

THE MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

Handbook for the Operation of School Stores

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A. Introduction

1. Purpose

- a. This handbook provides instructions and guidance for the operation of school stores in the Montgomery County Public Schools (MCPS). It is intended to give the principal maximum responsibility and accountability for the operation of the school store, with a minimum of specific requirements or restrictions.
- b. This handbook is for the use of principals, business managers, store sponsors, financial agents, and any other MCPS employees involved in school store operations. It also may be helpful in the administration of other school programs that are similar to school stores.

2. Store Objectives

- a. School stores are generally operated with one or more of the following objectives:
 - 1) To provide a convenient place for students to purchase merchandise that contributes to the educational program or to approved extracurricular activities.
 - 2) To generate earnings to help support other school activities.
 - 3) To provide business experience to the students.
 - 4) To promote school spirit by selling items of clothing and school supplies bearing the school name.

The relative emphasis placed on these four objectives may vary from school to school, but these variances do not in any way affect the applicability of the provisions of this handbook.

- b. The school store is intended for the use of the student body and school employees. Nothing should be done to promote its use by others.

3. Principal's Responsibilities

- a. The principal has the authority to decide whether or not a store shall be operated on the school premises. He/she has the authority to establish a school store where none is in existence or to abolish an existing store when, in his/her judgement, it is in the best interest of the school to do so.
- b. The principal shall appoint the school store sponsor to be responsible for the day-to-day operation of the store. Some of the qualities that the principal should look for in a sponsor are

- 1) integrity,
- 2) dependability,
- 3) rapport with students,
- 4) retail, business, or accounting experience,
- 5) available time during the hours when the store is open,
- 6) interest and enthusiasm, and
- 7) willingness to devote the time and effort necessary to ensure a successful store operation.

- c. The principal may establish such policies, requirements, and restrictions for the operation of the school store as he/she deems appropriate as long as they are not inconsistent with the requirements of this handbook--the *Manual of Procedures for Administering Independent Activity Funds* (IAF manual)--or other applicable MCPS regulations.
- d. The principal is responsible for ensuring that the merchandise offered for resale is appropriate for a school store. The principal may approve a specific list of items to be sold and restrict purchases for the store to items on this list.
- e. The principal should make a general review of store operations at least once a year and evaluate such matters as stock levels, pricing practices, profitability (including a review of the profit or loss statement), and type of merchandise offered for resale.
- f. The principal should examine the monthly financial report (General Ledger or Funds Ledger in the Quicken program) prepared by the financial agent. He/she should be alert to any evidence of problems, such as excessive purchases in relation to sales, a substantial decrease in sales compared with the previous month or previous year, or a deficit in the account. If additional information is desired, a monthly Account Reconciliation report also is available showing all the transactions incurred by the store during the month.
- g. At the discretion of the principal, profits from school store operations may be transferred to other IAF fund accounts for use in financing other authorized school activities.

4. Sponsor's Responsibilities

- a. The sponsor is responsible for the day-to-day operation of the school store in compliance with the requirements of this handbook and the IAF Manual.
- b. Subject to any instructions or restrictions prescribed by the principal, the sponsor is responsible for

- 1) establishing the operating hours of the school store,
- 2) selecting and supervising students who work in the store,
- 3) purchasing merchandise for resale,
- 4) establishing the selling price of merchandise,
- 5) ensuring the physical security of merchandise and cash,
- 6) ensuring that periodic physical inventories of merchandise are taken,
- 7) ensuring the cleanliness of the store premises, particularly if food items are sold,
- 8) maintaining necessary store records,
- 9) furnishing the financial agent with the data needed to maintain the IAF store account and to prepare Maryland retail sales and use tax reports, and
- 10) preparing a profit or loss statement at least at the end of the school year.

B. Store Operations

1. Opening a School Store

- a. After a decision has been made to open a school store, one of the first actions to be taken is the appointment of a sponsor (see item A.3.b above). The principal and/or sponsor must then make decisions as to the location of the store, the hours of operation, the types of merchandise to be offered for sale, and the quantity of each item to be stocked initially.
- b. In selecting a location for the store, consideration should be given to a central location convenient to students that can meet the security criteria described in item 6 below.
- c. At most MCPS schools that have school stores, the stores are open before the first class of the day, during the lunch period, and/or after the last class of the day.
- d. Depending upon the objectives of the school store, the school may elect to sell such items as school supplies, items of clothing bearing the school name or insignia, shop and craft materials, school and class jewelry, and food items such as candy and soft drinks.
- e. The initial investment in inventory for a new school store is normally provided out of surplus funds available in the general fund or other IAF fund accounts.
- f. Until experience has been gained in operating the store, it is best to be conservative in the quantities purchased. Overly optimistic estimates of demand can result in excess inventory, which may eventually have to be

sold at a loss. Schools of comparable size that have had stores for several years may be a good source of information about probable demand.

- g. If the school does not already have a State of Maryland retail sales and use tax license, one must be obtained from the Maryland Retail Sales and Use Tax Division (see item 9 below).

2. Food Products

- a. The sale of certain types of candy, carbonated soft drinks, and chewing gum to students by the school store during the school day is prohibited until after the end of the last lunch period. For items approved for sale before lunch, see the list of foods recommended by the Division of Food and Nutrition Services.
- b. If candy or other food items are sold by the school store, the merchandise must be stored and sold in a clean, sanitary environment that is kept free of rodents and insects.

3. Purchasing

- a. Merchandise should be purchased only from reliable vendors with a record of supplying good quality merchandise. Store sponsors are encouraged to exchange information about sources of supply with sponsors at other schools. Sponsors of new stores should find the experience of other schools especially helpful in locating reliable vendors.
- b. The store sponsor may request assistance from the MCPS Procurement Office as warranted by the size or nature of purchases. For example, repetitive purchases of high-volume items by one or more stores may provide an opportunity for the consolidation/coordination of requirements and concentrated buying efforts by the Procurement Office.
- c. Merchandise should be purchased in quantities that can reasonably be expected to be sold within one year. Purchases of larger quantities in order to obtain lower prices will prove to be false economy if the merchandise ties up funds and space for a long period of time and/or if it must eventually be sold at discounted prices. Sponsors should exercise special care in ordering items bearing the school name or insignia. They should also be cautious when ordering quantities of high-priced items, such as articles of clothing, which may be beyond the means of most students. Sponsors should have a clear understanding of the vendor's policy concerning the return of unsold merchandise. For expensive items, including lettered nonreturnable clothing, it may be desirable to have

advance sales before making large purchases, to avoid losses from unsold merchandise.

- d. The sponsor should receive, inspect, and count incoming merchandise to ensure that it is the correct merchandise and quantity ordered and that it is in good condition. Damaged or defective merchandise, as well as merchandise that is not the type or quantity ordered, should be returned **promptly** to the vendor.
- e. The sponsor should establish credit with vendors so that purchases can be paid for by check drawn on the IAF bank account by the school financial agent. However, no general-purpose credit card shall be obtained in the name of the school, unless it is officially established by the MCPS Purchasing Card program.

4. Pricing

- a. The sponsor, in accordance with any instructions or guidelines received from the principal, should establish the selling price of each item of merchandise.
 - b. In commercial practice, selling prices are generally established by adding a percentage--known as the "markup"--to the cost of each item. For example, a 20 percent markup on an item with a unit cost of \$0.50 results in a selling price of \$0.60. A sponsor may use the same markup for all items purchased for resale or use a different markup for different items or classes of items. For example, a higher markup may be used for luxury items such as candy and a lower markup used for essential school supplies such as pencils and erasers. In some cases, the manufacturer or vendor provides a recommended selling price, but the school is under no obligation to follow that recommendation.
 - c. The term "gross profit margin" is used for the purpose of preparing the profit or loss statement described in section C.3. In the above example, the unit sales price of \$0.60, less a cost of \$0.50, results in a gross profit of \$0.10, divided by the sales price of \$0.60 equals a gross profit margin of 16.7 percent. (See the Appendix).
4. Selling prices should be set at or below cost only when necessary to sell slow-moving or obsolete merchandise (see item 11.d. below).
5. The amount collected from the customer will be the total selling price plus the sales tax, computed in accordance with current Maryland sales tax regulations and rate (see item 9 below).

5. Credit Sales

The IAF manual prohibits the extension of credit to any person. Therefore, sales by the school store shall be on a strictly cash basis.

6. Security

- a. The school store should be located in quarters that can be securely locked and to which forced entry would be difficult.
- b. The number of keys to the store should be kept to a minimum. Keys should be given only to those persons who need unrestricted access to the store. This is the greatest control mechanism in reducing shrinkage of inventory. Under no circumstances should a student have keys.
- c. If a key is lost or if there is reason to believe that a key is in the hands of an unauthorized person, the sponsor should change the lock to the school store.
- d. The store sponsor or another authorized adult school employee should open and close the store. Students should not open or close the store.
- e. Students may work as salespersons under the supervision of the store sponsor or another authorized adult school employee. The school store sponsor or other authorized adult school employee should be present whenever the store is open. The number of persons in the store at any one time should be limited to those that will allow the sponsor or authorized school employee to adequately observe sales transactions.
- f. If high-priced items are carried in stock, sponsors should pay particular attention to the adequacy of security over the inventory and control over sales of such items.

7. Internal Controls

- a. The school store operation must be reflected in the IAF financial records. Cash receipts must be turned in to the financial agent for deposit in the IAF bank account, and purchases must be paid for by check drawn on the IAF bank account. The store may not maintain a separate bank account. Disbursements must not be made by cash out of store receipts, except to pay for merchandise returned by customers. School store operations are subject to periodic audit by the MCPS Internal Audit Unit.
- b. The sponsor may establish a change fund in a fixed amount as needed. The size of the change fund should be the minimum needed

to facilitate store operations. The change fund should be turned in to the financial agent for deposit in the IAF bank account at the end of each school year.

- c. If possible, a cash register should be used to record sales as they are made. If the cash register has a tape and sales are rung-up on the register, at the end of the sales day the cash in the register along with any change fund can be reconciled to the sales on the tape, thereby providing an additional internal control measure. If there is no cash register, a cash box should be used, preferably a metal box designed for this purpose.
- d. Cash receipts should be turned in promptly to the financial agent, preferably daily and, at a minimum, on the last working day of each month and before each weekend or holiday.
- e. Cash receipts should **always** be turned in to the financial agent in amounts that are exactly equal to sales, not in round amounts. Therefore, after receipts have been turned in, the only cash left in the cash register or cash box should be the fixed change fund.
- f. The change fund and any cash receipts held overnight at the school must be stored in a locked cabinet or combination safe. The IAF manual provides that a key-operated cabinet may be used for overnight storage of funds up to a maximum of \$50, and a combination safe may be used for amounts up to \$250.

8. Interfund Transfers

- a. Occasionally, school store merchandise may be requisitioned for use by the school office, by a teacher for use in a classroom, or by another IAF activity. Sponsors should treat such transfers of merchandise as sales and pay for by transfer of funds from another IAF fund account, using MCPS form 281-46, *Independent Activity Funds Transfer*.

9. Sales Tax

- a. The sponsor **must** display the school's retail sales and use tax license in a central location, such as the school office, where any interested person can examine it at any time. Tax must be collected on each taxable sale.
- b. The school is a single taxable entity, and taxable sales by the school store should be combined with taxable receipts from other activities, such as vending machines (unless under a full-service contract),

vocational education shops, fund raisers, and the like, on a single sales tax report.

- c. All items normally sold by a school store are taxable. However, sales to the school for use in classrooms or in the school are exempt from sales tax. A separate record should be kept of such sales, which are usually paid for by transfer of funds from another IAF fund account (see 8.a above).
- d. The school store sponsor must furnish the financial agent with timely and accurate information necessary to prepare the Maryland retail sales and use tax report. For this purpose, it is not necessary to keep a record of the exact amount of sales tax collected from customers. Total receipts from taxable sales may be divided by 21 to obtain the amount of tax payable. (The above assumes no change in the 5 percent Maryland sales tax rate in effect at the time of this publication.)
- e. The Internal Audit Unit in MCPS can provide general information and advice concerning Maryland retail sales and use tax.

10. Physical Inventories

- a. The school sponsor must take a physical inventory at the end of each school year for two purposes:
 - 1) To include the inventory in the school's annual financial report.
 - 2) To prepare a yearly profit or loss report (see item C.3).

More frequent physical inventories are desired and the sponsor may take these at other times, as directed by the principal. Please note that it is necessary to take a physical inventory whenever a profit or loss statement is prepared, or the sponsor is changed.

- b. If the store has been operating at a loss or with an unexplained large profit shortfall, a physical inventory should be taken at more frequent intervals in order to monitor operations more closely and help determine the causes of losses.
- c. After a break-in of the school store, a physical inventory should be taken before the store reopens for business in order to obtain an estimate of the loss.
- d. Whenever possible, the physical inventory should be taken by or with the assistance of independent persons (i.e., persons other than the store sponsor or sales personnel).

- e. The physical inventory shall be recorded on MCPS form 281-22, *Physical Inventory of Salable School Merchandise*. Those participating in the inventory-taking process must sign or initial the form in the spaces provided. Both the selling price and unit cost of each item of merchandise shall be entered on the form in the columns provided. The selling price is entered for information only and is not used in valuing the inventory. The number of units on hand is multiplied by the unit cost of each item and entered in the total cost column. The total of the total cost columns is the value of the inventory. A copy of form 281-22 is in the appendix.
- f. An exception to the rule that inventory shall be valued at cost occurs in the case of obsolete or slow-moving merchandise that has been marked down for sale at below cost. Since it is already known that the merchandise must be sold at a loss, the loss has, in effect, already occurred. To value such merchandise at cost would risk concealing that loss, perhaps for several years, by carrying it at an unrealistically high value. The marked-down selling price should, therefore, be entered in the unit cost column. If any merchandise is to be disposed of other than by sale, it should be listed in the physical inventory at no value. It is suggested that all marked-down items be grouped together in a separate section of the inventory.

11. Slow-moving and Unsalable Merchandise

- a. In spite of the best efforts to limit purchases to quantities that can be sold within a year, occasionally, changing fashions or circumstances or mistakes in purchasing may result in the accumulation of excess quantities of merchandise.
- b. The principal and the sponsor should be constantly alert to the accumulation of excess quantities of merchandise. The total physical inventory should be considerably less than total sales for the year, and a comparison of these two figures may reveal an obvious problem. Even if the total inventory is not excessive, there may be excess quantities of individual items. The sponsor should analyze the physical inventory and check the purchase dates of any items for which large quantities are on hand. Any items purchased more than a year earlier and any items purchased during the current year, for which few sales have been made, should be considered for special action.
- c. Shelf and storage spaces in a store are valuable, and the school should not retain slow-moving merchandise for a long period in the hope of eventually selling it at a profit. Also, delay in disposing of slow-moving merchandise may substantially reduce the chance of ever obtaining any value for it.

- d. The most common method of disposing of slow-moving merchandise is to mark it down to cost or below cost. This method may be accompanied by an advertising campaign to acquaint students with the bargains that are available. If the merchandise bears the school name or insignia, this may be the only practical method of disposal.
- e. In some cases, it may be possible to return merchandise to the vendor for credit, particularly if the difficulty in selling it can be attributed to any defect in the product or to misrepresentation by the vendor. Also, if the school is a good customer of the vendor and the merchandise is in good condition, the vendor may accept return as a goodwill gesture.
- f. If the merchandise does not bear the school name or insignia, it may be possible to sell it to other MCPS schools. The sponsor may contact individual schools or place an advertisement in a MCPS systemwide publication.
- g. Unsalable merchandise may be donated to classes, clubs, or other approved school organizations that have use for it.
- h. The sponsor should maintain a record of all merchandise sold at below cost or disposed of other than by sale, including giveaways. Such a record may be helpful at a later date in determining the reasons for a loss on store operations or a lower profit than expected (see 12.e below). The principal may require to be advised of markdowns below cost or other disposal actions and may wish to require advance approval in some circumstances. Such approval should be required whenever the action is considered of sufficient value to have an effect on operation results.
- i. If the merchandise cannot be disposed of by any of the above methods, it should be turned over to the MCPS Supply and Property Management Unit for disposal. The school should not destroy merchandise, dispose of it as trash, sell, or give it to any person or organization outside of MCPS.

12. Losses or Significant Profit Shortfalls on Store Operations

- a. Whether or not the generation of earnings to support other school activities is a primary objective of the school store, the store should at least break even or realize a small profit. The monthly and year-end General Ledger report and the monthly status report (Account Reconciliation) provide only a general indication of the health of the school store operation. The fact that receipts exceed disbursements and that the closing balance shows a surplus in the school store

account does not necessarily mean that the store has operated at a profit.

- b. In order to determine whether a profit has been realized or a loss has been incurred, the sponsor must prepare a statement of profit or loss, taking into account the beginning and ending inventories and accounts payable related to store operations. The statement is discussed in item C.3 below, and illustrated in the appendix.
- c. If the profit or loss statement is accurately prepared and a loss is incurred, it is usually an indication of serious problems in the operation of the store. This also can apply to unexplained significant profit shortfalls, provided that the computation of expected profits is accurate. In some cases, the causes are known and the loss (or profit shortfall) is anticipated, but in many cases, the statement of profit or loss is the first indication of trouble and comes as a surprise to the principal and the sponsor.
- d. Before any time is spent searching for the cause of the loss (or profit shortfall), the statement of profit or loss should first be checked carefully to be certain that it has been prepared correctly and that a loss actually has been incurred. Further, if a large profit shortfall is indicated, the accuracy of the expected profit computation should be specifically checked. This is especially important for stores selling items with varying profit margins within a single store account. Have the instructions been followed correctly and do the figures agree with the figures on the IAF financial reports where so indicated? Are only the school store inventories listed on the beginning and ending inventory statements? Are the accounts payable listed on the beginning and ending accounts payable statements accurate, and do they include only liabilities related to store operations? The sponsor must recheck all additions and subtractions.
- e. The possible causes of a loss (or large profit shortfall) on store operations are many and include incomplete or inaccurate physical inventories, sales or other disposition of excess merchandise at below costs, giveaways, errors in accounting, and theft. In searching for the cause of loss (or profit shortfall), some or all of the following questions should be asked:
 - 1) Is the ending inventory complete and accurate? Understating the ending inventory would increase the cost of sales and reduce the profit for the period. The sponsor should scan the inventory for omissions of major items or any unit costs or totals that appear incorrect. If there is any question about the accuracy of the inventory, a second count should be made, preferably by two

persons or by someone other than the person who made the first count. All unit costs, multiplications, and additions should then be checked, preferably by someone other than the person who previously performed these functions.

- 2) Was the beginning inventory accurate? Any overstatement of the inventory at the end of the previous period would have inflated the profit for that period and would reduce the profit for the current period. The sponsor should scan the inventory for any quantities, unit costs, or totals that appear incorrect. While it is too late to verify any quantities which appear suspect, it is still possible to recheck the unit costs, multiplications, and additions of the prior period's ending inventory.
- 3) Has any merchandise been sold or included in the ending inventory at below costs or given away? If the record (mentioned in 11.h above) has been maintained, it should be possible to make an accurate estimate of the loss on sale or disposal of merchandise at below costs and to compare it with the overall results for the period.
- 4) Has the sponsor maintained the sponsor records required (section C.2 below) and compared them monthly with the IAF reports prepared by the financial agent? If not, and if the statement of profit or loss was prepared from IAF records, the IAF records should be checked to ensure that all cash receipts turned in by the school store sponsor have been properly credited to the school store account. The records also should be checked to ensure that there have been no erroneous charges to the school store account that should have been charged to other IAF accounts.
- 5) Has any merchandise been used by the school office, by a classroom, or by another IAF activity without being paid for by a transfer of funds from another IAF account? (See section B.8 above)
- 6) Have the security procedures in section B.6 been followed? Have all keys to the store been accounted for at all times? Is there any reason to suspect that a key may have fallen into the hands of an unauthorized person?
- 7) Was there any evidence of a break-in of the store during the period? If so, was a physical inventory taken immediately to obtain an estimate of the loss? Was a report made to a competent authority?

- 8) Has the store always been opened and closed by the sponsor or another authorized adult school employee and has an adult been present at all times when the store has been open?
- f. If the answers to the above questions do not provide a satisfactory explanation of the loss (or significant profit shortfall), it is suggested that the lock to the school store be changed. Further, store operations should be closely monitored during the ensuing year. This should include the taking of a physical inventory and preparing a profit or loss statement at least once or twice during the school year in addition to the year-end, so that the principal can review and evaluate continuing operational results.

13. Discontinuing Store Operations

- a. If the principal decides to abolish the school store, the decision should be made as early as possible in the school year in order to provide time for an orderly liquidation of the inventory.
- b. Once such a decision has been made, purchasing of merchandise should be discontinued or limited to small quantities of popular items that are certain to be sold before the end of the school year.
- c. Sales of items that are in large supply should be monitored closely. If it does not appear that they will be sold by the end of the school year, then they should be marked down and advertised at an early date.
- d. The methods described in section B.11 above should be used to dispose of merchandise that cannot be sold by the end of the school year.
- e. If the school is being closed, the procedures prescribed in the IAF manual must be followed.

C. Records and Reports

1. IAF Financial Records and Reports

- a. A school store account should be established in the 700 series of accounts.
- b. Where desirable or otherwise warranted, more than one account can be established. Separate accounts are often established to record purchases and sales by major categories of merchandise, such as candy, clothing, and supplies. This can be especially useful at stores

with high-dollar-volume sales of merchandise with different pricing markups, because it enables a more accurate comparison of actual and expected operating results.

- c. A monthly status report (Account Reconciliation) of each account is sent to the sponsor. This report should be compared with the sponsor's informal records (see below). A copy of the report, citing the sponsor's approval or noting any discrepancies, should be signed and returned to the financial agent promptly after receipt. The financial agent will followup monthly to ensure that all reports are returned.

2. Sponsor Records

a. Records and Reports

As discussed above, the sponsor receives from the financial agent a monthly report showing all transactions recorded in the account. The sponsor has an option to maintain the records required by the IAF manual or, at a minimum, to reconcile the retained copies of receipt, disbursement, and transfer documents to the Activity Account Reconciliation report monthly. All discrepancies should be resolved promptly with the financial agent.

b. Purchases

The sponsor must maintain a detailed record of all merchandise purchased. The record must provide the cost of each item for use in pricing the physical inventory and the date of purchase of each item for use in identifying slow-moving or unsalable merchandise. A file of paid invoices organized in a manner to facilitate ready retrieval of information usually is sufficient to meet this requirement.

c. Marked-down Merchandise and Giveaways

As noted in section B.11.h, the sponsor should maintain a record of merchandise marked down below cost or disposed of other than by sale, including any giveaways. The record should include the quantity of each item, the unit cost, and the marked-down price. For merchandise disposed of other than by sale, the method of disposal should be recorded.

3. Profit or Loss Statement

- a. A statement of profit or loss should be prepared at least at the end of the school year. The sponsor should prepare it with the assistance of the business manager or the financial agent, as necessary. Where conditions warrant it, a statement should be prepared at least once or twice during the school year, in addition to the year-end. If separate accounts are established by class of merchandise (e.g., candy, clothing, supplies, etc.), separate profit or loss statements should be prepared. If a change of sponsor occurs during the school year, a profit or loss statement (along with a physical inventory) must be done at that time.
- b. A blank statement of profit or loss (suitable for copying), along with a sample-completed statement, is presented in the appendix, with instructions for preparation. The form also may be used to compute the profit or loss on other operations that involve the sale of merchandise, such as vocational education shops and the sale of gym clothes by the athletic department.
- c. After computing the gross profit or loss on the statement, a profit or loss analysis must be made. The fact that the school store account shows a profit does not necessarily indicate that operations are being managed effectively or that profit shortfalls are not occurring. The actual results need to be compared with the expected profit. If actual results are not in line with expected profits, the reasons should be determined. The possible causes for losses or profit shortfalls are described in section B.12. It should be noted that the determination of profit shortfalls depends on the accuracy of the expected profit computation. Accordingly, the instructions for this computation should be followed carefully.
- d. Sponsors should review the completed profit or loss statement with the financial agent and the business manager, if applicable. A copy should be forwarded to the principal with any necessary explanations for losses or profit shortfalls.