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MINORITY BUSINESS DEVELOPMENT AGENCY
BUSINESS CENTER
U.S. DEPARTMENT OF COMMERCE

Pandemic Business Recovery Financial Guide for Small Businesses

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INTRODUCTION

Business Resiliency revolves around creating a structure that can withstand or prevent loss of services due to an unplanned event. **Disaster Recovery** concerns the restoration of normal operations after an unplanned event.

A small business should explore how being resilient and the pandemic recovery can be integrated, while recognizing when each may be more appropriate.

Small business owners should know all the risks associated with the business or organization. Where do I start in my business recovery? What disaster is the business prepared to handle? Who is responsible for creating a strategic plan? How does a company maintain cash flow efficiency without assessing our financial history? These are questions this guide will define, whether the business is pre-existing or a startup.

In this recovery guide we will identify five areas of a business where structure can have the greatest impact.

- Accounting Systems
- Being Bankable
- Cash Efficiency
- Financial Habits
- Legal Structure

RECOVERY FINANCE ASSESSMENT

To develop a rebuilding plan for the pandemic, the first step involves knowing how severely your business has suffered.

If you know your financial statements are not up to date (cash flow or profit and loss statements), now is the time to do so. When you do this, you can compare your financial statements with the previous year to identify any decline in your business. It would be best to consider other ways that have affected your business aside from the hard numbers involving sales, cash flow, and profits. For example, if you had to lay off or fire employees and staff, you also must consider the rehire in your rebuilding strategy. If you cut down your budget on advertising and marketing, or you lose customers, then you need to give an account to aid in recovery as you identify financial resources.

Building financial resilience in the face of economic obstacles can be challenging. **Here are a few financial assessment and planning tips:**

1. **Understand Your Financial Mindset** - Discover your financial intentions and ask yourself, "What is most important to save business?"
2. **Are your accounting records up-to-date?** Manage cash records and file taxes on time
3. **Are expenses your real issues?** - All debt is manageable, review what you pay monthly
4. **Are your credit cards hurting the business?** - Only purchase what is needed for the business

[Free Small Business Profit and Loss Templates | Smartsheet]

Cash Flow Efficiency is how a business spends its money to operate and grow.

During your assessment of the business, the owner and/or partners can determine if they are "Bankable" and "Structured" properly for lending and operational purposes. First, let's discover what both mean and if your business is ready

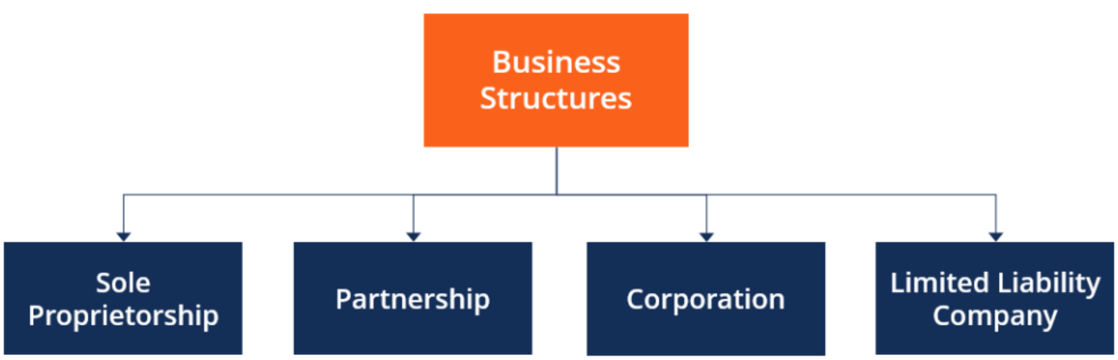
THE RIGHT LEGAL STRUCTURE FOR YOUR BUSINESS

One of the first, most important decisions you will make as a business owner is choosing the proper type of business entity for your company. The structure you choose can have long lasting tax and legal consequences, so it is important to get it right.

Types of Business Entities

There are four types of business entities for owners to consider; each has their own advantages and disadvantages; which owners should discuss with a CPA or Business Attorney:

- **Sole proprietorship**. The most common form of business structure in the U.S., a sole proprietorship is easy to establish and maintain. However, the owner has no protection for personal assets from business liabilities.
- **Partnership**. A partnership can be formed by two or more owners who share in the business' profits and losses. As with a sole proprietorship, there is no limited liability protection for owners in a partnership.
- **Limited Liability Company (LLC).** A hybrid of partnership and corporation business structures, the LLC allows owners to report business profits and losses on their own tax returns without the business itself being taxed and provides owners with limited liability protection.
- **Corporation**. A corporation operates as a separate entity and is taxed as such. "C Corporations" are taxed as separate entities, while "S Corporations" are pass-through entities where taxes are reported on the owners' individual tax returns.



Considerations for Selecting the Right Business Entity

In general, there are three critical areas for consideration in selecting the right legal structure for your business. These include:

- **Risk**. All businesses carry some degree of risk, and savvy business owners will want to choose a structure that protects their personal assets from business liabilities. A limited liability company (LLC) or a corporation (C Corp or S Corp) can insulate an owner's personal property from business creditors and litigation.
- **Taxation**. Business owners who prefer to report business profits and losses on their personal tax returns and be taxed on the net profits from the business should select what is known as a "pass through entity", which includes sole proprietorships, partnerships and LLCs. Owners who would prefer to use a corporate structure to take advantage of preferred corporate tax rates would choose an S Corporation or C Corporation structure.
- **Complexity**. Approximately 75% of small businesses in the U.S. operate as sole proprietorships, primarily because this type of business entity requires much less paperwork, time and money to maintain. Corporations and LLCs require detailed record keeping as well as adherence to a lengthy list of requirements in order to maintain their limited liability protection.

What I plan to do next!

IS YOUR BUSINESS BANKABLE?

[1]Bankable is a financial jargon that indicates that business is sufficiently healthy to receive interest from lenders to loan.

[2]It's a basic indicator of a company's success. If a bank is willing to loan a business cash and/or support a business, then the risk of it failing or not paying is low. A bankable company has significant assets, profits, liquidity (cash), and collateral. An article from Forbes says it like this, "The bank is your cheapest, but often most difficult, source of capital with which to operate and grow your company." So, is your business bankable? There are several things to consider. Financial health will be the primary focus of determining if your business is bankable.

What does "Bankable" Mean?

- Exposure to capital
- The term "Bankable" usually refers to a business having sufficient profit, assets, and liquidity to get a loan at a bank.
- Today we are going to gain insider exposure to the underwriting process and what it means to you and your business.
- You should gain confidence in understanding business and personal information needed as well as how to interpret more of the financial documentation.

What Is a Bank?

- A business.
- A risk manager.
- Takes money on deposit to provide loans.
- Makes loans to businesses who show ability to repay.
- Makes profit from investing deposits and interest on loans primarily.
- It has a responsibility to produce a profit for its shareholders and employees.
- This is why so much scrutiny goes into underwriting a business loan.

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[1] The Strategic CFO https://strategiccfo.com (Houston Area Based)
[2] WikiCFO is a free online encyclopedia of accounting.

Bank Underwriting

- It's mostly scientific, 85% is based on documentation.
- Often there is a two-step process. The banker and an underwriter or loan committee work together to decide on credit requests.
- Financial documentation is reviewed several times to ensure risk is low for both the borrower and the bank.
- The banker and underwriter analyze the documentation to find three or at the minimum two ways to be repaid.

WHY ARE BUSINESS DOCUMENTS IMPORTANT?

All banks want solid evidence that you and the business can repay the loan in three different ways.

- Cash flow from the business with at least 20% left over after all expenses and new debt is paid.
- Personal cash flow and assets from the owner(s) of the business.
- The collateral.
- SBA (Small Business Administration)

HOW DOES THE BANK REVIEW FINANCIAL DOCUMENTS TO BUILD A COMFORT LEVEL WITH A LOAN?

Personal Tax Return

- Wages and salaries
- Taxable income
- Other income

Personal Credit

- Score (below 650 could be a challenge)
- Number of accounts
- Number of inquiries
- Delinquencies
- Bankruptcies
- Percentage of usage
- Until business is publicly traded you are the business.

Personal Financial Statement

- What are the assets? Cash, securities, real estate…
- What are the liabilities? Are they reasonable?
- Salary and other income
- What is the overall net worth?
- Assets – Liabilities = Net worth

Business Debt Schedule

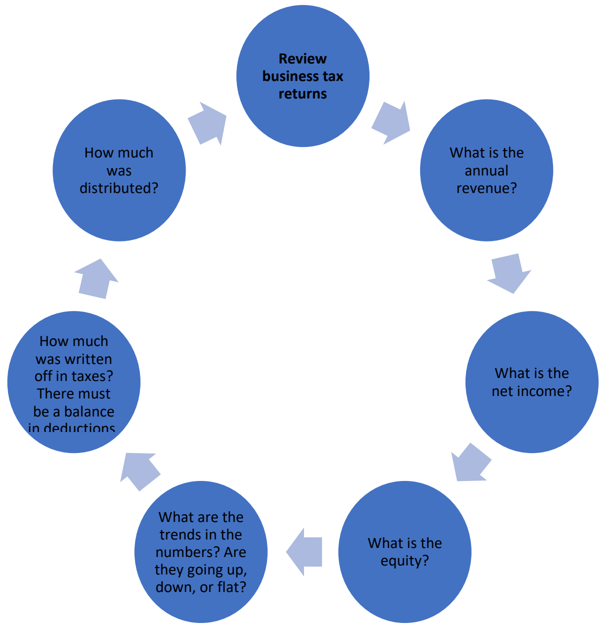
- Provides details about the business debt.
- Amount
- Interest rate
- Term (length of time)
- Balance

Accounts Receivable

- List of active clients who have been invoiced in the operating cycle.
- Timing of payments
- Number of payments after 90 days
- Concentrations (clients over 20% are concentrations, which is an indicator to diversify client base)

Other Considerations

- Industry risk
- Competition
- Technological changes
- Economy



How does the bank review the background of the borrower to build a comfort level with a loan?

Personal Resume

- How long have the principals been in the industry?
- Education relating to the business.
- Awards, certifications, affiliations, notable clients, etc.
- Internet
- Other background search tools

After Documentation Review

- Lenders may have questions and ask for more documentation.
- Should discuss the decision.
- When approved. Will provide terms for the loan.
- Will arrange closing.
- Closing documents will list the terms of the loan. It is important to review the information thoroughly.
- Questions should be raised at any point in the process.
- This begins a long-term relationship with the bank and banker.
- The banker should be an advocate of continued business growth.

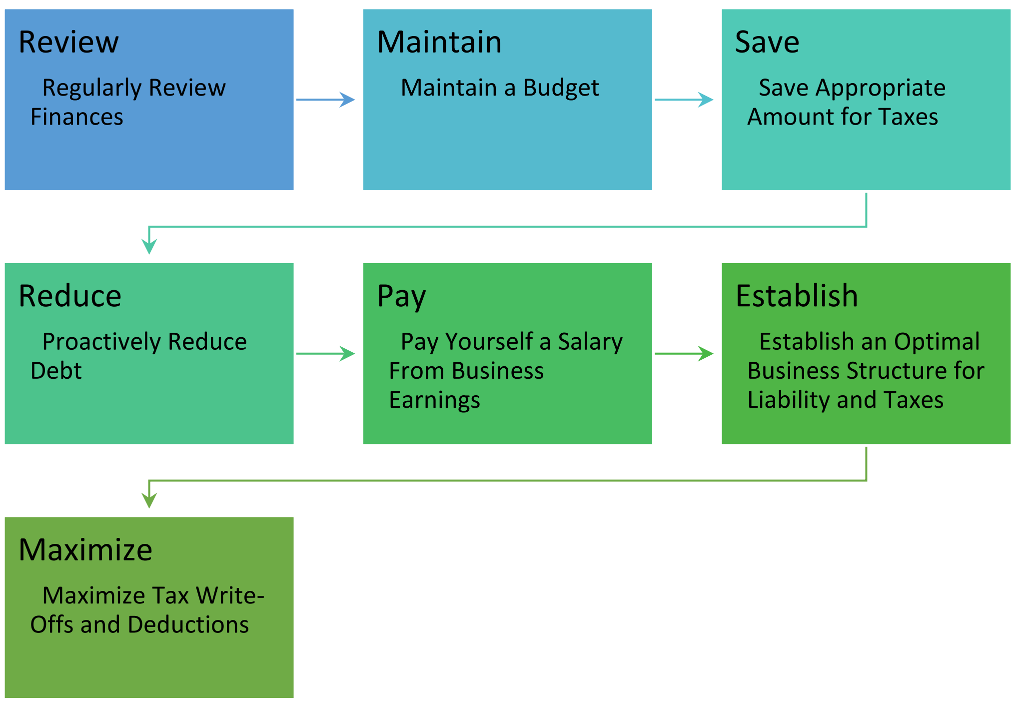
Additional Funding Resources

- Small Business Administration
- Micro and community-based lenders
- Venture capital
- Investors
- Incubators

BEST FINANCIAL HABITS HIGHLY EFFECTIVE SMALL BUSINESS OWNERS

As a business owner, you went into business to make money and grow your business, so educate yourself. To accomplish financial resiliency, changing your financial mindset and developing solid processes and implementing effective habits can determine the future of the business.

Here are some money habits that you and the business should be doing on a daily basis:



What I plan to do next!

ACCOUNTING: YOUR OPERATING SYSTEMS SUPPORT

Cash Management – A forecasting system (spreadsheet) that accounts receivable and

Budget – This is the one-year profit plan and critical to management control

Variance Report – This is complementary to the budget systems, it shows actual against budget

Flash Report – This report summarizes in one page the changes in cash position, accounts

Best Accounting Operating Systems

The operating system (OS) allows users to perform the basic functions of a computer. The OS manages all software and peripheral hardware, and accesses the central processing unit (CPU) for memory or storage purposes. It also makes it possible for a system to simultaneously run applications.

[7 Best Accounting Software for Small Businesses 2023 | Money]

What I plan to do next!

A tax structure is a method in which a government raises revenue via taxes on earned income, investments, property, or even sales tax. Small business owners should know that sound accounting and tax practices are important for a company to be successful. But implementing these practices is a challenge for many entrepreneurs, especially during or after a disaster.

The meaning of business taxation refers to the taxes that businesses must pay as a normal part of business operations. Whether you are a sole proprietor, partner, part of a limited liability company, or a corporation, your business is responsible for adhering to tax regulations and schedules.

What I plan to do next!

RECOVERY ASSURANCE-GROWTH

Business assurance is the solution which allows organizations to adequately address these challenges by implementing a flexible and effective control framework with real time monitoring capabilities.

What I plan to do next!

BUILDING BUSINESS CREDIT TIPS

A strong business credit profile shows banks and other businesses that your company is financially stable. Business Credit can help secure better terms on business loans, offer lower rates on business insurance and negotiate more favorable terms with suppliers.

1. Register your business and Employer Identification Number (EIN)
2. Apply for your DUNS number.
3. Open a business card.
4. Establish trade lines with your suppliers.
5. Pay creditors early and on time!
6. Borrow from lenders that report to the credit bureau.
7. Avoid judgements, liens, and bankruptcy of the business.
8. Keep your information confidential and accurate with all bureaus.

What I plan to do next!

BUSINESS CONTINUITY VS DISASTER RECOVERY

Business continuity planning and disaster recovery planning may seem interdependent. The two concepts are not the same, but they can overlap in some areas and will work best when developed in tandem.

Similarities

- Proactive strategies that help a business prepare for sudden, cataclysmic events.
- Businesses can use it to prepare for a range of natural and human-made disasters.
- Require regular review and may require revision to ensure they match the business evolving goals. Management will continually modify these plans as needed.

Differences

- Business continuity focuses on keeping business operational during a disaster.
- Business continuity and disaster recovery have different goals. Effective business continuity plans limit operational downtime.
- Business continuity strategy can ensure communication methods such as phones and network servers continue operating during a crisis. On the other hand, a disaster recovery strategy can ensure an organization's ability to return to full functionality after a disaster occurs.
- Disaster recovery is one step in the broader process of safeguarding a business against all contingencies.

  [Business Continuity vs. Disaster Recovery: 5 Key Differences | UCF Online]

PREPARATION IS KEY

This recovery and resiliency guide was created to "Prepare" you for staying in business. Small businesses do not go out of business because of revenue loss, they go out of business because owners struggle with cash flow problems.

Recovery & Resiliency Guide Goals:

1. Increase operational efficiency of your business and/or organization.
2. Boost the productivity of the services that you currently offer.
3. Commit and implement best practices for your business.
4. Prepare your business continuity plan.

What I plan to do next!

Let's Recover Together!

ELITE IMAGE

TAX & NOTARY SERVICES, LLC.