Financial Management

BSBA

BLACK SMALL BUSINESS ASSOCIATION OF CALIFORNIA

Access and Manage Capital to Scale Your Business

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Learning Objectives

At the completion of this course, participants will…

- Understand the value of PROTECTING your CREDIT FOR FUTURE BORROWING NEED
- Be prepared to apply for business loans
- Understand the key components of financial statements and why that matters
- Understand the value of an executive summary and business plan
- Prepared to ask yourselves the critical questions for success

Expected Outcomes

- To UNDERSTAND why ‘Knowing your numbers’ matters
- To learn the importance of NOT saying: “How much can I Get”
- To be able to RELATE to what Bankers are ‘afraid of”
- You will LEARN how to put a proper loan package together and PRESENT IT

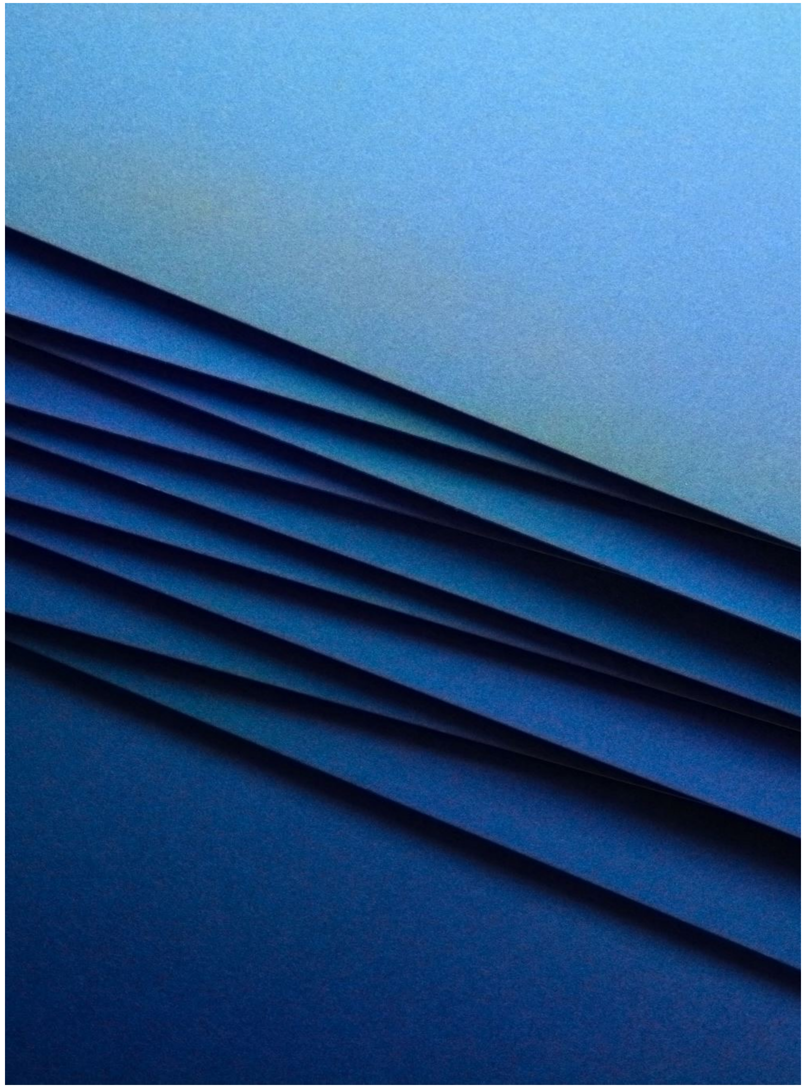
Target Audience

- Small Businesses interested in small business loans, grants, or investors
- Businesses that want to learn about business credit

Getting Started

Where do you start?

What does a small business owner need to do to get a bank or other lender to say “YES” to a loan request?



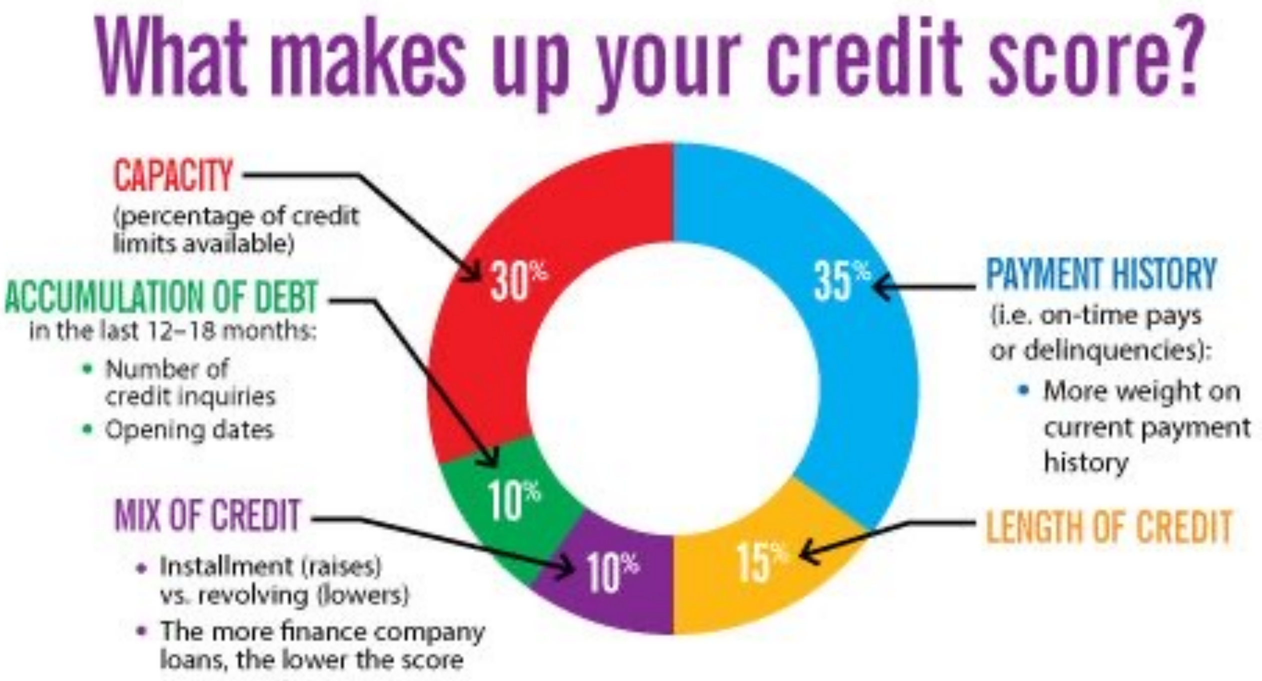
Take Control of your Credit Profile

A credit profile is everything a lender sees about you and your business	**Create a sound financial footing**	Establish business checking and savings account	A strong payment history may strengthen your credit profile
Review your personal credit yearly, and clear up any issues	**Bank Strategically**	Consolidate banking relationships	A strong banking history may support your creditworthiness
Demonstrate a consistent flow of funds	**Cultivate the relationship**	Visit your bank regularly	Be clear about your situation and goals

The 5 C’s of Credit

- Credit History - How you’ve handled past credit obligations may help indicate what a lender may expect in the future
- Collateral - Personal and business assets that may offer a backup source of repayment
- Capital – Personal investment in the business and business assets that can be turned into cash
- Conditions – Everything that affects your ability to repay a loan, including internal and external factors
- Capacity – How yur business will generate enough cash to repay the loan and other commitments

Credit Score



What Matters Most to Lenders

- No matter who you ask to lend you money, the lender will be looking for –
- A business owner who knows the business, has the ability to run it well, and is willing to work hard to make it succeed
- A business that is finically sound or , if it is brand new, appears to have the ability to make enough to pay its bills, give its owner an income and pay back the loan
- Collateral to cover at least part of their lending risk
- An investment from the business owner – usually the business owner’s own money that gets put into the business to pay for soe of the things that it needs

Financial Institutions

Fintech	Paypal	Square	
	Blue Vine	OnDeck	
	Funding Circle	Lendio	
	Intuit Quickbooks	Credibly	
	Ready Capital		
CDFI's	PCR (1st Draw)	Fountainhead	Fountainheadcc.com
	Lendistry	LISC	
	PACE		
Community Banks	Radius Bank	Sunwest Bank	
	Sunflower Bank	Pacific Enterprise Bank	
	Celtic Bank	CommerceWest Bank	
Non Bank Lenders	Liberty SBF	Centerstone	
	Harvest Small Business Finance		
Major Banks	BOA	Chase	
	CITI	Wells Fargo	

Lending Programs

- Banc of California
- Bank of America
- California Int’l
- Endeavor Bank
- Sunwest Bank
- Wells Fargo Bank
- Zions Bancorporation/California Bank and Trust

Document Checklist

- Small Business Loan Program – Application Checklist

  Pre-qualification Requested Documents

- ✓ Written explanation of loan request, amount, purpose
- ✓ Completed and Signed SBLP Application
- ✓ Completed and signed ETP / MTP Application (LA COUNTY ONLY)
- ✓ Credit Authorization Forms to be completed and signed by ALL Applicants / Guarantors
- ✓ Business Tax Returns for the last three (3) years if applicable
- ✓ Interim Financial (within the last three(3 months) including aging Reports (A/R & A/P) – if applicable

Document Checklist (continued)

Small Business Loan – Program – Application Check List

Please note: All tax returns and financial statements must be signed and dated

- ✓ Schedule of Outstanding Debt
- ✓ Projected monthly Profit and Loss Statement for remainder of current year and annually for the following three(3) years (including assumptions)
- ✓ Business Plan and Executive Summary
- ✓ Provide clear photo copy of a driver/ state ID for ALL Applicants/Guarantors
- ✓ Sign the bottom of 2 copies of the form 4506t (1-Business; 1 Personal)
- ✓ Signed Personal Finanacial Statement (within the last three(3) months)
- ✓ Certification of Financial Statements
- ✓ Personal Tax Returns for the last three (3) years for all owners with at least a 20% interest in the company. If CURRENT TAX YEAR Personal Tax Return are not filed, CURRENT TAX YEAR's W-2' are required

Needed Documents

- Last 3 years personal and business (if applicable) tax returns filed
- Know your Credit Score and Current Conditions
- Business Plan and Executive Summary for Existing Businesses.
- Projections
- Collateral

Non – traditional Lenders

- Loan sources OTHER than banks, include:

❖ Credit Unions

❖ Micro Lenders

❖ Community-based lending programs

❖ Community Advantage lenders that make loans under a special SBA business loan program

❖ Online lending platforms – Peer to Peer (P@P0 Loans: Lending Club, Proper

Glossary of Cash Flow Terms

Accounts Payable	Accounts payable (A/P) is money a business owner owes to vendors, service providers, tax agencies and so on. Liability that results from the purchase of goods or services (money owed to others).
Accounts Receivable	Accounts receivable (A/R) is money that is due from customers as a result of delivering goods or services and extending credit in the ordinary course of business.
Accrual Basis of Accounting	The accrual basis of accounting measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received). This method allows the current cash inflows/outflows to be combined with future expected cash inflows/outflows to give a more accurate picture of a company's current financial condition.
Fixed Assets	A fixed asset is a long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year's time.
Balance Sheet	A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.
Burn Rate	A burn rate describes the rate at which a new company uses up its venture capital to finance overhead before generating positive cash flow from operations. In other words, it's a measure of negative cash flow.
Capital	Capital can mean many things. Its specific definition depends on the context in which it is used. In general, it refers to financial resources available for use such as: financial assets or the financial value of assets, such as cash. It is also used to describe the factories, machinery, and equipment owned by a business and used in production.
Cash Conversion Cycle	A cash conversion cycle depicts how business dollars are invested in materials, resources, and other inputs. Raw materials can be converted into products that are sold to generate payments or cash. If a business has a short conversion cycle, the owner can quickly turn it back into cash which puts money back into the business in a relatively short period of time. If a business has a long cash conversion cycle, the owner will not be able to use that money while inventory is unsold.

	the business, how much cash is moving in and out of the business, where that cash is coming from and going to, and when the cash is moving or needs to move. A cash flow statement helps a business owner to think ahead. It helps pinpoint when a business is generating more cash than needed to meet obligations. Conversely, it alerts a business owner when the business is running short. Cash flow statements are invaluable tools that permit business owners to make smart, timely decisions over the long term.
Cash on Hand	Funds that are immediately available to a business, and can be spent as needed.
Current Assets	A balance sheet account that represents the value of all assets that are reasonably expected to be converted into cash within one year in the normal course of business. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.
Current Liabilities	A company's debts or obligations that are due within one year. Current liabilities appear on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts
Debt Principal	Amount borrowed or the amount still owed on a loan, separate from interest
Depreciation	Income tax deduction that allows a taxpayer to recover the cost or other basis of certain property; annual allowance for the wear and tear, deterioration, or obsolescence of the property.
Equity	Equity is a stock or any other security representing an ownership interest. On a company's balance sheet, equity is the amount of the funds contributed by the owners (the stockholders) plus the retained earnings or losses.
Fixed Cost	A fixed cost does not change with an increase or decrease in the amount of goods or services produced. Fixed costs are expenses that have to be paid by a company, independent of any business activity. It is one of the two components of the total cost of a good or service, along with variable cost.
Gross Profit	Gross Profit is a company's revenue minus its cost of goods sold. It is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.
Income Statement	A financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It shows the net profit or loss incurred over a specific period, typically over a fiscal quarter or year. An Income Statement is also known as a profit and loss statement or statement of revenue and expense.

Terms and Definitions

Invoice	An invoice is a commercial document that itemizes a transaction between a buyer and a seller. It will usually include the quantity of purchase, price of goods and/or services, date, parties involved, unique invoice number, and tax information. If goods or services were purchased on credit, the invoice will usually specify the terms of the deal and provide information on the available methods of payment. An invoice is also known as a bill, statement, or sales invoice.
Liquidity	Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. The term is also used to define the ability to convert an asset to cash quickly. Also known as marketability. Liquidity is often calculated by using liquidity ratios.
Net Profit	Net Profit is your bottom line. This shows how much your company is making on sales after expenses, interest, and taxes.
Variable Cost	A variable cost is a corporate expense that varies with production output. Variable costs fluctuate depending on a company's production volume. They rise as production increases and fall as production decreases. Variable costs differ from fixed costs such as rent, advertising, insurance and office supplies, which tend to remain the same regardless of production output. Fixed costs plus variable costs equal total cost.

CASH FLOW

- **Cash flow management** is the process of tracking how much money is coming into and out of your business. ... **Cash flow** is the term used to describe changes in how much money your business has from one point to another. **Cash flow management** is keeping track of this **flow** and analysing any changes to it.

Manage Your Cash Flow

- Stay on top of bookkeeping. ...
- Generate **cash flow** statements. ...
- Analyze **your cash flow**. ...
- Figure out whether you need to increase **cash flow**. ...
- Cut spending where you need to. ...
- Speed up **your** accounts receivable. ...
- Repeat.

Best Practices

- **Best practices:**
- Record **cash** receipts when received.
- Keep funds secured.
- Document transfers.
- Give receipts to each customer.
- Don't share passwords.
- Give each cashier a separate **cash** drawer.
- Supervisors verify **cash** deposits.
- Supervisors approve all voided refunded transactions.

Resources

- Fair Debt Collection Practices Act (1977)
  - Regulates the abusive practices of collection agencies
- Credit Card Accountability Responsibility and Disclosure Act (2009)
  - Establishes fair and transparent credit practices
- Fair and Accurate Credit Transaction Act (2003)
  - Entitles you to ONE FREE credit file disclosure in a 12 month period
- Truth in Lending Act
  - Requires creditors to give complete and accurate information about the terms and cost of credit.

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