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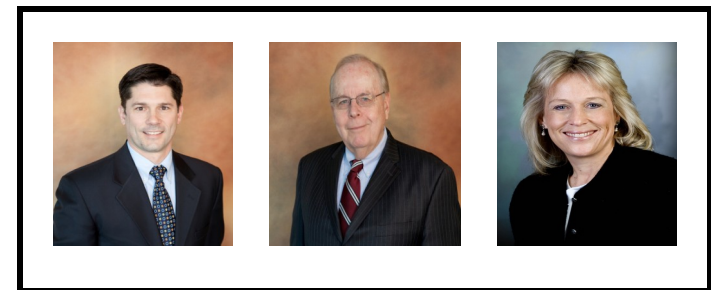
www.buckscounty.org



Funding Your Business

BOARD OF BUCKS COUNTY COMMISSIONERS

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GETTING BUCKS IN BUSINESS ©

CONTENTS

Financial Planning.....3
 Projecting Revenue
 Start-up Costs
 Recurring Costs

The 5 C’s of Credit.....6
 Capacity
 Capital
 Collateral
 Character
 Conditions

Necessary Documents.....7

Financial Options.....9
 Self-Financing
 Family and Friends
 Seller Financing
 Conventional Lenders
 The Small Business Administration
 Venture Capital
 Microloans
 Bucks County Funding Organizations
 Economic Development Corporation
 Redevelopment Authority

Editor’s Note: Your feedback can help us identify the type of information you require. Email your comments to srsmith@co.bucks.pa.us and refer to this specific publication.

MICROLOANS

Microloans are typically from \$500 to \$35,000. The microloan lender for businesses located in Bucks County is the Women’s Opportunities Resource Center (WORC). Their Economic Opportunities Fund has various loan products to meet the needs of start-up and small businesses. For more information, contact the WORC at www.worc-pa.com or at 215-564-5500.

BUCKS COUNTY FUNDING ORGANIZATIONS

In addition to private sources, some small businesses may be able to access funding made available by the public sector to promote the creation of jobs and the revitalization of local communities.

Economic Development Corporation

The Bucks County Economic Development Corporation (BCEDC) administers and facilitates access to various local, regional, state, and federal funding resources. The loan programs available include funding for real estate (e.g., acquisition, new construction, renovations), equipment, and working capital. For more information, contact the BCEDC at (215)348-9031 or at their website, www.bcedc.com.

Redevelopment Authority

The Bucks County Redevelopment Authority (RDA) administers the Enterprise Zone of Bucks County. The Enterprise Zone encompasses the municipalities of Bensalem Township, Bristol Borough, Bristol Township, Falls Township, Morrisville Borough, and Tullytown Borough. The Enterprise Zone offers a number of benefits, including preferential funding and tax benefits. The RDA also administers a loan program for small businesses seeking up to \$75,000. The business must create permanent full-time jobs with family-sustaining wages to be considered for financing. For more information, contact the RDA at (215)781-8711 or at their website, www.bcrda.com.

SELLER FINANCING

If buying an existing business, the current owner may provide financing. This alternative may offer better terms and conditions than what is available from a financial institution. The purchase of an existing business can also be a risky proposition that requires a good amount of research and investigation to ensure an accurate picture of the health of the business, its market, and its prospects for success. The acquisition process should involve the hiring of qualified professionals (e.g., accountant, lawyer) and a purchase agreement outlining the terms and conditions of the sale.

CONVENTIONAL LENDERS & THE SBA

Banks and other financial institutions offer a variety of services. Many of these lenders offer loans that are supported by the U.S. Small Business Association (SBA). The SBA reduces a lender's risk by guaranteeing a major portion of the loan. Visit the SBA's website (www.sba.gov) for a listing of participating institutions and descriptions of the loan products.

VENTURE CAPITAL

Venture capital funds invest money in businesses that have promising potential and will yield a high rate of return. Certain funds specialize in specific industries. The amounts financed can vary significantly from fund to fund, and they may take the form of loans or equity. Venture capital funds conduct a comprehensive review of the business and, if they decide to fund, are likely to demand an active role in managing the business. The terms of any venture capital funding should be thoroughly reviewed by an accountant and attorney.



FUNDING YOUR BUSINESS

Funding a small business is a challenge. A leading cause of small business failure is inadequate start-up capital. This pamphlet outlines some of the issues associated with small business funding and the options available.

FINANCIAL PLANNING

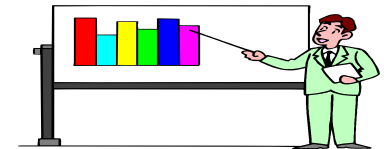
One of the first steps to undertake is to determine how much money is needed for the business. Begin by calculating the projected:

- first year revenue
- start-up costs
- recurring (monthly) costs.

The difference between revenues and costs will help identify the financing needed to fund the business.

PROJECTING REVENUES

Projecting revenue can be done by identifying projected sales by using the following approaches, individually or in combination:



Comparison to other Businesses

This method involves the development of projections based on comparisons to similar businesses. Information may include data from printed sources, industry associations, and discussions with current business owners.

Estimate of Market

The first step involves identifying the boundaries of the market and the total population of the area. Once that is established, the next step is estimating the total number of potential customers. The third step encompasses identifying any potential competitors and the number of customers they serve.

Target Revenue

This method involves identifying the amount of revenue as an objective and calculating the number of hours that must be worked or the number of products that must be sold to reach the objective. Once a number is obtained, it should be tested against the other two methods to ascertain whether the target revenue is realistic.

START-UP COSTS

Start-up costs are the costs involved in getting the business going. This type of cost may involve one-time expenditures. Some examples are:

Capital Costs

The purchase of a building, machinery, equipment, fixtures, or furniture. It may also include any costs associated with remodeling and decorating.

Professional Fees

Associated with paying for the services of the accountants, attorneys, consultants, or other professionals.



Permit Fees

Any fees associated with payments for permits and/or licenses.

Inventory

Many businesses require inventory (or product) to sell to their customers.

Advertising

Expenditures associated with advertising and promoting the business and its line of products/services.

FINANCIAL OPTIONS

Meeting with lenders should be taken seriously. Be prepared to answer specific questions about your business plan. There are many financial options that should be considered for securing funding for the small business. Some of the principal ones include:

SELF-FINANCING

A common way of business financing is using personal funding or pledging personal assets as collateral. For many start-ups, the mortgaging of personal assets is the only way to secure funding. The primary risk is that a business default may lead to a personal default; however, control is maintained for all business decisions.



FAMILY AND FRIENDS

Money borrowed from family and friends is available at more favorable terms than from what is available from financial institutions. However, any expected needs, disagreements, or relationship break-ups can cause problems, such as being forced to repay at the most inopportune time. Consequently, anyone using this option should handle this type of transaction in a formal manner and have a written agreement spelling out the terms and conditions of the loan, including the interest and the repayment schedule. If equity is involved, the agreement should state the share of ownership, the role of the investor in the business, and how the investor will be compensated (e.g., dividends).



PERSONAL FINANCIAL STATEMENTS

This document provides information on the net dollar worth of each owner and gives the lender an idea about potential assets that could be used as loan collateral. The net dollar worth is calculated as the difference between the value of the assets (e.g., cash, property) and liabilities (e.g., outstanding loans, unpaid bills).

FINANCIAL STATEMENTS FOR THE BUSINESS

Business start-ups will need to provide projections for the first few years of operation. Existing businesses need to submit the following financial records prepared by an accountant, as well as the requirements listed above:

Cash Budget

The budget provides a numerical plan for the business to attain its goals within a given period.

Cash Flow Statement

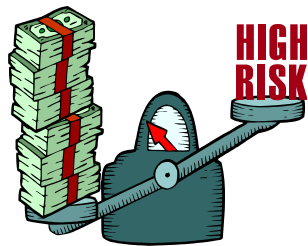
Assesses the timing and amount of future cash inflow and outflow. It allows the identification of the flow of working capital into and out of the business during a given accounting period. Note that certain transactions (e.g., borrowing money, purchasing equipment) are not income or expenses; however, they do have an impact on the cash flow.

Profit and Loss Income Statement

The P&L measures a company's sales and expenses over a given period, usually one year. It should reflect all expenses (even if not yet paid) and income (even if not collected).

Balance Sheet

This accounts for assets, liabilities, and net worth (or capital equity) of the business. A balance sheet provides a snapshot of the financial position of the business at a given point in time. It helps establish comparisons over time and to evaluate the flexibility and liquidity of the business.



Advance Payments

Certain transactions and services may require deposits and advance payments, such as security deposits and data communications.

Carrying Costs

While the business is getting started it may not generate revenue and/or sufficient income to support activities. The business must have sufficient capital to carry it through the start-up period.

Contingencies

Expect to account for unexpected costs. An amount of up to 15 percent should be set-aside to deal with unexpected contingencies.



RECURRING COSTS

Recurring costs are costs owed on a periodic basis.

Payroll

The payment of salaries, wages, and associated payroll taxes.

Rent

Payments for the lease of space, utilities and maintenance.

Inventory

Businesses will need to replenish their inventory.

Insurance

Most businesses are required to carry certain types of insurance.

Taxes

Businesses pay taxes on the local, state, and federal level.

Supplies

Businesses need certain types of supplies such as office equipment and software.

Professional Fees

Retainer of legal, accounting, and insurance professional services.

Advertising/Marketing

Businesses need to advertise and market either themselves or the product and/or service they provide.

Debt Service and Lease Payments

Monthly payments on purchased capital items or leased equipment.

THE 5 C'S OF CREDIT

Lenders ensure that they lend only to people who are reasonable credit risks and who demonstrate the ability to pay. To make their assessment, lenders will look at what has been termed as the "5 C's of Credit".

**CAPACITY**

Capacity refers to the probability of successful loan repayment. Lenders look at the existing and projected cash flow and the proposed repayment schedule. This information is determined through a comprehensive review of the business plan and financial statements. Lenders will also review credit history, previous loan repayments, and existing credit relationships as indicators of future performance.

CAPITAL

Capital refers to the basic resources of the company, including the owner's equity, retained earnings, and fixed assets. Generally, lenders are looking for a significant personal contribution of the funds required, indicating the entrepreneur has a substantial interest in the venture.

COLLATERAL

Collateral involves pledging various assets as security for the lender that can be used to repay the loan in case of a default. A guarantee is also a form of collateral, whereby a third party promises to repay the debt in case of a default.

CHARACTER

Character refers to the borrower. Background, experience, credit report, and the quality of references (and those of their partners) are key to a lender considering a borrower's reliability.

**CONDITIONS**

Conditions relate to the purpose of the loan, how the borrowed money will be used, and the conditions under which it will be used. Local economic and business conditions, as well as the performance of the business industry, are key considerations in approving the loan.

NECESSARY DOCUMENTS

Although there may be some variation in the type of information required by each lender, there are number of documents likely to be required by a majority of lenders.

PERSONAL INCOME TAX RETURNS

This involves the review of signed tax returns for previous years to show the amount of income earned.