



Steven and Heather Reynolds

ANALYSIS OF CURRENT SITUATION
November 18, 2009

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Financial Statements Analysis

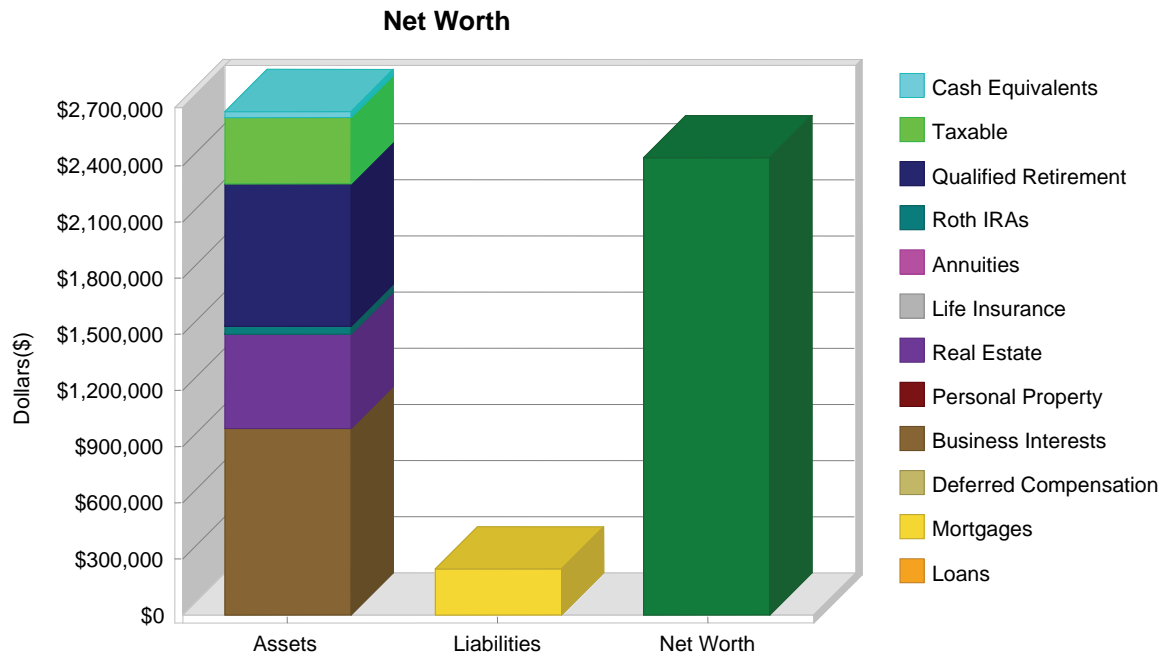
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Net Worth Statement

In order to determine your current financial position, it is good to prepare a net worth estimation at least once per year. This report outlines the difference between the total value of your assets (which includes things like; your home, investments, savings accounts) and your liabilities (mortgages, credit cards, etc.). Net Worth equals Assets minus Liabilities.

Total Assets	\$2,694,235
Total Liabilities	(\$250,000)
Total Net Worth	\$2,444,235

Assets	Steven	Heather	Joint	Total
<i>Portfolio Assets</i>				
Cash Equivalents	--	--	\$35,000	\$35,000
Taxable Investments	--	--	\$359,885	\$359,885
Qualified Retirement	\$755,350	--	--	\$755,350
Roth IRAs	--	\$44,000	--	\$44,000
Annuities	--	--	--	--
Life Insurance	--	--	--	--
<i>Property & Business</i>				
Real Estate	--	--	\$500,000	\$500,000
Business Interests	--	--	\$1,000,000	\$1,000,000
Total Assets	\$755,350	\$44,000	\$1,894,885	\$2,694,235
<i>Liabilities</i>				
Mortgages	--	--	(\$250,000)	(\$250,000)
Total Liabilities	\$0	\$0	(\$250,000)	(\$250,000)
Total Net Worth	\$755,350	\$44,000	\$1,644,885	\$2,444,235



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Your Current Income

Managing your cash flow often starts with examining your sources of income. There are many reasons you may want to better understand your sources of income. Your financial situation has changed, your income is irregular, you plan to apply for a loan or you just want a better feel for where your money is coming from.

We are going to look at your sources of income in two distinct buckets. First, we are going to look at your Salary and Bonus income. These are commonly referred to as earned income.

Salary & Bonus	\$125,000
Other Income	\$45,000
Total Income	\$170,000

Your current Salary and Bonus income for **Steven and Heather** comes the following sources:

- ▶ Part time salary for Heather **\$25,000 / yr**
- ▶ Steven's Salary **\$100,000 / yr**

These flows in combination makeup your gross Salary and Bonus income which is **\$125,000** between the two of you.

In addition, you may also have other income streams from non-employment sources. Your current sources of income other than Salary and Bonus are as follows:

- ▶ Pension for Steve **\$25,000 / yr**
- ▶ Real Estate Income **\$20,000 / yr**

Those flows in combination contribute to an annual other income total of **\$45,000**.

When we combine your salary and bonus income sources with your "Other" income sources, this results in total current year income of **\$170,000** coming in through your door this year.

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Your Current Expenses

The next step in understanding and evaluating your cash flow situation is to understand your expense outflows. There are several categories of expenses we will look at, but we will start with your basic annual living expenses. You currently expect to have **\$100,000** of basic living expenses per year.

You currently have liability payments of **\$8,328** per year, which **are not** included in the above basic living expenses. Those liability payments are as follows:

- ▶ Mortgage **\$8,328 / yr**

Basic Living Expenses	\$100,000
Liability Payments	\$8,328
Insurance Premiums	\$2,000
Income Taxes	\$42,500
Goal Savings	\$16,000
Total Expenses	\$168,828

You currently have insurance premium payments of **\$2,000** per year, which **are not** included in the above basic living expenses. Those premium payments are as follows:

- ▶ Policy on Steven **\$2,000 / yr**

A significant expense category to consider is income tax payments. While you should consider consulting your tax advisor before making major financial decisions, we can estimate your current income tax expense with some simple assumptions. Your current income is **\$170,000**. Assuming we apply an effective income tax rate of **25.0%**, this results in a current income tax expense of **\$42,500** per year.

One of the most important ingredients in successfully reaching your future financial goals, is saving the appropriate amount towards those goals. Therefore, the final expense category we are looking at, are your dedicated savings towards goals. You have other annual savings in total of **\$16,000**.

After accumulating the expense amounts in each expense category, your current total annual expenses are **\$168,828**.

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Your Current Cash Flow

Businesses will often times create a Sources and Uses of Cash statement to evaluate their income and expense decisions and to monitor profitability. Similarly, a personal cash flow statement can help you evaluate your personal income and expense flows and see if you are running "in the red" or "in the black".

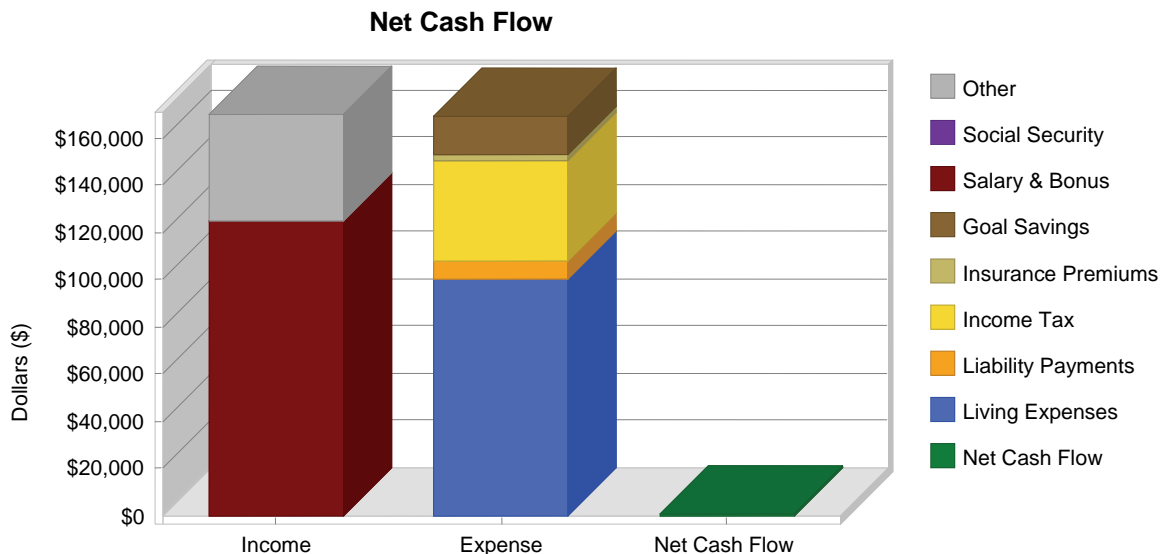
If your income is greater than your expenses, you will have additional money to put into a dedicated fund for use in achieving your goals. However, if expenses exceed your income, you may need to look at ways to change this result. We have already gathered your income flows and expected expense flows and have listed them in the table below:

Total Income	\$170,000
Total Expenses	(\$168,828)
Net Cash Flow	\$1,172

Income	Total
Salary and Bonus	\$125,000
Other Income	\$45,000
Total Income	\$170,000
Expenses	Total
Living Expenses	(\$100,000)
Liability Payments	(\$8,328)
Insurance Premiums	(\$2,000)
Income Taxes	(\$42,500)
Goal Savings	(\$16,000)
Total Expenses	(\$168,828)
Net Cash Flow	\$1,172

How does your net cash flow stackup?

We have taken a look at all your current income sources, and we have estimated your total income to be **\$170,000**. We have also accumulated all of your current expense flows, and have estimated your total expenses to be **(\$168,828)**. This results in a **positive** net cash flow of **\$1,172** for the current year. The chart below summarizes this information.



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Net Worth Details

Assets	Steven	Heather	Joint	Total
Portfolio Assets				
<i>Cash Equivalents</i>				
Checking account	--	--	\$35,000	\$35,000
<i>Taxable Investments</i>				
Brokerage Account	--	--	\$359,885	\$359,885
Taxable Investment 1	--	--	--	--
<i>Qualified Retirement</i>				
401(k) for Heather	\$290,350	--	--	\$290,350
401(k) for Steve	\$187,000	--	--	\$187,000
IRA for Steve	\$278,000	--	--	\$278,000
<i>Roth IRAs</i>				
Heathers Roth IRA	--	\$44,000	--	\$44,000
<i>Annuities</i>				
Annuity 1	--	--	--	--
<i>Life Insurance</i>				
Policy on Steven	--	--	--	--
Total Portfolio Assets	\$755,350	\$44,000	\$394,885	\$1,194,235
Property Assets				
<i>Real Estate</i>				
Home	--	--	\$500,000	\$500,000
Total Property Assets	\$0	\$0	\$500,000	\$500,000
Business Assets				
Reynolds and Company	--	--	\$1,000,000	\$1,000,000
Total Business Assets	\$0	\$0	\$1,000,000	\$1,000,000
TOTAL ASSETS	\$755,350	\$44,000	\$1,894,885	\$2,694,235
LIABILITIES				
<i>Mortgages</i>				
Mortgage	--	--	(\$250,000)	(\$250,000)
TOTAL LIABILITIES	\$0	\$0	(\$250,000)	(\$250,000)
TOTAL NET WORTH	\$755,350	\$44,000	\$1,644,885	\$2,444,235

TOTAL NET WORTH: \$2,444,235

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Emergency Reserves

A financial hardship or crisis is closer than some would like to admit. A big part of your financial fitness is being prepared. Nothing can derail your financial plans more than not having adequate cash reserves. Those who are unprepared are then forced to borrow at high interest rates or liquidate investment assets or real estate at inappropriate times.

Think of the following scenarios and ask yourself if you are prepared:

- ▶ You are laid off or redeployed to a lower paying job
- ▶ A serious accident has left you or your spouse unable to work
- ▶ A loved one is hospitalized and you are forced to miss considerable work
- ▶ An unexpected death or illness that requires time and money to handle

Today, your total living expenses are **\$11,875** per month (or **\$142,500** each year). In case you need to access your emergency reserves, let's assume you will need enough in this fund to cover **100.0%** of those living expenses or **\$11,875** each month.

When determining how much to keep in an emergency reserve most experts agree that it depends on your unique circumstances. However, it is usually safe to earmark at least 3-6 months of living expenses. In this scenario, let's assume you want to create an emergency reserve equal to **4** months of living expenses.

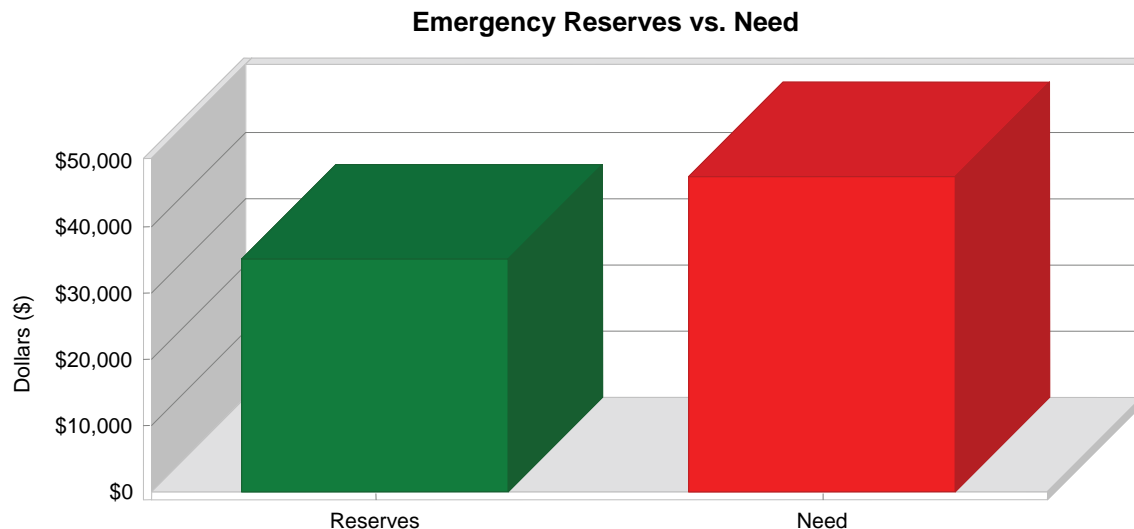
The primary investment objective for your emergency reserves is safety not return. You currently have **\$35,000** of cash available to use in this type of an emergency fund.

Emergency Reserves
\$35,000
Total Emergency Need
\$47,500
Emergency Reserve Deficit
\$12,500

How prepared for an emergency are you?

According to what you told us, you have **\$35,000** of cash available to handle a short term emergency. Looking at the **\$11,875** worth of expenses you're going to face each month for **4** months, you're going to need a total emergency reserve fund of **\$47,500**. This means you have a **deficit** of **\$12,500**.

The chart below shows your reserves versus your total emergency need.



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Information Summary

The following financial information and assumptions were used in the preparation of this analysis.

Family Information

Client: Steven and Heather Reynolds
Address: 555 Main Street
Conshohocken, PA 11111
H: (610) 831-8907

Client: Steven Reynolds
Date of Birth: 1/1/1959
Current Age: 50
Spouse: Heather Reynolds
Date of Birth: 1/1/1959
Current Age: 50

Children	Gender	Age	Date of Birth
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Gary Reynolds	Male	10	1/1/1999
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Grandchildren	Gender	Age	Date of Birth
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Matthew Reynolds	Male	1	6/13/2008
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Information Summary

Basic Assumptions

Analysis for: Steven and Heather Reynolds
Current Year: 2009

Current Income Sources

Income Source	Annual Amount
Part time salary for Heather	\$25,000
Pension for Steve	\$25,000
Real Estate Income	\$20,000
Steven's Salary	\$100,000
Total Income	\$170,000

Current Expenses

Expense	Annual Amount
Living Expenses	\$100,000
Liability Expenses not included in Living Expenses Mortgage (\$250,000)	\$8,328
Insurance Premiums not included in Living Expenses Policy on Steven	\$2,000
Tax Payments (25.0% of \$170,000)	\$42,500
Savings Toward Goals	
Total Expenses	\$168,828

Emergency Reserve Assumptions

Months of Emergency Reserves: 4 months
Amount of Living Expenses: \$11,875 per month
Percent of Expenses to Fund: 100.0%
Total Expenses to Fund: \$47,500
Cash Currently Available: \$35,000

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