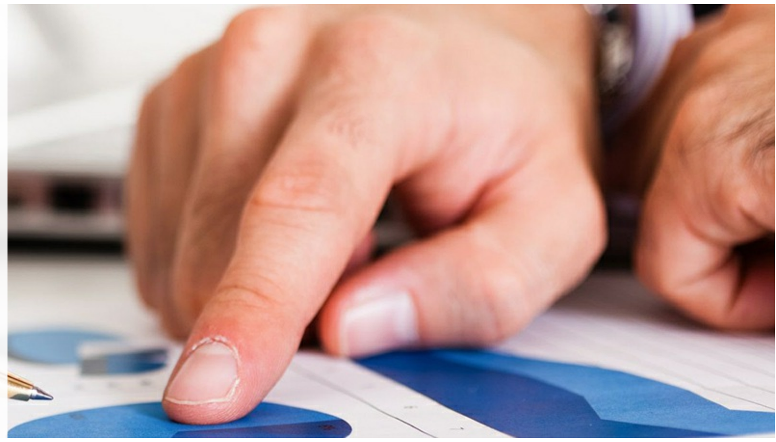
PETROCELLI
FINANCIAL SERVICES LLC

Personal Financial Statements



Overview

Personal financial statements provide a summary of an individual's financial situation. The most commonly used financial statements are the "Net Worth Statement" and the "Cash Flow Statement".

The Net Worth Statement represents an individual's assets, liabilities, and net worth as of a particular date. The Cash Flow Statement shows an individual's receipts and income and disbursements and expenses for a specific period of time. In other words, the Cash Flow Statement illustrates the individual's inflows and outflows and whether there is a cash flow surplus or deficit.

Both the Net Worth Statement and the Cash Flow Statement are essential tools in evaluating and monitoring an individual's financial status. They should be prepared, revised, and analyzed regularly to see if the individual is making progress towards achieving their financial goals.

Situations

The preparation of personal financial statements is the initial step in helping an individual determine his or her personal financial goals.

Personal financial statements are also utilized in the following situations as:

- The basis for the cash flow analysis and projection process
- The first step in the budgeting process
- Proof to a lender of the individual's ability to make loan payments as well as show adequate security for a loan
- Part of the needs analysis required to determine any shortfalls in life, disability income, property and casualty, and/or extended care insurance

Descriptions

To prepare complete financial statements, there are numerous sources from which the information necessary for preparing such statements may be found, for example:

- Checking and savings account statements, CD certificates, checkbook registers
- Brokerage account statements and mutual fund statements
- Employee benefit statements [e.g., 401(k) and other employee benefit plan statements, such as employee stock purchase plan, stock option plan, restricted stock plan, deferred compensation plan, profit-sharing plan, etc.]
- Payroll check stubs for salary, bonus, expense allowance, and payroll deduction amounts
- Appraisal reports for any property, business interests, or other assets
- Notes receivable documents
- Documents related to the value of the individual's ownership in a business, limited partnership, limited liability corporation, etc.
- Income tax returns (the last 2 to 3 years, if possible)
- Life insurance and annuity statements
- Safe deposit box inventory
- The individual's personal financial management computer software records
- Loan documents – mortgages, vehicle purchases, and other personal loans
- Credit card statements
- The client (i.e., completing a detailed fact finder with the financial planning professional)

Logistics

Net Worth Statement

The basic design of the Net Worth Statement is **Assets *Less:* Liabilities = Net Worth**.

On the Net Worth Statement, **assets** are usually listed according to the degree of liquidity with the most liquid assets listed first. In addition, assets should be presented at the estimated current value, not at the cost basis and/or purchase amount. Examples of the kinds of assets and the order in which they may be listed are:

- Cash and cash equivalents (e.g., cash, bank accounts, money market mutual funds, and Treasury bills)
- Life insurance policy cash values
- Accounts receivables; bonus receivable
- Fixed income investments not in retirement accounts (e.g., CDs, bonds, and bond funds)
- Equity investments not in retirement accounts (e.g., stock and stock mutual funds)
- Real estate
- Closely held business interests
- Remainder interests in trust(s)
- Retirement and employee benefit related assets
- Personal residence and second residence(s)
- Personal property (e.g., vehicles, home furnishings, jewelry, artwork, collectibles, etc.)
- Human Capital (i.e., the present value of an individual's expected future labor income.)

On the Net Worth Statement, **liabilities** could be presented in the order of maturity or next to the asset. For example, credit card balances would be listed before longer term debts such as vehicle loans and mortgages. In addition, liabilities should be shown at the estimated current amount (i.e., balance). Examples of the kinds of liabilities and the order in which they may be listed are:

- Credit cards and charge accounts
- Income taxes payable
- Miscellaneous accounts payable
- Bank loans (secured then unsecured)
- Life insurance policy loans
- Vehicle loans
- Student loans
- Mortgages on personal residence(s) (e.g., primary mortgage, home equity line of credit, home equity loan, home improvement loan)
- Mortgages on investment
- Real estate
- Loans to closely held businesses

After the Net Worth Statement is compiled, it will provide a current financial "snap shot" of the individual's assets and liabilities and whether they have a positive or negative net worth. It presents an individual with an organized reference point to evaluate their current financial position and how that relates to their financial goals. Preparation of the Net Worth Statement is also the initial step in both the investment planning process and the debt analysis process.

Cash Flow Statement

The basic design of the Cash Flow Statement is **Receipts and Income *Less:* Disbursements and Expenses = Net Cash Flow**.

On the Cash Flow Statement, **receipts and income** are listed first. Examples of the kinds of receipts and income and the order in which they may be listed are:

- Salary, wages, and other earned income (e.g., commissions, expense allowances, director's fees, second job)
- Bonuses
- Gifts
- Transfer type payments (e.g., tax refunds, child support, alimony, Social Security benefits, Veteran's benefits)
- Interest (taxable then nontaxable)
- Dividend and royalty income
- Realized capital gains
- Income from real estate investments
- Annuity income
- Other income (e.g., trust income, business income, severance income)

The **disbursements and expenses** are listed next on the Cash Flow Statement. There are three main categories of expenses: nondiscretionary, semi-discretionary, and discretionary.

- Nondiscretionary expenses are also known as fixed expenses and the individual normally has limited, if any, control over these.
- Semi-discretionary expenses may not be completely eliminated but the individual may have some control over them.
- Discretionary expenses are luxuries and may be completely eliminated as a nonessential item if necessary.

Examples of the three types of expenses follow.

Nondiscretionary Expenses

- Mortgage and other home-related loans; rent payments
- Installment loan and lease payments
- Utilities
- Income taxes
- Other taxes (e.g., FICA, real estate and personal property taxes)
- Insurance premiums
- Household expenses
- Medical and dental expenses
- Educational expenses
- Child support and alimony
- Support payments to aging parents and/or other dependents

Semi-discretionary Expenses

- Retirement plan contributions
- Savings payments
- Food
- Clothing
- Personal care
- Household furnishings
- Transportation

Discretionary Expenses

- Entertainment, recreation, dining out, and vacations
- Gifts and charitable contributions
- Hobbies

A positive net cash flow suggests that additional funds are available to apply to the individual's goals. A negative cash flow suggests a decline in the individual's net worth over time through increased debt or liquidation of assets.

NOTE: The American Institute of Certified Public Accountants (AICPA) has been crucial in providing guidance for the preparation of personal financial statements. The AICPA's *Personal Financial Statements Guide* is a valuable resource for guidelines to be considered in the development of personal financial statements.

PETROCELLI
FINANCIAL SERVICES LLC

Petrocelli Financial Services LLC

Robert Petrocelli

Phone: (212) 261-9530
Fax: (212) 261-9529
Email: rpetrocelli@ft.newyorklife.com

Website: http://www.RobertPetrocelli.com

Robert Petrocelli, Member Agent of The Nautilus Group®, a service of New York Life Insurance Company, Registered Representative offering securities through NYLIFE Securities LLC (Member FINRA/SIPC), a Licensed Insurance Agency, 120 Broadway, 29th Floor - New York, NY 10271 (212) 261-9530, Financial Adviser offering investment advisory services through Eagle Strategies LLC, a Registered Investment Adviser. Petrocelli Financial Services LLC is not owned or operated by NYLIFE Securities LLC or its affiliates. Petrocelli Financial Services LLC as well as NYLIFE Securities LLC and its affiliates do not provide legal, tax or accounting advice.

This material includes a discussion of one or more tax-related topics. This tax-related discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. Taxpayers should always seek and rely on the advice of their own independent tax professionals. Please understand that New York Life Insurance Company, its affiliates and subsidiaries, and agents and employees of any thereof, may not provide legal or tax advice to you.