UNDERSTANDING WHERE YOU STAND

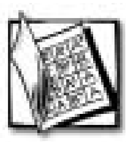
A Simple Guide to Your Company's Financial Statements

M&T Bank

M&T Bank

UNDERSTANDING WHERE YOU STAND

Contents



INTRODUCTION

One statement cannot diagnose your company's financial health. Put several statements together and you can make smart financial, investment and management decisions.

Many business owners don't know how to read their statements and rely on advisors (such as accountants) to tell them the results. Their input is valuable but you need to educate yourself. You must be able to understand your statements so you can:

- realize the vital role money plays in every business decision
- determine if you are making a profit or losing money
- calculate your current and future financial needs:
  - › make sure you have positive cash flow for short-term needs
  - › make sure your business is growing and will continue to grow

For lending purposes, statements will help you determine:

- if you can afford to pay a loan
- the loan amount
- the loan term (number of years)
- which assets you should buy vs. which assets should be financed
- what collateral is available to secure a loan

WHAT ARE THESE STATEMENTS?

Financial statements are meaningful, written records which allow you to diagnose your financial strengths and weaknesses and increase the life and profitability of your company. Statements are usually prepared annually although the income statement should be developed on a monthly or, at least, a quarterly basis.

WHAT DO THESE STATEMENTS SHOW?

Balance Sheet

What a company owns, what it owes, and what is left over

Income Statement

A firm's sales and expenses plus its profit (or loss)

Ratios

Analyze a company's financial condition. Ratio answers can be compared to others in the same industry.

Cash Flow Statement

The sources, uses, and balance of cash, shown on a monthly basis

Balance Sheet

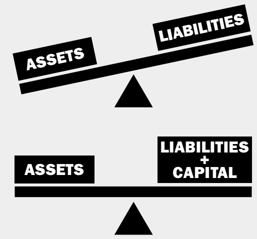
The Balance Sheet is a picture of your business, frozen for a second in time.

WHAT DOES A BALANCE SHEET TELL YOU?

This statement shows what you own (assets), what you owe (liabilities), and what's left over (net value or equity in the business). The numbers change every time you receive money or give credit to a client as well as when you pay for or charge an expense.

Liabilities + Net Worth = Assets

Think of the Balance Sheet like a scale. Assets and liabilities alone are out of balance until you add capital, the last weight put on the scale, to makes it balance.



Assets
Assets are divided into two categories: current and non-current. They are listed according to how liquid they are (how quickly they can be turned into cash).

Examples of current assets are cash and inventory. Examples of non-current assets are furniture, fixtures, property and equipment. Money owed to your company (accounts receivable) is considered an asset.

Liabilities
Liabilities (debts you owe) are divided into two categories: current and non-current (or long-term). They are listed in the order they need to be repaid.

Capital or Net Worth
The business' equity includes money the owners have invested and income kept in the business from the company's profits.

WHAT IT SHOWS YOU

- The net value of the business
- How much of your loan debt is current, and how much is long-term
- Percentages and ratios (which are extracted from the numbers) necessary to analyze your business (see Ratios section)
- Compare two of the same time periods to see changes in:
  - › cash
  - › accounts receivable
  - › inventory
  - › accounts payable
  - › equity
  - › retained earnings

WHAT IT WON'T SHOW YOU:

- Income or expenses over a period of time. *Remember, the Balance Sheet reflects one moment in time.*
- Market value of assets, although it will reflect purchase costs and depreciation according to industry standards
- Quality of assets
- Contingent Liabilities (money you agreed to repay by signing notes, or by being a co-maker or guarantor of loans).
- *Operating Lease* obligations (which allow you to buy the item at the end of the lease, for a set price, do not appear on the Balance Sheet). However, *Capital Leases* (with buyout price of $1) *are* shown on the Balance Sheet.

BALANCE SHEETS: BEFORE AND AFTER FINANCING

Established companies *should develop two Balance Sheets — one before, and one the day after the loan closes.*

New companies *should include an opening Balance Sheet in the projections to reflect what the balance sheet will look like the day after the loan closes.*

Max Computer Company, Balance Sheet
December 31, 2003

Non-Current Assets
Takes more than one year to turn into cash

Advances to Owners
Money owners take, in the form of a loan, to be repaid

Current Portion of Long-Term Debt
One year's worth of loan payments

Loan Payable
Loan balance after one year's worth of payments

Owners Investment
Money owners invest in business

Accounts Receivable
Sales made but money still owed to the company

Fixed Assets
Original Cost

Depreciation
Assets lose their value. Deductions are made according to tax rules

Accounts Payable
Purchases not paid for

Retained Earnings
Money left in the business from the company's profits, accumulated over the life of the business.

ASSETS (WHAT YOU OWN)		
Current Assets (converts to cash in one year)		
Cash	10,000	
Accounts Receivable	75,000	
Inventory	85,000	
Total Current Assets (10K+75K+85K)		170,000
Non-Current Assets (more than one year to convert to cash)		
Fixed Assets (furniture, fixtures, property, equipment)	140,000	
Less Accumulated Depreciation	- 25,000	
Fixed Assets (net, 140K - 25K)	115,000	
Advances to Owners	6,000	
Total Non-Current Assets (115K + 6K)		121,000
Total Assets (170K + 121K)		**291,000**
LIABILITIES (WHAT YOU OWE)		
Current Liabilities (due within one year)		
Accounts Payable	41,000	
Accrued Taxes	3,000	
Current Portion of Long-Term Debt	6,000	
Note Payable (due within one year)	100,000	
Total Current Liabilities		150,000
Long-Term Liabilities (due for more than one year)		
Loan Payable	54,000	
Total Long Term Liabilities		54,000
Total Liabilities (150K + 54K)		204,000
CAPITAL OR NET WORTH (THE COMPANY'S EQUITY)		
Owners Investment		20,000
Retained Earnings (income kept in the business)		67,000
Total Capital or Net Worth (67K + 20K)		87,000
Total Liabilities & Capital (204K + 87K)		**291,000**

WHICH ACCOUNTING METHOD IS RIGHT FOR YOU

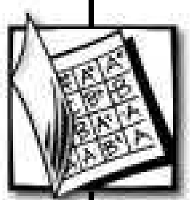
The Cash Method

- Records a sale when money is collected
- Records an expense when it is paid

The Accrual Method

- Sales are made on credit, and not immediately paid for. The amount customers owe is called Accounts Receivable
- Buy items or incur expenses for the business, but pay later. The amount owed is called Accounts Payable.
- Net worth does not always translate to cash, since money can be tied up in Accounts Receivable, expenses and inventory. To get a better idea of how much cash there is at the end of the month, learn about the Cash Flow Statement.
- Lenders prefer the accrual method.

Income Statement



Think of the Income Statement as a report card for your business. It is issued from time to time and gives an overview of how you are doing.

OTHER NAMES FOR THIS STATEMENT

• Operating Statement • Earnings Statement • Profit & Loss Statement (P&L)

WHAT DOES AN INCOME STATEMENT TELL YOU?

In the day-to-day running of your business, numbers fly around at a dizzying pace. Bills are paid, money is taken in, and sometimes, in this whirlwind of activity, it's hard to know how much you're actually making. The Income Statement answers that question.

Think of the Income Statement as a kind of report card for your business. Like a report card, it is issued from time to time and gives an overview of how you are doing (for that period of time).

Since this statement reflects your business activity over time (not like the Balance Sheet which is a snapshot of your business for one moment in time), it is usually developed monthly, quarterly and annually. Creating a projected statement for the next 12 months, based on your predictions, is also a good idea.

WHAT IT SHOWS YOU

- If sales are going up or down
- Your gross profit — how much money is left for the rest of the business after deducting what it costs to produce or purchase the product
- All expenses for the time period it covers
- Increases and decreases in net income
- How much money is left to grow the business
- How much money is left for the owner(s)
- How much money is left to pay debt (principal only)

WHAT IT WON'T SHOW YOU

- If your overall financial condition is weak or strong (see the Balance Sheet).
- What's tied up in Accounts Receivable (money owed to you) and Accounts Payable (money you owe).
- What you own (assets) and what you owe(liabilities)

Net Sales
Revenue or income. Gross sales is *before* returns and allowances. Net sales is *after* returns and allowances.

Selling Expenses
Salaries and expenses related to sales only

Operating Income (or Loss)
Shows how the business performed

Gross Profit
This is your profit margin

General & Administrative
All other expenses used to run the company

Net Profit
Profit left after all expenses have been paid

Max Computer Company, Income Statement
December 31, 2003

Net Sales			900,000	**100%**
Less Cost of Goods Sold (cost to make products):				
Beginning Inventory	75,000	**8%**		
Purchases (to make product)	350,000	**39%**		
Labor (to make product only)	200,000	**22%**		
Total (75K+350K+200K)	625,000	**69%**		
Less: Ending Inventory	- 85,000	**9%**		
Cost of Goods Sold (625K less 85K)			540,000	**60%**
Gross Profit (900K less 540K)			360,000	**40%**
Operating Expenses:				
Selling Expenses	90,000	**10%**		
General and Administrative	+ 170,000	**19%**		
Total Expenses (90K + 170K)			260,000	**29%**
Operating Income (360K less 260K)			100,000	**11%**
Less: Interest Expense (on loans)			- 20,000	**2%**
Net Profit before taxes (100K less 20K)			80,000	**9%**
Less: All Income Taxes			- 27,000	**3%**
Net Profit (80K less 27K)			**53,000**	**6%**

To get a more accurate picture of your financial performance, compare percentages instead of numbers.

- First, convert numbers from the Income Statement into percentages
- Next, compare these percentages from this period to those from the previous period
- Are the percentages increasing or decreasing?

FOR EXAMPLE

$$\frac{\text{Gross Profit of \$360,000}}{\text{Total Sales of \$900,000}} = 40\%$$

If gross profit was 35% last year, it has increased by 5%

Cash Flow Statement

What money comes in, what goes out, and what stays

WHAT DOES A CASH FLOW STATEMENT TELL YOU?

Cash is the fuel that runs your business. Running out of it would be disastrous, so you must have a "cash flow" or money on hand to pay bills and meet day-to-day expenses. Keep in mind that companies can produce a profit, but still not have a positive cash flow.

The Cash Flow Statement shows money that comes into the business, money that goes out and money that is kept on hand to meet daily expenses and emergencies.

WHAT IT SHOWS YOU

- If the business has enough money to:
  - cover day-to-day activities
  - pay debts on time
  - maintain and grow the business without a negative cash flow
- The need for additional working capital (cash) when sales increase since increased sales mean increased purchases of material or labor. You should know how much you need. Show where the additional working capital will come from.
- The maximum loan payment the business can afford
- The breakdown of principal and interest on your loan payments. Note that the Income Statement only shows interest - not principal.
- Your weaknesses (an inability to keep and generate cash). For lending purposes, explain how you'll handle these weaknesses (via increased sales, cost reductions, or owner's investments).

WHAT IT WON'T SHOW YOU

- How much you have in Accounts Receivable and Accounts Payable (shown in the Balance Sheet)
- Your balances in assets, liabilities and net worth
- Depreciation of equipment, which is a non-cash expense. This is dealt with in the Balance Sheet.

Of Special Interest to New Companies

Losses - also called "pull down balances" - are common in the first year of a start-up. Lenders want to see the business break-even during the year. To produce positive balances, you'll have to cover months (that show negative balances) with loans, increased revenue, additional owner's investments, or by reducing expenses.

Loan Principal
Loan principal appears here but not in the Income Statement. If the loan was used for real estate, furniture, fixtures and equipment or machinery, that portion will be depreciated over time (as allowed by the IRS) on the Income Statement.

Loan Payment
Loan received a month before these projections. Purchases are paid, up to date. They are now taking advantage of 30-day payment terms. The Income Statement will record the purchases as an Accounts Payable but it won't be recorded here until paid.

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
A. Cash On Hand (Beginning of month)	10,000	5,627	13,741	10,470	13,830	15,190	11,498	15,202	22,157	30,997	39,372	48,601	
B. Cash Receipts													
1. Cash Sales													
2. Collections from Credit Accounts	32,813	75,000	76,250	81,250	85,000	85,750	88,500	90,000	88,750	84,250	81,500	78,750	
3. Loan or Other Cash injection (specify)													
C. Total Cash Receipts (B1+B2+B3)	32,813	75,000	76,250	81,250	85,000	85,750	88,500	90,000	88,750	84,250	81,500	78,750	
D. Total Cash Available (A+C, before cash paid)	42,813	80,627	89,991	91,720	98,830	100,940	99,998	105,202	110,907	115,247	120,872	127,351	
E. Cash Paid Out:													
1. Purchases (Merchandise)	0	30,000	42,500	42,500	44,000	45,000	45,000	42,500	41,000	40,000	37,500	37,500	447,500
2. Gross Wages (excludes withdrawals)	10,758	10,758	11,364	11,970	11,970	12,334	12,576	12,576	11,970	11,606	11,364	10,758	140,004
3. Payroll Expenses (Taxes, etc.)	1,076	1,076	1,136	1,197	1,197	1,233	1,258	1,258	1,197	1,161	1,136	1,076	14,001
4. Outside Services	758	758	808	859	859	889	909	909	859	828	808	758	10,002
5. Supplies (Office and operating)	383	383	408	434	434	449	459	459	434	418	408	303	4,972
6. Repairs and maintenance	390	390	416	422	422	458	468	468	442	426	416	390	5,108
7. Advertising	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	50,400
8. Car, Delivery and Travel	2,700	2,700	2,800	2,900	2,900	2,960	3,000	3,000	2,900	2,840	2,800	2,700	34,200
9. Professional Services (Accounting, legal, etc.)	1,500	0	0	1,500	0	0	0	0	0	1,500	0	0	4,500
10. Rent	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	23,400
11. Telephone	278	278	296	315	315	326	333	333	315	303	296	278	3,666
12. Utilities	400	400	400	400	400	400	400	400	400	400	400	400	4,800
13. Insurance	0	450	450	450	450	450	450	450	450	450	450	0	4,500
14. Taxes (real estate, etc.)	0	750	0	0	750	0	0	750	0	0	750	0	3,000
15. Interest (on loans)	500	498	495	493	490	488	485	482	480	477	475	472	5,835
16. Other/Miscellaneous Expenses (specify)	0	0	0	0	0	0	0	0	0	0	0	0	0
17. Subtotal	24,893	54,591	67,223	69,590	70,337	71,137	71,488	69,735	66,597	66,559	62,953	60,785	755,888
F. Other Operating Costs:													
1. Loan Principal Payment	293	295	298	300	303	305	308	310	313	316	318	321	3,359
2. Capital Purchases (ex., Buy a computer)	0	0	0	0	0	5,000	0	0	0	0	0	0	5,000
3. Other Start-up Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Reserve and/or Escrow (ex., Pay $100K loan)	10,000	10,000	10,000	5,000	10,000	10,000	10,000	10,000	10,000	5,000	5,000	5,000	100,000
5. Owner's Withdrawal	2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	4,000	4,000	4,000	36,000
G. Total Cash Paid Out (E17 + F1 through F5)	**37,186**	**66,886**	**79,521**	**77,890**	**83,640**	**89,442**	**84,796**	**83,045**	**79,910**	**75,875**	**72,271**	**69,785**	
H. Cash Position (End of month, D minus G)	**5,627**	**13,741**	**10,470**	**13,830**	**15,190**	**11,498**	**15,202**	**22,157**	**30,997**	**39,372**	**48,601**	**57,566**	
I. Essential Operating Data (Non-cash flow info)													
1. Accounts Receivable (End of month)	117,188	117,188	120,938	124,688	124,688	126,938	128,438	128,438	124,688	122,438	120,938	117,188	
2. Bad Debt (End of month, if applicable)	0	0	0	0	0	0	0	0	0	0	0	0	
3. Inventory on Hand (End of month)	77,500	82,500	85,000	86,500	89,000	90,000	87,500	83,500	81,000	77,500	75,000	75,000	
4. Accounts Payable (End of month)	71,000	83,500	83,500	85,000	86,000	86,000	83,500	82,000	81,000	78,500	78,500	78,500	

Cash Position
This company is doing well and has a positive cash flow.

Summary
Good information to calculate

Ratios

Think of ratios as your business' financial scores

WHAT RATIOS SHOW YOU?

Ratios help you identify your strengths and weaknesses. Use them to compare your business to standards in your industry. Lenders look very carefully at ratios.

The numbers for ratios are taken from the Income Statement and the Balance Sheet, but not the Cash Flow Statement.

ASSET MANAGEMENT RATIOS

How effectively are you managing your assets?

ACCOUNTS RECEIVABLE TURNOVER

Number Source: Balance Sheet & Income Statement

FORMULA

Accounts Receivable ($75,000 x 365 days)

$$\frac{\$27{,}375{,}000}{\$900{,}000} = 30.4$$

Net Sales Figure

It takes 30 days to collect bills

NOTE: This shows how many days it takes to collect money owed to you. **Lower answer is better.**

INVENTORY TURNOVER

Number Source: Balance Sheet & Income Statement

FORMULA

Inventory Figure ($85,000) x 365 days

$$\frac{\$31{,}025{,}000}{\$540{,}000} = 57.4$$

Cost of Goods Sold

57 days to turnover or sell the inventory

NOTE: This formula shows how many days it takes you to turnover (or sell) your inventory. **Lower answer is better.**

LIQUIDITY RATIOS

How "cash rich" is a company? Liquidity ratios show a company's ability to turn an asset into cash.

WORKING CAPITAL

Number Source: Balance Sheet

FORMULA

Current Assets

$$\$170{,}000 - \$150{,}000 = \$20{,}000$$

Subtract Current Liabilities

Shows if a company has enough cash to pay bills. Answer must be positive

NOTE: Shows if a company has enough cash to pay bills. This example shows an excess amount after paying all current liabilities. The answer must be positive. More money is needed to meet expenses if the answer is a negative number. **Higher number is better.**

QUICK OR ACID TEST RATIO

Number Source: Balance Sheet

FORMULA

Total Current Assets of $170,000 less Inventory of $85,000

$$\frac{\$85{,}000}{\$150{,}000} = .56$$

Total Current Liabilities

Eliminates inventory from current assets and cash. "Quick" means items can be turned into cash.

NOTE: Inventory may become no longer useful. This ratio eliminates inventory from current assets and cash. It's called "quick" because it includes items that can be turned into cash. **Answer should be 1 or higher**.

CURRENT RATIO

Number Source: Balance Sheet

FORMULA

Total Current Assets

$$\frac{\$170{,}000}{\$150{,}000} = 1.13$$

Total Current Liabilities

A company's short-term debt paying ability.

NOTE: Tests a company's short-term debt paying ability. This means there is is $1.13 in cash and current assets available to pay every $1 of current liabilities. **The higher the number, the better. Answer should be 2 or more**

DEBT MANAGEMENT RATIOS

Shows how much money owners have invested in the business versus lenders.

LEVERAGE (OR DEBT TO WORTH) RATIO
Number Source: Balance Sheet

FORMULA

Total Liabilities

$$\frac{\$204{,}000}{\$87{,}000} = 2.34$$

Total Capital

The company is leveraged 2.34 times. For every $1 owners have invested, lenders and creditors have invested $2.34

NOTE: Determines if a company has enough equity. **Lower answers are better. Answer of 3 or lower is preferred.**

ACCOUNTS PAYABLE TURNOVER
Number Source: Balance Sheet & Income Statement

FORMULA

Accounts Payable at $41,000 x 365 days

$$\frac{\$14{,}965{,}000}{\$350{,}000} = 42.75$$

Purchases

Accounts Payable are paid every 43 days

NOTE: Shows how quickly a company pays its suppliers. **Lower numbers (30 days or less) are better.**

PROFITABILITY RATIOS

Shows company's ability to make a profit

PROFIT MARGIN ON SALES
Number Source: Income Statement

FORMULA

Net Profit

$$\frac{\$53{,}000}{\$900{,}000} = .0588$$

Net Sales

The profit margin is 5.9%

NOTE: Shows the percentage of net profit for every dollar of sales. **The higher the number, the better.** If the profit margin is too low:
1. the prices are too low
2. the cost of goods is too high
3. expenses are too high

CASH FLOW TO CURRENT MATURITIES (DEBT SERVICE) RATIO
Number Source: Balance Sheet & Income Statement

FORMULA

Net Profit of $53,000 + Depreciation of $13,000 *(amount created for this example)*

$$\frac{\$66{,}000}{\$6{,}000} = \$11$$

Current Portion of Long Term Debt.

For every dollar of payments $11 is available to pay it

Note: Shows your ability to pay term debts after owner(s) withdrawals. New businesses, use one year's worth of loan payments. **Answer of 2 or more is preferred.**

RATIOS AT A GLANCE

RATIO	GET NUMBERS FROM:
ASSET MANAGEMENT	
■ Accounts Receivable Turnover	Balance Sheet & Income Statement
■ Inventory Turnover	Balance Sheet & Income Statement
LIQUIDITY RATIOS	
■ Working Capital	Balance Sheet
■ Quick or Acid Test	Balance Sheet
■ Current	Balance Sheet
DEBT MANAGEMENT RATIOS	
■ Leverage (or Debt to Worth)	Balance Sheet
■ Accounts Payable Turnover	Balance Sheet & Income Statement
PROFITABILITY	
■ Profit Margin on Sales	Income Statement
■ Cash Flow to Current Maturities (Debt Service)	Balance Sheet

Ratio Comparisons

Ratios can be compared to other companies in your industry. Companies are grouped by "S.I.C." code (Standard Industrial Classification). Compare your ratios to others so you know the acceptable ranges.

- Industry ratios are averages. Some firms are above and some firms are below these numbers. Differences are due to the age of the company, locations, managers, and operations, to name a few.
- A ratio of 38% compared to an industry average of 39% seems like a small 1% difference. If sales are $4 million, 1% is $40,000. If net profits are $100,000, then the $40,000 is very important.

These reference books include industry information:

- RMA Annual Statement Studies
- Almanac of Business and Industrial Financial Ratios (gathered from U.S. Treasury and IRS information)
- Dunn and Bradstreet

Other good industry sources (especially when your company is smaller than those used in the reference books):

- Trade Associations.
- Magazines and newspapers for your industry
- Small Business Administration/SBA

Glossary

Ability to Pay. Ability to pay loans from future business' profits.

Accounts Payable (A/P). Expenses incurred from purchases made on credit.

Accounts Receivable (A/R). Sales made but money not collected. Credit is granted.

Assets. What a company owns.

Asset-based Lending. Financing secured by pledging assets (inventory, receivables, or other collateral).

Available Credit. The unused portion of a line of credit.

Balloon. A stop point or early maturity of a loan.

Business Credit. Loans made to businesses in the form of a term loan or a line of credit.

Business Plan. An overview of a new or existing company which is used to obtain financing.

Capacity. Borrower's ability to handle a certain level of debt.

Capital Leases. Leases with a buyout price of $1 which are shown on the Balance Sheet.

Commercial Mortgage. A loan on business' real estate. Rates and terms are negotiated and the interest rate is usually related to the prime rate.

Cost of Goods Sold. Cost to make a product, including materials, labor, and related overhead.

Credit Rating. Credit rating as determined by a credit reporting agency.

Credit Scoring. A process used to approve or reject commercial loan applications, based on ratios and other factors.

Current Assets. Assets that can be converted into cash in one year.

Current Liabilities. Liabilities due within one year.

Depreciation. Except for land, assets wear out. They are devalued or depreciated every year.

Draw Down. Taking an advance on a line of credit.

Equity. The book value of a business. Assets minus liabilities.

Fair Market Value (FMV). The price of an asset, product or service in a current, competitive market.

Fixed Assets. Assets including furniture, fixtures, equipment, machinery, and real estate.

Gross Profit. Gross sales less cost of goods sold. Also called gross margin.

Gross Sales. Revenue or income from sales before returns and allowances.

Intangible Asset. Have no physical properties but represent something of value (for example, patents and trademarks).

Inventory. Assets held for resale. May be in the form of raw materials, work in progress, or finished goods.

Liquid Collateral. Collateral that can be converted to cash quickly.

Line of Credit (LOC). A short-term loan (usually used to finance accounts receivable and/or inventory)

Liquid Asset. Asset that can be turned into cash quickly, within one year

Long-Term Liabilities. Expenses, loans, and payables due after one year

Net Profit. Money left after all expenses have been paid. Used to pay loan principal and to grow the company.

Net Sales. Revenue or income from sales after returns and allowances are deducted.

Net Worth. Assets less liabilities. Show equity value.

Non-Current Assets. Assets that take one year or more to turn into cash.

Operating Lease. Leases which allow you to buy the item at the end of the lease, for a set price. These leases do not appear on the Balance Sheet.

Owners' Investment. The money owners have invested in a business.

Prime Rate. The rate of interest lenders give to its prime customers from time to time. Most business owners are charged the prime rate plus a percentage.

Pro Forma. Projecting or forecasting future income, expenses, and cash flow.

Retained Earnings. Net profits accumulated through the company's life and reported in the net worth or equity section of the balance sheet. Note: Can be negative if losses occur.

Secured Loan. Loan secured by collateral (which will be liquidated if the borrower defaults on the loan).

Tangible Asset. Real property (machinery, equipment, furniture and fixtures).

Term. A loan's maturity, stated in months or years.

Term Loan. Loan, usually given in one lump sum at the closing. Repayment is monthly over a stated term.

Trend Analysis. Analysis of financial statements and ratios to determine the financial strength over time.

Working Capital. Difference between current assets and current liabilities. An indication of liquidity and the ability to meet current obligations.