



# NECOG Development Corporation

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## Operating Lines of Credit

By Alison Kiesz

Operating lines of credit can be very useful tools for small businesses. A line of credit gives you the flexibility to draw on the line of credit when expenses are heavy and repay the line of credit when cash starts coming in. A line of credit can help you bridge the gap between when your accounts payable are due and when your receivables actually come in.

Lines of credit may be particularly helpful for businesses that carry seasonal items. For instance, you may need to order significantly more inventory for the Spring gardening season or to stock up for the Christmas holiday. However, you may need to wait for a few months before those seasonal sales start coming in. A line of credit can help you pay for those inventory needs and then can be paid off once the increased sales start coming in.

Or maybe your business has longer terms for accounts receivable or gets paid in increments—these types of irregular cash flow make it hard to pay the bills or make payroll. An operating line of credit can help in these instances too.

We get frequent questions from clients about these situations. However, NECOG-DC does not make operating lines of credit. This is a need best served by your local bank/lending institution. They are better set up to handle these revolving needs. Interest rates can vary but are typically fairly competitive.

Contacting your local bank about a line of credit might be a good way to start a lending relationship with a bank that can pay off in the future for other financial needs your business may have.

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# Check Fraud

By Alison Kiesz

Whether you use online banking or not, check fraud is still one of the most common ways that fraudsters take advantage of businesses to scam them out of money. You may think as a small business that you wouldn't be target of scammers. However, because small businesses have fewer employees, they may have fewer internal checks in place to detect fraud early on.

I learned of one business in Sioux Falls that became the target of fraudsters after they dropped their vendor payments into one of the Post Office's blue mail boxes and the mail box was then stolen by a fraudster who altered the checks for their own purposes.

Here are a few simple ways you can help prevent fraud at your business:

- Make sure checks are always kept in a locked location
- Incorporate security features into check design
- Only employees who have accounting or financial roles should have access to checks
- Reconcile your bank accounts regularly to detect fraud

If you use online banking, there are a few other preventative measures you might consider:

- Keep computers and operating systems up to date
- Don't send confidential information (such as account numbers via email)
- Use any notification features available from your bank's online banking application (such as emails when large transactions take place)

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# NECOG is Moving

Yes, you read that right. After 17 years in the Super City Mall in Aberdeen, we are moving offices. In early May we will be moving to the Smart Center on the east side of Aberdeen. This is the same building where the Small Business Development Center and the Aberdeen Development Corporation are located.

As many of our clients also work with the SBDC on business plans, financial projections and other assistance, this will be very convenient.

If you need to stop by our office, the physical address is 416 Production St N, Aberdeen, SD 57401. The Smart Center is ½ mile north of RDO Equipment in Aberdeen.

Our P.O. Box will remain in effect for now, but will be discontinued after the end of the year. Our phone number of 626-2595 will also remain the same.

We are looking forward to the new office space which will help us accommodate our clients better.

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*(Check Fraud cont.)*

Many banks also have additional security programs that you may want to consider such as reviewing all (or certain) checks or ACH transactions before they are posted to your account. Talk to your bank about solutions they have that can help prevent you from becoming a target of fraud.

# A Simple Guide to Understanding Your Profit and Loss Statement

By Doug and Polly White for Entrepreneur.com

## The Basics

Most entrepreneurs start organizations because they are passionate about the primary work of the business -- which usually isn't accounting. This means that most entrepreneurs aren't completely comfortable interpreting the monthly financial reports they receive.

All P&Ls are based on a very simple formula -- sales minus costs equals profit. It really is that simple. Everything else is a matter of breaking out sales or cost into more detail and adding subtotals. Sales are typically shown at the top of the P&L. Costs are shown below sales and profit is at the bottom. You may see a number of subtotals as you look down the column, but it is still sales minus costs equal profit.

Unfortunately, we sometimes use different words for sales, costs and profits. For example, sales can also be called revenue or income. Costs may be called expenses and profits may be referred to as net income. In fact, the P&L itself can also be called an income statement. All of these AKAs can be confusing, but don't let it throw you.

## Sales/Income/Revenues

Your company's sales may be broken into several different sources. For example, the sales of a restaurant may come from customers who dine in or take out or from catering. Such a business may choose to break sales into those three pieces. Typically, these three components would be added together in a line called total sales.

## Costs/Expenses

Similarly, costs are usually broken into vari-

ous components. For example, you may see material costs, labor costs and overhead broken out separately. There are an infinite number of ways to break out costs, but once you get below the total sales line everything else you see is a cost, broken out in one way or another.

One of the most useful ways to subdivide costs is into those costs that are directly associated with delivering your product or service and those that are not. Consider a company that makes and sells different types of widgets. It will have the cost of the components used to make the widgets, the cost of the workers who assemble the widgets and the costs of the production facility. These costs are referred to as cost of goods sold (COGS) because they can be tied directly to the production of widgets.

In a service business, this is called the cost of service (COS). For example, a lawn maintenance service would include the cost of the employees who do the work, fuel costs, and the cost of other supplies such as fertilizer and grass seed.

## Gross Profit

Sales minus COGS is known as gross profit (or gross margin). This is the money the business earns after it subtracts the cost of delivering its product and/or services. It is also the money needed to cover the other costs associated with running the business and still generate a profit.

## Net Profit/Net Income

Other costs of the business are not associated with the production of widgets. Such costs might be the cost of the people who sell the widgets, the cost of the accountants who produce the P&Ls and even the president's compensation. These costs are most often referred to as selling, general and

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*(Profit and Loss cont.)*

administrative costs (SG&A). With this addition, the P&L is now broken down into two parts: sales minus COGS equals gross profit, and gross profit minus SG&A equals net profit, often called net income.

If you have been filing your P&Ls away without reading them, you are not alone. However, understanding your P&L is essential to being able to run your business successfully.

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## Upcoming Events and Workshops

April 15 | **Governor's Economic Development Conference** | Sioux Falls |  
[www.sdreadytopartner.com](http://www.sdreadytopartner.com)

April 16 | **SCORE Lunch and Learn: Marketing and Connecting with Your Customers**  
| Aberdeen | 11:30 am | Call 626-2565 to register

April 24 | **Small Business is Everybody's Business Conference** | Sisseton | 9:30—4:30 | Visit  
[www.igrow.org](http://www.igrow.org) for more information or to register

May 6 – **QuickBooks Workshop** | Aberdeen | 9:00—12:00 and 1:30—4:30 | Call 626-2565 to  
register

May 11 | **2015 Leadercast** | Streamed from Aberdeen, Huron and Watertown | Leadercast  
exists to positively change the way the world thinks about leadership. This year's  
theme is "The Brave Ones." | <http://leadercast.com/>

May 19 | **SCORE Lunch and Learn: Buy it vs. Earn It Marketing: Are you investing in  
both?** | Aberdeen | 11:30 am | Call 626-2565 to register

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