Department of Agriculture
STATE OF HAWAII

An Overview of Financials

Daryl Arai
Agricultural Loan Division
April 10, 2012

What will be covered

- Profit & Loss Statement (aka Income Statement)
- Balance Sheet
- Personal Financial Statement
- Part 2 – All about credit
- Questions

Profit & Loss Statement - 1

Reports the revenues received over a period of time (monthly, semi-annual, annual) and subtract the charges and expenses against these revenues resulting in a net income or loss. The key aspect of this report is that it represents a period of time and it shows whether the company has made or lost money over that period of time.

Profit & Loss Statement - 2

- Lenders use the P&L to identify whether the company is profitable and to spot positive and negative trends. The goal is to determine a company's repayment ability over time.
- Especially for new businesses, it is important to analyze these reports frequently and compare them to prior periods to identify positive or negative trends in both income and expenses.
- Be consistent in how your income and expense categories are reported in order for you to accurately assess trends over time.

Balance Sheet - 1

In contrast to the income statement, the Balance Sheet represents a specific point in time, providing a "snapshot" of the company's financial condition. The balance sheet accompanies the income statement and is generated at the end of the reporting period (month-end or year-end).

The balance sheet is comprised of three sections:

Balance Sheet - Assets

- Any tangible or intangible resource that can be converted into cash. Current assets can either be converted to cash or used to pay current liabilities within 12 months. Fixed assets are not easily converted into cash and include buildings and equipment.

Balance Sheet - Liabilities

- An obligation or debt that arose from past transactions or events. Current liabilities are obligations that will become due or payable in the upcoming year. Other obligations that are being repaid over a longer period of time are non-current liabilities.

Balance Sheet – Equity (Assets – Liabilities)

- Equity represents the value of the owner's portion of the business assets. Higher equity reflects a stronger financial condition of the business. The balance sheet helps to identify a company's liquidity and determine the quality of its assets. It also presents the amount and type of debts owed by the company.

Balance Sheet - 5

The balance sheet provides the business owner with a view of the company's resources and obligations and allows for financial planning towards the best possible use of their resources. The balance sheet can be used to determine:

•Solvency: The ratio between current assets such as cash and obligations due within the year.

•Debt-to-Worth: Measure of financial risk caused by acquiring too much debt in relation to equity.

•In addition to the above, lenders may use the balance sheet to identify possible assets for use as collateral.

Personal Financial Statement

- Similar to a company Balance Sheet but instead completed by the individual owners of the company. The report consists of the same basic categories of assets, liabilities and net worth. The form is used to determine the financial strength of the company owners and they are often required by lenders to personally guaranty the repayment of the loans.

Department of Agriculture
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Agricultural Loan Division
1428 South King Street
Honolulu, Hawaii

PERSONAL FINANCIAL STATEMENT

Social Security Number	Name & Address of Applicant, Including ZIP Code
Business (of person submitting statement)	

PERSONAL FINANCIAL STATEMENT AS OF ______________________

Please answer all questions using **"no"** or **"none"** where applicable.

NOTE: If you wish to apply for credit in your name only, in this financial statement, include only assets, liabilities and income owned and owed by yourself.

ASSETS	$ (omit cents)	LIABILITIES	$ (omit cents)
Cash in Bank - Checking		Notes Payable	
Cash in Bank - Savings		Secured	
		Unsecured	
Accounts & Notes Receivable		Notes Payable Other (itemize on reverse)	
U.S. Government Bonds		Accounts Payable	
Investments in Own Business		Charge Accounts	
Other Stocks & Bonds (itemize on reverse)		Other	
CSVLI (itemize on reverse)		Unpaid Taxes	
Residence (itemize on reverse)		Real Estate Mtgs. Payable	
Other Real Estate (itemize on reverse)		Other (detail)	
Automobiles - Make & Year			
Make & Year		IL Accts - Auto (itemize on reverse)	
Title in name of:		IL Accts - Other (itemize on reverse)	
		Loans on Life Insurance	
Other Personal Property & Furniture		Other Liabilities	
Machinery & Equipment (itemize on reverse)			
Inventory & Cash invested in growing crops		TOTAL LIABILITIES	
Other Assets		NET WORTH (Assets less Liabilities)	
TOTAL ASSETS		TOTAL LIABILITIES & NET WORTH	

CONTINGENT LIABILITY: As endorser/guarantor $ ________________ On letters of credit $ ________________

Legal claims & judgments (explain) $ ____________________

MONTHLY INCOME (Inclusion of income from alimony, child support, etc. is optional)	$ (omit cents)	MONTHLY PAYMENTS	$ (omit cents)
APPLICANT"S GROSS SALARY		Rent or Mortgage	
Overtime (constant & regularly recurring)		Note Payments	
Bonus of Commissions		Charge Accounts	
Dividends & Investments		IL Loan - Auto	
Interest		IL Loan - Other	
Rents		Loans on Life Insurance	
Other (explain)		Federal & State Income Tax	
		Insurance Premiums	
SUBTOTAL - APPLICANT		Alimony, Child Support, etc.	
CO-APPLICANT'S GROSS SALARY		Other Fixed Monthly Payments	
Other (explain)			
SUBTOTAL - COAPPLICANT			
TOTAL		TOTAL PAYMENTS	

STOCKS AND BONDS (Listed & Unlisted)

All Securities listed are mine solely and are in my possession, except as shown hereon.

Name of Issuing Corporation and Type of Security	# of Shares (if Stock) Face Value (if Bond)	Market Value or Book Value	Registered in Name of (Be sure to show all other names that stock is registered in)

REAL ESTATE

Title to all real estate listed is in my name solely and unencumbered, except as shown hereon.

Location & Description	Title Held in Name of (Show all names that title is held in & type of tenancy)	Date Acquired	Original Purchase Price	Actual Market Value	Balance of Mortgage	To Whom Payable

LIFE INSURANCE

Company	Face Amount of Policy	Cash Surrender Value	Loans Against Policy	Beneficiary	To Whom is Policy Assigned

NOTES PAYABLE TO BANKS AND OTHERS

Name and Address of Holder of Note	Amount of Loan		Terms of Repayment	Maturity of Loan	Describe Assets Pledged
	Original Balance	Present Balance			

MACHINERY AND EQUIPMENT

Item & Description (include make & model)	Age	Original Cost	Current Value	Mortgage or Lien	Balance of Mortgage	To Whom Payable

Part 2 – All about credit

Stages of developing a business

- Stage One businesses are start-ups
- Stage Two businesses have business plans and products samples but no revenues
- Stage Three business have full business plans and pilot programs in place
- Stage Four businesses have been in operations for some time and have documented revenues and expenses.

Applicant's responsibility

Business Plan

- Company description
- Market analysis
- Products and Services
- Operations
- Marketing plan
- Ownership
- Management and personnel
- Funds required and uses
- Financial statements and projections

Five C's of credit

Capacity: tax returns/financial statements/projections

Capital / **C**ollateral: business plan/balance sheet/personal financial statement

Conditions / **C**haracter: business plan/credit report/farm visit

The 5's of Credit - 1

Capacity

- to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships -- personal and commercial -- is considered an indicator of future payment performance. Prospective lenders also will want to know about your contingent sources of repayment.

The 5's of Credit - 2

Capital

- is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Prospective lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business you are more likely to do everything in your power to make the business successful.

The 5’s of Credit - 3

Collateral

- or "guarantees" are additional forms of security you can provide the lender. If for some reason, the business cannot repay its bank loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable and in some cases inventory are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that--someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

The 5’s of Credit - 4

Conditions

- focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.

The 5's of Credit - 5

Character

- is the general impression you make on the potential lender or investor. The lender will form a subjective opinion as to whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees also will be taken into consideration.

Again, the Five C's of Credit

- Capacity
- Capital
- Collateral
- Conditions
- Character

Applicant characteristics – New businesses (Stages 1-3)

- No track record of income and expenses
- Collateral, if any, often limited
- Owner's limited ability to contribute adequate capital
- Market demand for product or services not fully known
- Business operations not fully tested

Applicant characteristics – Existing businesses (Stage 4)

- Historical record of income and expenses (tax returns/financial statements)
- Able to identify trends in income and expenses and determine if trends are long-term/short-term or positive/negative.
- Established products and markets
- Established business operations
- Significant investment in business
- Projects will typically focus on expanding existing markets or developing a new product line.

Challenges presented by loan apps. - 1

- Income of existing business not accurately reported. This affects the lender’s ability to determine repayment ability.
- Scale of project appears too large or ambitious
- Amount of loan requested too high in relation to the proposed project
- Lack of detail on how loan funds are to be utilized

Challenges presented by loan apps. - 2

- Inadequate research into market and product demand
- Sales forecast appears overly optimistic
- Expenses are underestimated
- Lack of data supporting the forecasts
- Inadequate project capital and cash reserves

Helpful tips - 1

- Especially for start-ups with limited resources, consider beginning a project on a smaller scale and then scale up operations over time as market demand and business profits grow. Reinvesting profits into the business rather than acquiring debt will help to preserve your cash flow.
- Avoid overly-optimistic sales forecasts. Instead of impressing the lender, it can indicate inadequate research, a lack of understanding about your markets, the effects of competitors, etc.

Helpful tips - 2

- Make sure your projections are realistic and supported by clear, written assumptions. Lenders will need to rely on projections for new businesses since there is no historical track record of income and expenses.
- Be realistic about your expenses, especially fixed expenses such as labor, rents, and other costs which you may have little control over if cash flow becomes tight.

Helpful tips - 3

- Be realistic about your expenses, especially fixed expenses such as labor, rents, and other costs which you may have little control over if cash flow becomes tight.
- If expanding existing market, explain how expansion will affect their markets and its impact on their sales and expenses. If developing a new market or product line, much more detail is needed to prove that an adequate market exists and how your product will meet the demand.

Helpful tips - 4

- Maintain good financial records and file appropriate tax returns on a timely basis. Importantly, accurately report all income on your tax returns as lenders will rely on them to determine repayment ability.
- For a new businesses, prepare an *opening balance sheet* to provide the lender with a snapshot of the company's assets and debts. This will assist the lender in assessing the resources available to the company.
- As a business owner, keep your personal finances and credit in good shape as it is a reflection of your character.

In closing

The development of your business plan and the various financial forecasts will reflect your understanding of your business environment and your commitment to the project. Especially for the new business applicants with little or no track record, the lender will need to rely heavily on your background, financial strength, market knowledge and management skills to determine your ability to qualify for a loan. Prepare the foundation for your business early by being organized and doing the homework to address the Five C's of Lending that is the basis for all lending decisions.

Questions?