

INSTRUCTIONS FOR PREPARING
NON SMALL BUSINESS DEBTOR FINANCIAL REPORTS
FOR THE U. S. DEPARTMENT OF JUSTICE,
OFFICE OF THE U. S. TRUSTEE

The Monthly Operating Report (MOR), consist of nine pages considered one Operating Report for businesses, partnerships, or associations. The Monthly Financial Report (MFR), consist of three pages considered one Operating Report for individuals. If the debtor is an Individual with regular income from the operation of a business, profession, or farm, **both the MOR and the MFR should be used and stapled together as one report with MFR pages on top** (the business profession or farm financial information should be reported on the MOR and the personal financial information should be reported on the MFR). **MOR-1 and MFR-1 should be signed when both reports are filed as one.** The pages are titled as follows:

1. MOR-1 Monthly Operating Report Summary
2. MOR-2 Comparative Balance Sheets-Assets
3. MOR-3 Comparative Balance Sheets-Liabilities & Equity
4. MOR-4 Schedule of Post Petition Liabilities
5. MOR-5 Aging of Post-Petition Liabilities and Aging of Accounts Receivable
6. MOR-6 Statement of Income or Loss
7. MOR-7 Cash Receipts and Disbursements
8. MOR-8 Cash Account Reconciliation
9. MOR-9 Payments to Insiders and Professionals
10. MFR-1 Bank Account Declaration and General Questions
11. MFR-2 Cash Receipts and Disbursements
12. MFR-3 Post-petition Liabilities

Remember:

Be sure the name of the debtor and the case number appear legibly on all pages of the financial reports as well as on all correspondence.

HOW TO GET STARTED

Everyone knows just getting started is the hardest part. So the easiest way to start the Monthly Operating Reports (MOR), is to record the Summary of Debts and Property from the Schedules and Statement of Affairs that were filed with the bankruptcy petition and enter those numbers in the appropriate spaces on the Balance Sheet. The numbers should go in the Balance Sheet column headed "Filing Date."

The person responsible for completing the Monthly Operating Reports should post the amounts from the Bankruptcy Schedules that were filed with the Court, to the respective MOR-2 Comparative Balance Sheets: column for Cash, Accounts Receivable, Inventory, Property Plant & Equipment, Other Assets, and post the like amounts to MOR-3 Comparative Balance Sheets: column for Notes Payable, Priority Debt, Federal Income Taxes, Preferred Stock, etc.

If the debtor is required to prepare the Monthly Financial Report (MFR), amounts should be posted from the Schedules I "Current Income of Individual Debtor(s)" and Schedule J "Current Expenditures of Individual Debtor(s)" that the debtor filed with the Bankruptcy Court to the "SCHEDULE I & J" column on MFR-2.

MONTHLY OPERATING REPORTS (MOR)

At the close of the month constituting your first reporting period, prepare all the figures from your books as of that date. In the first column immediately to the right of the figures from the "Filing Date," enter those figures. The figures for the next month will be placed in the next column immediately to the right of your first month's figures, and so on as the case progresses. Once the MOR form has six months of numbers posted to it, a new page should be used. The "Filing Date" columns on MOR-2 and MOR-3 should always be completed.

When the Schedules and Statement of Affairs are prepared, many assets such as real estate, fixtures, and equipment are shown at fair market or appraised values. However, your accounting records have these assets recorded at historical cost. Therefore, you should make the change of these items on the balance sheet you report to the U. S. Trustee to reflect historical cost. Furthermore, please footnote the balance sheet to explain the difference between the amounts reported on the Schedules and Statement of Affairs that were recorded with the Court when chapter 11 was filed and the amounts reported to the U. S. Trustee.

Footnotes may appear on any page of the operating report to explain a specific transaction, i.e.: Footnotes may appear at the bottom of the Balance Sheet and should read similar to the following:

"Schedules show Property, Plant and Equipment at market value; we have converted to cost for reporting purposes to the U. S. Trustee."

All subsequent reports are to carry the assets at historical cost. You cannot value at historical cost one month and fair market value the next.

If there is not adequate space for footnotes, add a sheet to the operating report and reference the page and transaction that is being explained in the footnote.

FINANCIAL REPORTING SCHEDULES FOR MOR

1. MOR-1 Monthly Operating Report Summary

This form is a summary of the financial data for the debtor-in-possession. The Honorable Bankruptcy Court Judge will read this form for a quick review of the case as it progresses through chapter 11. This form should be completed in its entirety. The debtor should complete the insurance box on MOR-1 each month.

2. MOR-2 Comparative Balance Sheets

This is a schedule of all assets of the entity. Notice that it is segregated into Current Assets, Property Plant & Equipment, and Other Assets.

Notice that we have divided the Balance Sheet into two (2) pages, MOR-2 and MOR-3. The first page is a listing of all assets. The second page is a listing of all liabilities and owner's equity. Before an MOR is filed the Balance Sheet should balance. $ASSETS = LIABILITIES + OWNERS EQUITY$

3. MOR-3 Comparative Balance Sheets

This is a schedule of all liabilities and equity or net worth of the entity. It is designed to capture all liabilities in the top section and shareholders or net worth, information in the bottom section. The total liabilities plus the total of all shareholders equity data **MUST EQUAL** the Total Assets per MOR-2. Thus, the name **BALANCE SHEET**. $Assets = Liabilities + Equity$.

Remember, "equity" or "net worth" is what a business owes to its owner(s). Equity is a residual figure, representing the book value of the business's assets once all liabilities have been satisfied.

4. MOR-4 Schedule of Post-Petition Liabilities

This is a schedule of all Post-Petition Liabilities. The total dollar amount of this schedule **MUST** equal the amount recorded on the line titled "Post-Petition Liabilities" per MOR-3. This schedule is designed to show at a glance exactly what items are owed by the entity as of the balance sheet date. Notice on the schedule that you are to list Trade Accounts Payable, Taxes payable, Secured Debt Post-Petition Payable, Accrued Interest Payable, Professional Fees and Other Accrued Liabilities.

5. MOR-5 Aging of Post-Petition Liabilities and Aging of Accounts Receivable

This schedule consists of two separate categories of information. The top half of the schedule is devoted to recording the aging of the Post-Petition Liabilities. Notice the aging is scheduled according to 0-30 days, 31 to 60 days, 61-90 days and greater than 91 days. The debtor-in-possession must keep all post-petition liabilities current. This schedule captures that information.

The total of this schedule **MUST** equal the amount recorded on the line titled "Post-Petition Liabilities" on MOR-4. This schedule is designed to show at a glance exactly what amounts are owed by the entity as of the balance sheet date and an aging of those amounts. Notice on the schedule that you are to list Trade Accounts Payable, Federal Taxes Payable, State Taxes Payable, Ad-Valorem and Other Taxes Payable, and Other Liabilities.

The bottom half of MOR-5, Aging of Accounts Receivable is the aging of the receivables. As a receivable becomes older, the chance of collection decreases. The company must decide when to write off the accounts or to take a loss due to expected non-payment. This schedule helps in making that determination. Thus, we want to know the dollar amount of the receivables that are 0 to 30 days old, then the dollar amount of the receivables that are 31 to 60 days old, etc. If the debtor writes off Accounts Receivables, there should be a footnote on MOR-2 referencing Accounts Receivable Net, with reference to MOR-6 Other Income (Expenses). For instance, if the operating reports are being prepared for the period ended September 30, 20XX, then all receivables that were dated September 1 through September 30, would be in the 0-30 days column. Receivables that were dated during the month of August would be recorded in the 31-60 days column, etc. The total dollar

amount of this schedule MUST equal the amount recorded on the line titled "Accounts Receivable," per MOR-2.

6. MOR-6 Statement of Income (Loss)

This form is the standard Income Statement. Total income is reported, then the following items are deducted: cost of goods sold, operating expenses, interest expenses, and other items. The resulting number is income before interest, depreciation or taxes. Next, interest expense, depreciation and other items of revenue or expense are considered to determine the income before taxes. Federal income taxes are then deducted to determine net income or (loss) for the period.

The total of the month's net income or loss from the Income Statement should be added together for a "Filing-to-date" amount and that number MUST equal the amount reported on MOR-3, Comparative Balance Sheets, Retained Earnings: Post Filing Date. Other Income (Expense) and Other Items should be footnoted.

7. MOR-7 Cash Receipts and Disbursements

This form is a cash flow statement. Cash flow is important because it helps reveal how a company is utilizing its most liquid assets. The purpose of MOR-7 is to show where a company's cash resources were obtained during the period and how they were used.

By observing the patterns of cash flow in a succession of cash flow statements, a company manager can form a clear picture of where cash is coming from and where it is going--and can draw conclusions that may help the bottom line of the business. When accounting is performed on the accrual basis, cash flow for the period is not the same as net income for that period. Cash flow is sometimes defined as a company's net profits plus depreciation and other non-cash items.

The information for MOR-7 should come from the transactions in all cash accounts for the month. It is basically classifying each cash transaction as a specific receipt or disbursement. The Ending Cash Balance at the end of the report should agree with the Cash Balance on MOR-2. If "Other" is used, the debtor should attach a sheet itemizing "Other".

8. MOR-8 Cash Account Reconciliation

(a). The "Cash Account Reconciliation" is the typical bank account reconciliation. It reconciles the balance per bank to the balance per company books. All bank accounts must be reconciled every month. If the debtor-in-possession is using multiple accounts for operating, payroll, tax, etc., or multiple banks, then this statement must reconcile all of those accounts on a consolidated basis. Detail accounts/banks may be reconciled on supplemental schedules and attached to this statement. The cash figures for "Ending Cash-Per Books," must equal the cash as reported on MOR-2 and MOR-7.

9. MOR-9 Payments to Insiders and Professionals Payments To Insiders

Indicate the amount of payments to insiders on this schedule. 11 U.S.C. § 101(30) generally defines payments to an "insider" as: Payments to Partners, officers, directors, principles and their relatives and managing agent of the debtor.

MONTHLY FINANCIAL REPORTS (MFR)

The following steps should be taken to prepare the MFR:

1. Fill in the Case Name, Case Number, and the Petition Filing Date on each MFR page, if they are not already
2. Complete "THIS REPORT IS FOR THE MONTH/YEAR OF", for the calendar month and year the MFR is reporting.
3. Fill in the financial institution name and each account number. These are the debtor-in-possession accounts of the Individual in Chapter 11 and should not include business accounts. Business accounts should be reported on MOR-8. (If the individual's business is included on the petition, all of the MOR forms should be prepared as well.) If the individual debtor has no debtor-in-possession accounts or personal accounts to report and has only business accounts, then put "none" for BANK NAME 1, and complete MOR-8. ALL ACCOUNTS SHOULD BE REPORTED. THERE ARE NO EXCEPTIONS.
4. Answer the questions at the bottom of MFR-1 and enter the debtor's attorney name, address, and telephone number, if they are not already complete.
5. Complete MFR-2, noting two points in the preparation:
 - a) The line "Draw from (Contribution to) Operation of Business MOR-7" should agree with the amount on MOR-7 "Withdrawal (Contribution) by Individual Debtor MFR-2"
 - b) The term "NET CASH FLOW" for purposes of MFR-2 is $TOTAL RECEIPTS + Draw from OR - (Contribution to) Operation of Business MOR-7 - TOTAL DISBURSEMENTS = NET CASH FLOW$.

Once the debtor has completed six months of information a new MFR-2 should be started and the debtor should continue to enter amounts in the "SCHEDULE I & J" column. Lists should be attached if the debtor needs more space or needs to explain a specific transaction.

6. Transfer the TOTAL DISBURSEMENTS amount on MFR-2 to MFR-1 over the "Total Disbursements from MFR-2". If the debtor includes a business, the debtor should also transfer the "TOTAL DISBURSEMENTS" amount from MOR-7 to MFR-1 over the "Total Disbursements from MOR-7". These two amounts on MFR-1 should be added and the amount should be entered over the "Total Disbursements". This amount will be used to calculate the quarterly fees for the debtor.

7. MFR-3 should be completed and totaled. MFR-3 is a listing of a debtor's post-petition debt. Once the debtor completes six months of information the debtor should start a new MFR-3. Lists should be attached if the debtor needs additional space.

8. Once all MFR forms have been completed and reviewed by the debtor, the debtor should sign MFR-1 and file the original with the Bankruptcy Court.

9. If the debtor completes MOR and MFR forms, both MFR-1 and MOR-1 should be signed and the reports should be stapled together with the MFR pages on top and the MOR pages following.

FINANCIAL REPORTING SCHEDULES FOR MFR

1. MFR-1 Bank Declaration and General Questions

Names of banking and/or brokerage institutions with which the debtor has all funds should be completed with the account numbers. Depending if the funds are in debtor-in-possession accounts, or are in personal accounts the debtor should complete one half of MFR-1 or the other, or both. For the Individual debtor reconciled bank statements should be attached to the MFR report. The individual debtor should be sure and complete the disbursements part of MFR-1 since this is where quarterly fees are determined. Each item on the page should be completed.

2. MFR-2 Cash Receipts and Disbursements

The case name and case number should be completed as well as the petition date. The completion of MFR-2 should come from all cash transactions for the month. The column headed "SCHEDULE I & J" should come from the debtor's Schedule I "Current Income for Individual Debtor(s)" and Schedule J "Current Expenditures for Individual Debtor(s)". Note, if the individual debtor has income from a business, profession, or farm then the MOR report should be completed for the business, and an MFR report should be completed for the individual's finances. These reports should be combined (stapled MFR on top) to become one report. If the individual takes funds out of the business for personal use, the amount is reported on MOR-7 and MFR-2 on the lines that designate draws or contributions.

3. MFR-3 Post-Petition Liabilities

The case name and case number should be completed as well as the petition date. The MFR-3 should be a complete listing of all post-petition liabilities of the individual debtor. Each month should be totaled.

MOST COMMON ERRORS:

1. Questions on MOR-1 and/or MFR-1 have not been answered.
2. The Insurance Box on MOR-1 has not been completed.
3. MOR-1 and/or MFR-1 has not been signed.
4. Operating Reports do not include prior month comparatives.
5. Balance Sheet does not balance. Assets do not equal liabilities plus equity.
6. The Filing Date column on MOR-2 and MOR-3 has not been completed.
7. Current month cash balance is negative with no explanation.
8. Ending cash per MOR-2 is not equal to ending cash as reported on MOR-7 and MOR-8.
9. Accounts Receivable per MOR-2 is not equal to the Aging of Accounts Receivable per MOR-5.
10. The "Schedule I & J" column on MFR-2 has not been completed.
11. Transfers to and from the individual debtor's business are not being properly recorded on MOR-7 and MFR-2.
12. MFR-3 is not being completed.
13. Post-Petition liabilities per MOR-3 are not equal to Post-Petition Liabilities as reported on MOR-4 and MOR-5.
14. MOR-4 does not equal the Total of Aged Post-Petition Liabilities on MOR-5.
15. Net Profit/Loss for the current month, per MOR-6, plus prior month's Retained Earnings: Post Filing Date does not equal current Retained Earnings: Post Filing Date per MOR-3.
16. MOR-7 does not agree with the Cash balance on MOR-2.
17. Bank accounts are not reconciled on MOR-8, and/or the balance does not agree with Cash on MOR-2.
18. Payments to Insiders, per MOR-9 are not properly identified.
19. Failure to submit operating reports by the 21st of the following month.
20. Increasing Post-Petition Debt is not being explained.
21. Fixed assets decreasing without court approval.
22. The payment of professionals on MOR-9 does not include the court order date in the description.