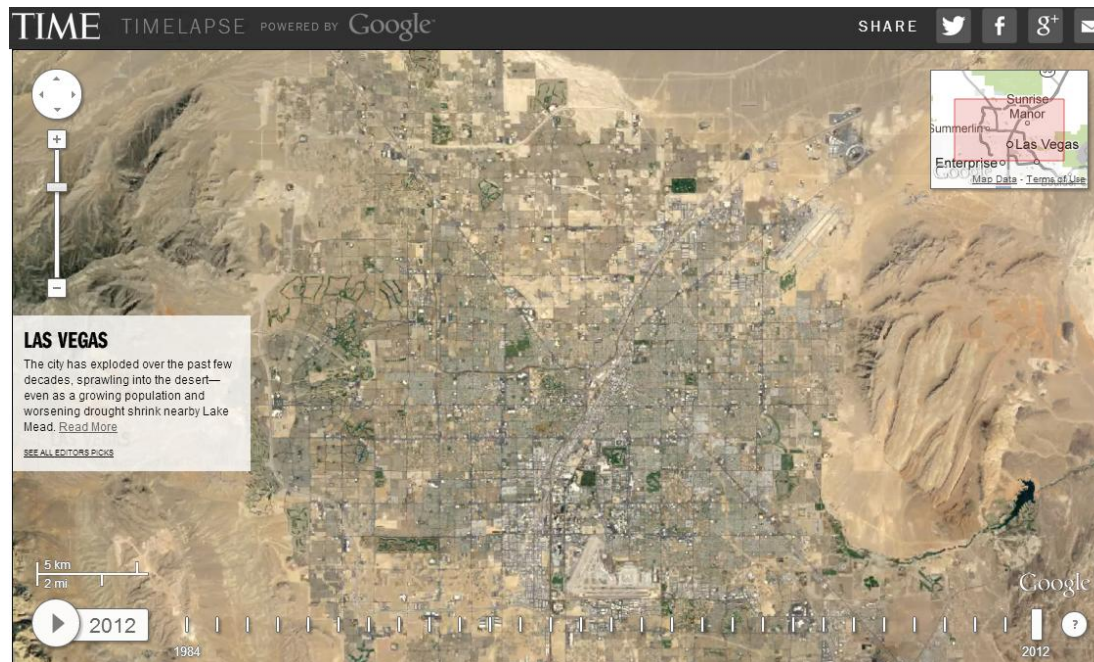
- Think of it like taking a picture of your company’s current financial situation.

**Think: Instagram
for your financials!**



Source: <http://world.time.com/timelapse/>

← Las Vegas in 1984



← Las Vegas in 2012

Balance Sheet:

Assets = Liabilities + Equity

A simple example:

Date	Assets	=	Liabilities	+ Equity
5/1	\$200		\$150	\$50
5/8	\$200		\$50	\$150
5/15	\$200		\$0	\$200

A simple “VE” example:

Date	Assets (Cash) + (Fixed Assets)	=	Liabilities (Loan)	+ Stockholders' Equity (Stock) + (Retained Earnings)
5/1	\$100,000		\$0	\$100,000
5/2	\$50,000 + \$50,000		\$0	\$100,000
9/15	\$300,000 + \$50,000*		\$250,000	\$100,000
4/30	\$320,000 + \$40,000*		\$200,000	\$100,000 + \$60,000

Balance Sheet:

Assets = Liabilities + Equity

As of 4/30/13

Assets

Current Assets

- Cash in the Bank
- Account Receivable
- Inventory & Supplies

Fixed Assets

- Computers/Office Equipment/Furniture
- Less: Accumulated Depreciation

Current Assets + Fixed Assets = TOTAL ASSETS

Balance Sheet (cont.)

Assets = Liabilities + Equity

As of 4/30/13

Liabilities

Current Liabilities (anything due within the next 12 mos.)

- Accts Payable: Salaries, Payroll Tax, Sales Tax, Corporate Tax
- Loan payments due over the next 12 months

Non Current Liabilities

- Loan Payable (from 5/1/14 through the end of loan repayment)

Stockholders' Equity

Common Stock

Additional Investment (paid-in capital)

Retained Earnings

- Amount of net income retained by the firm over its existence

Cash Budget

For the period May 1, 2012 – April 30, 2013

Opening Cash Balance

+ Cash Receipts

- Provide details

- Cash Payments

- Provide details

Ending Cash Balance

“Statement of Cash Flows”

- When & where did your cash come from?
- When & to whom did you pay cash?
- What was your opening and ending balance?

Ratio Analysis

- **Current Ratio**
= Current Assets / Current Liabilities
- **Quick Ratio**
= (Current Assets – Inventories) / Current Liabilities
- **Debt to Asset Ratio**
= Total Liabilities / Total Assets
- **Gross Profit Margin**
= Gross Profit / Revenue
- **Net Profit Margin**
= Net Profit / Revenue

To Recap:

1. What did you say you were going to do in your business plan?
2. What actually happened?
3. Explain any significant differences
 - Why were you successful?
 - Why *weren't* you successful?
 - What did you learn from the experience?

What is your Corporate Message?

Questions & Answers

- nchapman@veinternational.org

Corporate Tax Return

- **Form 1120**

www.veinternational.org/ny

→ Resources Page

→ Reference Files

→ "Corporate Tax"

Net Income	Corporate Tax
\$10,000	15% of \$10,000 = \$1,500
-\$15,335	No profit = No taxes due
\$82,500	\$13,750 + 34% of \$7,500

Tax Rate Schedule

If taxable income on line 23 of Form 1120VE is:

Over --	But not over --	Tax is:	Of the amount over --
0	50,000	15%	0
50,000	75,000	\$7,500 + 25%	50,000
75,000	100,000	\$13,750 + 34%	75,000
100,000	335,000	\$22,250 + 39%	100,000
335,000	10,000,000	\$113,900 + 34%	335,000
10,000,000	\$3,400,000 + 35%	10,000,000

941 Withholding Tax Form

- **Form 941**

www.veinternational.org/ny

→ Resources Page

→ Reference Files

Sales Tax Form

- Sales tax reporting form

www.veinternational.org/ny

→ Resources Page

→ Reference Files

Deadlines:

Firm Financial Data Form submission – Friday, May 17, 2013

– *Income Statement*

- <https://docs.google.com/a/veinternational.org/spreadsheet/viewform?formkey=dFBtTXBaQlpvLTBZdW5zTGQ1WWpPcFE6MA#gid=0>

– *Balance Sheet*

- <https://docs.google.com/a/veinternational.org/spreadsheet/viewform?formkey=dExxazdzc2p3UnFuUVhzMmpDSGJOTWc6MA#gid=0>

– *Cash Budget*

- <https://docs.google.com/a/veinternational.org/spreadsheet/viewform?formkey=dDVZSHFOaU5DSEJIbEdKWjdKRmNOR0E6MA#gid=0>

- **Annual Report (in PDF format) – Tuesday, June 4 2013**

- **Corporate Tax Form 1120 – Tuesday, June 4, 2013**