



# Bank Credit



Mr. Tom Lofland

**BANK CREDIT**  
**SYLLABUS**  
**SENIOR YEAR 2023**

**INSTRUCTOR:** Thomas W. Lofland

**COURSE DESCRIPTION:**

This course will cover the fundamentals of analyzing financial information of different types of commercial loan situations. Students will learn the basics of commercial lending from the application process to the loan approval process. The course will also cover the loan interview process, what financial information is necessary to make a commercial loan decision, how to prepare a loan presentation, the many different financial and non-financial attributes of different types of companies, and making a commercial loan request presentation before a loan committee.

The course concludes with groups of students making loan presentation and discussing loan situations before the class.

**COURSE OBJECTIVES:**

The student should come away with a basic understanding of the commercial loan credit process and should understand the importance of asset quality in today's banking environment. Various types of loan offerings will be understood by the student.

The Basic Objectives of the course will be as follows.

|                          |                     |
|--------------------------|---------------------|
| Loan Analysis            | Guaranties          |
| Loan Interview           | Legal Documentation |
| Loan Structuring         | Cash Flow Analysis  |
| Problem Loan Recognition | Fair Lending        |

**FORMAT:**

Lecture and class discussion.

**TIMELINE:**

Day 1 – Review of financial analysis, ratio analysis and financial interpretation.

Day 2 – Class divided into groups and said groups will work on assigned commercial loan project.

Day 3 – Groups to make commercial loan presentations to class.

**MARYLAND BANKING SCHOOL**  
**THIRD YEAR CASE STUDY PROJECTS**  
**2023**  
**STUDENT GROUPINGS**

| <b>Case One – Ethan’s Auto</b> | <b>Case Two – Home Care Plus, Inc.</b> | <b>Case Three – La Bodega</b> |
|--------------------------------|--|-------------------------------|
| Reid Edwards                   | Katie King                             | Denise Littleton              |
| Michael Limerez                | Rebe Schaefer                          | Christina Berry               |
| Sheila Bolton                  | Tabatha Caldwell                       | Kenneth Carey                 |
| Jennifer Crismond              | Katie DiSano                           | Amy Downes                    |
| Casey Fitzgerald               | Jessica Gillis                         | Sherry Haymaker               |
| Laura McCoy                    | Taylor Mooney                          | Kirsten Oldham                |
| Irna Potapenko                 | Corin Rix                              | Tanya Speed                   |
| Stephanie Dulin                |  |                               |

# ETHAN'S AUTOS

## Business Overview

|                   |                        |
|-------------------|------------------------|
| Company:          | Ethan's Auto           |
| Annual Sales:     | \$7,384,000            |
| Total Assets:     | \$697,000              |
| Type of Business: | Used Automobile Dealer |
| Established:      | 2013                   |
| SIC Code:         | 5521                   |
| Legal Structure:  | C Corporation          |

## Background Information

Ethan Blake is the tennis pro at Hickory Hills Country Club. He is 44 and married with two children, ages 9 and 12. As he approached his 40<sup>th</sup> birthday, Ethan began to worry about how to support his family when he could no longer teach tennis. In 2013 he started a business on the side, a used car dealership of high-end luxury cars. Four of his acquaintances from the country club, members he had worked with for years, agreed to support him in this venture by guaranteeing the floor plan line for his inventory. These four individuals have never been involved in the business in any way. Ethan located a prime spot for the business and purchased the land by using all his available cash for the site and obtaining a mortgage from the seller.

Ethan sold used Mercedes, Saabs, Lexus, and similar luxury cars. Business was encouraging at first, but even though Ethan did not take an owner's draw, the lot did well to break even. In mid-2014 Ethan expanded his inventory to include lower-priced pre owned vehicles purchased at auction, but this strategy had some troubling results. The inventory turn slowed considerably. Ethan realized his lot was not well located for the lower-end market, and the popular practice of leasing new vehicles for two years caused a considerable glut of quality low- and mid-priced pre-owned cars on the market. In 2015 Ethan cut prices on his entire inventory to generate much needed cash flow quickly. With the reduction in inventory, he began to feel some relief until he received his bank statement. Ethan was astounded at the amount outstanding on his floor plan line of credit.

## Bank Relationship

While your bank does do some dealer floor plan financing, it does not normally finance used car dealers. You did, however, agree to give Ethan a \$700,000 floor plan line because three of Ethan's four guarantors are clients of your bank's private banking department. When the line was first put into place in 2013, all four guarantors provided current financial statements and tax returns, showing substantial support for the credit. It has been difficult to maintain files on the guarantors, however. When you called for updated statements, one of the gentlemen impatiently explained that he had already provided a statement to his private banking account officer.

Since then, the private banking department has instructed you to go through them to obtain annual statements on their clients. Several months ago, you received statements on you bank's personal financial statement forms, but these were hastily completed updates of previous year's statements. You requested tax returns through the private banking account officer and were told that all three had filed for extensions. You finally received the tax returns, appended with every schedule imaginable and sent them to the credit department to have cash flows created. The fourth guarantor, the former vice chairman of a local company, lost his job and has relocated out of state. Repeated efforts to get him to mail you current financial information have not produced results.

When the line was first created, it was structured as a typical floor plan line, with the bank hold title to the cars in inventory. As each car was sold, the title was released as a specific pay-down on the line for that vehicle as received. This procedure became cumbersome because Ethan's luxury cars turned quickly, the purchasers were eager to obtain title, and Ethan did not have anyone on his staff to follow through on the paperwork. Because of the strong guarantors on the credit, you relaxed your requirements two years ago and no longer have physical possession of the title. Prior to making this procedural change, the bank met with the three guarantors and explained to them that the bank would maintain a first security interest in the inventory but no longer hold the titles. The guarantors executed new guaranty agreements that contained consent to impairment of collateral provision. You sent a new guaranty form to the fourth guarantor with a letter explaining the change, but he never signed or returned it.

Ethan called you this morning to verify the amount on his line. He couldn't believe he owed the amount on his monthly statement because he has recently sold so much of his inventory. The outstanding balance on his statement is correct. You have cause for concern since it appears that cars have been sold "out of trust" and you now regret relaxing the underwriting of the credit two years ago. You call the credit department and put a rush on the analysis of the tax returns of the three guarantors. They have almost completed the assignment when you were told there are some areas of concern you will want to know about.

You have scheduled a meeting with a representative of the workout department and with the account officer from the private banking department. How do you prepare for this meeting?

**ETHAN'S AUTOS**  
Balance Sheet (\$000s)  
December 31

|   | <u><b>YE/2017</b></u> | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                             |                       |                       |                       |                       |
| Current Assets                            |                       |                       |                       |                       |
| Cash                                      | 13                    | 14                    | 10                    | 20                    |
| Marketable Securities                     | 0                     | 0                     | 0                     | 0                     |
| Accounts Receivable (Net)                 | 32                    | 32                    | 32                    | 32                    |
| Inventory                                 | 375                   | 382                   | 721                   | 562                   |
| Other Current Assets                      | <u>0</u>              | <u>0</u>              | <u>0</u>              | <u>0</u>              |
| Total Current Assets                      | 420                   | 428                   | 763                   | 614                   |
| <br>FIXED ASSETS                          |                       |                       |                       |                       |
| Property, Plant & Equipment               | 143                   | 187                   | 189                   | 189                   |
| Accumulated Depreciation                  | <u>(22)</u>           | <u>(44)</u>           | <u>(73)</u>           | <u>(107)</u>          |
| Net Fixed Assets                          | 121                   | 143                   | 116                   | 82                    |
| <br>Investments                           | 0                     | 0                     | 0                     | 0                     |
| Other Noncurrent Assets                   | 1                     | 1                     | 1                     | 1                     |
| Intangible                                | 0                     | 0                     | 0                     | 0                     |
| <br><b>Total Assets</b>                   | <u><b>542</b></u>     | <u><b>572</b></u>     | <u><b>880</b></u>     | <u><b>697</b></u>     |
| <br><b>LIABILITIES</b>                    |                       |                       |                       |                       |
| Floor Plan Line – Bank                    | 335                   | 340                   | 645                   | 535                   |
| CPLTD                                     | 10                    | 10                    | 10                    | 10                    |
| Accounts Payable                          | 16                    | 39                    | 68                    | 40                    |
| Accrued Expenses                          | 12                    | 4                     | 0                     | 0                     |
| Interest Payable                          | 0                     | 0                     | 0                     | 0                     |
| Dividends Payable                         | 0                     | 0                     | 0                     | 0                     |
| Taxes Payable                             | 0                     | 17                    | 1                     | 0                     |
| Other Current Liabilities                 | <u>0</u>              | <u>0</u>              | <u>0</u>              | <u>0</u>              |
| Total Current Liabilities                 | 373                   | 410                   | 724                   | 585                   |
| <br><b>OTHER IABILITES</b>                |                       |                       |                       |                       |
| Long term Debt #1                         | 90                    | 80                    | 70                    | 60                    |
| Deferred Taxes                            | 0                     | 0                     | 0                     | 0                     |
| Other Noncurrent Liabilities              | <u>0</u>              | <u>0</u>              | <u>0</u>              | <u>0</u>              |
| Total Liabilities                         | 463                   | 490                   | 794                   | 645                   |
| <br><b>STOCKHOLDERS'S EQUITY</b>          |                       |                       |                       |                       |
| Common Stock                              | 1                     | 1                     | 1                     | 1                     |
| Capital Surplus                           | 75                    | 75                    | 75                    | 75                    |
| Retained Earnings                         | <u>3</u>              | <u>6</u>              | <u>10</u>             | <u>(24)</u>           |
| Total Stockholders' Equity                | 79                    | 82                    | 86                    | 52                    |
| <br><b>Total Liabilities &amp; Equity</b> | <u><b>542</b></u>     | <u><b>572</b></u>     | <u><b>880</b></u>     | <u><b>697</b></u>     |

**ETHAN'S AUTO**  
**INCOME STATEMENT (\$000s)**  
**DECEMBER 31**

|                               | <u><b>YE/2017</b></u> | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Net Sales                     | 3,754                 | 5,084                 | 5,798                 | 7,394                 |
| Cost of Goods Sold            | 3,415                 | 4,640                 | 5,275                 | 6,842                 |
| Depreciation                  | <u>22</u>             | <u>22</u>             | <u>29</u>             | <u>34</u>             |
| Gross Profit                  | 317                   | 422                   | 494                   | 518                   |
| Operating Expenses            | <u>275</u>            | <u>379</u>            | <u>435</u>            | <u>494</u>            |
| Operating Income              | 42                    | 43                    | 59                    | 24                    |
| Interest Expenses             | 38                    | 39                    | 54                    | 59                    |
| Miscellaneous Expenses        | 0                     | 0                     | 0                     | 0                     |
| Miscellaneous Income          | <u>0</u>              | <u>0</u>              | <u>1</u>              | <u>1</u>              |
| Net Profit Before Taxes       | 4                     | 4                     | 6                     | (34)                  |
| Income Tax Provision          | <u>1</u>              | <u>1</u>              | <u>2</u>              | <u>0</u>              |
| <b>Net Profit After Taxes</b> | <b>3</b>              | <b>3</b>              | <b>4</b>              | <b>(34)</b>           |
| Dividends                     | 0                     | 0                     | 0                     | 0                     |
| Change In Retained Earnings   | 3                     | 3                     | 4                     | (34)                  |
| Adjustment to Equity          | 0                     | 0                     | 0                     | 0                     |
| Change in Net Worth           | 3                     | 3                     | 4                     | (34)                  |

**ETHAN'S AUTOS**

Cash Flow Statement (\$000s)

December 31

|  | <u><b>YE/2017</b></u> | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| NET SALES                              | 3,754                 | 5,084                 | 5,798                 | 7,394                 |
| Change in Accounts Receivable          | (32)                  | 0                     | 0                     | 0                     |
| CASH FROM SALES                        | 3,722                 | 5,084                 | 5,798                 | 7,394                 |
| C0GS (Less noncash expenses)           | (3,415)               | (4,640)               | (5,275)               | (6,842)               |
| Change In Inventory                    | (375)                 | (7)                   | (339)                 | 159                   |
| Changes in Accounts Payable            | 16                    | 23                    | 29                    | (28)                  |
| CASH PRODUCTION COST                   | (3,774)               | (4,624)               | (5,585)               | (6,711)               |
| GROSS CASH PROFITS                     | (52)                  | 460                   | 213                   | 683                   |
| SG&A (Less noncash expenses)           | (275)                 | (379)                 | (435)                 | (494)                 |
| Changes in Prepaid Expenses            |                       |                       |                       |                       |
| Change in Accrued Expenses             | 0                     | 0                     | 0                     | 0                     |
| CASH OPERATING EXPENSES                | (263)                 | (387)                 | (439)                 | (494)                 |
| CASH AFTER OPERATIONS                  | (315)                 | 73                    | (226)                 | 189                   |
| Miscellaneous Income (Expenses)        | 0                     | 0                     | 1                     | 1                     |
| Change In Other Noncurrent Assets      | (1)                   | 0                     | 0                     | 0                     |
| Change In Other Noncurrent Liabilities | 0                     | 0                     | 0                     | 0                     |
| Income Tax Provision                   | (1)                   | (1)                   | (2)                   | 0                     |
| Change In Taxes Payable                | 0                     | 17                    | (16)                  | (1)                   |
| MISCELLANEOUS INOME & TAXES PAID       | (2)                   | 16                    | (17)                  | 0                     |
| NET CASH AFTER OPERATIONS              | (317)                 | 89                    | (243)                 | 189                   |
| Interest (Existing Debt)               | (38)                  | (39)                  | (54)                  | (59)                  |
| Dividends                              | 0                     | 0                     | 0                     | 0                     |
| TOTAL FINANCING COSTS                  | (38)                  | (39)                  | (54)                  | (59)                  |
| NET CASH INCOME                        | (355)                 | 50                    | (297)                 | 130                   |
| CPLTD                                  | 0                     | (10)                  | (10)                  | (10)                  |
| CASH BEFORE LONG-TERM USES             | (355)                 | 40                    | (307)                 | 120                   |
| Capital Expenditures                   | (143)                 | (44)                  | (2)                   | 0                     |
| FINANCING SUPPLUS REQUIREMENT          | (498)                 | (4)                   | (309)                 | 120                   |
| Change In Short-Term Debt              | 335                   | 5                     | 305                   | (110)                 |
| Change In Long-Term Debt               | 100                   | 0                     | 0                     | 0                     |
| Change In Equity                       | 76                    | 0                     | 0                     | 0                     |
| TOTAL EXTERNAL FINANCING               | 511                   | 5                     | 305                   | (110)                 |
| CASH AFTER FUNDING                     | 13                    | 1                     | (4)                   | 10                    |
| ACTUAL CHANGE IN CASH                  | 13                    | 1                     | (4)                   | 10                    |



ETHAN'S AUTOS  
Notes to Financial Statements

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting. Whereby revenues are recognized when earned and expenses are recognized when incurred.
2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.
3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.

# HOME CARE PLUS, INC.

## Business Overview

|                   |                         |
|-------------------|-------------------------|
| Company:          | Home Care Plus, Inc.    |
| Annual Sales:     | \$4,430,000             |
| Total Assets:     | \$1,145,000             |
| Type of Business: | Home Health Care Agency |
| Established:      | 2013                    |
| SIC Code:         | 8082                    |
| Legal Structure:  | C Corporation           |

## Background Information

Home Care Plus, Inc. was founded in 2013 by Joan and John Carter as a successor company to the nurses' registry that Joan, a registered nurse, had been running for years. The Company leases office space in a suburban office building near the Carter's home. Home Care Plus has experienced the same double-digit annual growth rates that the rest of the home health care industry has been experiencing since the later 1980s. Home Care Plus provides services to the elderly and handicapped in their home. In addition, it provides in-home physical therapy and intravenous treatment and administers medications to the ill. The agency is licensed with the state and is certified to receive Medicare and Medicaid reimbursements. Home Care Plus contracts with two local hospitals that recommend this agency to patients being discharged in need of further treatment or care at home. Approximately 70% of net revenue each year comes from Medicare patients, and this percentage is projected continually increase.

Joan's niece, Brenda, works for the agency on the insurance side. Prior to accepting a new client, Brenda verifies insurance coverage. Brenda files Medicare claims electronically; Medicaid, blue Cross, Blue Shield and private insurance claims are submitted in paper form. Brenda is responsible for following up on any delinquent insurance claims, which are generally the result of a misunderstanding or error in filing. Brenda does a good job, and as a result, Home Care Plus has a respectable 3% Medicare denial rate (questions or changes to billings) and a 5% Medicare medical review rate (percent of billings that are reviewed as to documentation before Medicare pays, which delays reimbursement on that portion).

Joan Carter is the clinical administration of the agency, managing the nurses, licensed practical nurses, and home care aides that the company employs. John Carter is responsible for the marketing and business aspects, including the bank relationship.

## **Bank Relationship**

Home Care Plus has banked with Sixth National Bank for the past four years. You moved to town a year ago and went to work for Third American Bank, a competitor of Sixth National Bank. Through civic and community work, you have gotten to know John Carter and you believe you could get him to move the Company's business to your bank. It was recently announced that Sixth National Bank is being acquired by an out-of-state bank, and you feel the time is ripe to approach John for the business. When you discuss your interest with your manager, you are told to stay away from the home health care industry. This shocks you, as you know it to be a rapidly growing, potentially high profitable segment of the health care industry. Your manager explains that Third American took a loss on a loan to Stay at Home, Inc., a home health care agency, three years ago and no one wants to go through that again. However, you feel that your knowledge of the industry would protect the bank from losses. You ask if you can review the file of the loan that went bad and make a case for how a loan to Home Care Plus would be a different story. Your manager agrees.

You review the file of Stay at Home, Inc. and discover the following:

The bank not only had a working capital line to the agency (to cover timing difference between weekly payroll for nurses and aides and monthly or longer collection of Medicare and insurance receivables), it also had a term loan to the agency, unusual since home health care companies rarely have any fixed assets.

While Stay at Home was a licensed agency in the state, it was not certified for Medicare and Medicaid Patients. The owner had intended to go after a different market, but they didn't realize that blue Cross, blue Shield, and some private insurers will not pay an agency that is not approved for Medicaid.

Stay at home was a closely held company, but its owners did not guarantee the debt.

Both Loans were secured by "all the assets of the company", primarily accounts receivable, but there was no advance ratio. Monthly aging's were not required.

John Carter has shared his financial statements with you and you know that Home Care Plus has a substantial amount of Medicare business. You also know that home health care, like psychiatric care and rehabilitation, is still reimbursed by Medicare on a cost-plus basis that is a more desirable form of reimbursement than the type received by acute care and nursing homes.

You feel that Third American's problems in lending to Stay at Home had to do with a lack of knowledge of the home health care industry and improper underwriting for a growth service company. You would really like to get the Home Care Plus business away from Sixth National Bank. You decide to study the financial statements (historical and projected) and develop a proposal that you can take to your manager for approval.

**HOME CARE PLUS, INC.**

Balance Sheet (\$000s)

December 31

|                                       | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                         |                       |                       |                       |
| Current Assets                        |                       |                       |                       |
| Cash                                  | 74                    | 139                   | 151                   |
| Marketable Securities                 | 0                     | 0                     | 0                     |
| Accounts Receivable (Net)             | 545                   | 630                   | 714                   |
| Inventory                             | 33                    | 38                    | 41                    |
| Other Current Assets                  | <u>30</u>             | <u>34</u>             | <u>37</u>             |
| Total Current Assets                  | 682                   | 841                   | 943                   |
| <b>FIXED ASSETS</b>                   |                       |                       |                       |
| Property, Plant & Equipment           | 345                   | 345                   | 345                   |
| Accumulated Depreciation              | <u>(140)</u>          | <u>(165)</u>          | <u>(190)</u>          |
| Net Fixed Assets                      | 205                   | 180                   | 155                   |
| Investments                           | 0                     | 0                     | 0                     |
| Other Noncurrent Assets               | 38                    | 44                    | 47                    |
| Intangible                            | 0                     | 0                     | 0                     |
| <b>Total Assets</b>                   | <u><b>925</b></u>     | <u><b>1,065</b></u>   | <u><b>1,145</b></u>   |
| <b>LIABILITIES</b>                    |                       |                       |                       |
| Notes Payable Bank                    | 389                   | 437                   | 470                   |
| CPLTD                                 | 0                     | 0                     | 0                     |
| Accounts Payable                      | 107                   | 124                   | 133                   |
| Accrued Expenses                      | 28                    | 32                    | 34                    |
| Interest Payable                      | 0                     | 0                     | 0                     |
| Dividends Payable                     | 0                     | 0                     | 0                     |
| Taxes Payable                         | 0                     | 0                     | 0                     |
| Other Current Liabilities             | <u>12</u>             | <u>14</u>             | <u>15</u>             |
| Total Current Liabilities             | 527                   | 607                   | 652                   |
| <b>OTHER IABILITES</b>                |                       |                       |                       |
| Long term                             | 0                     | 0                     | 0                     |
| Deferred Taxes                        | 0                     | 0                     | 0                     |
| Other Noncurrent Liabilities          | <u>30</u>             | <u>34</u>             | <u>37</u>             |
| Total Liabilities                     | 557                   | 641                   | 689                   |
| <b>STOCKHOLDERS'S EQUITY</b>          |                       |                       |                       |
| Common Stock                          | 1                     | 1                     | 1                     |
| Capital Surplus                       | 49                    | 49                    | 49                    |
| Retained Earnings                     | <u>318</u>            | <u>374</u>            | <u>406</u>            |
| Total Stockholders' Equity            | 368                   | 424                   | 458                   |
| <b>Total Liabilities &amp; Equity</b> | <u><b>925</b></u>     | <u><b>1,065</b></u>   | <u><b>1,145</b></u>   |

**HOME CARE PLUS, INC.**  
**INCOME STATEMENT (\$000s)**  
**DECEMBER 31**

|                               | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| Net Sales                     | 3,425                 | 3,850                 | 4,430                 |
| Cost of Goods Sold            | 2,450                 | 2,755                 | 3,173                 |
| Depreciation                  | <u>25</u>             | <u>25</u>             | <u>25</u>             |
| Gross Profit                  | 950                   | 1,070                 | 1,232                 |
| Operating Expenses            | <u>715</u>            | <u>805</u>            | <u>926</u>            |
| Operating Income              | 235                   | 265                   | 306                   |
| Interest Expenses             | 27                    | 30                    | 35                    |
| Miscellaneous Expenses        | 0                     | 0                     | 0                     |
| Miscellaneous Income          | <u>10</u>             | <u>10</u>             | <u>13</u>             |
| Net Profit Before Taxes       | 218                   | 245                   | 284                   |
| Income Tax Provision          | <u>72</u>             | <u>80</u>             | <u>93</u>             |
| <b>Net Profit After Taxes</b> | <b>146</b>            | <b>165</b>            | <b>191</b>            |
| Dividends                     | 71                    | 109                   | 159                   |
| Change In Retained Earnings   | 75                    | 56                    | 32                    |
| Adjustment to Equity          | 0                     | 0                     | 0                     |
| Change in Net Worth           | 75                    | 56                    | 32                    |

**HOME CARE PLUS, INC.**

Cash Flow Statement (\$000s)

December 31

|  | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|--|-----------------------|-----------------------|
| NET SALES                              | 3,850                 | 4,430                 |
| Change in Accounts Receivable          | (85)                  | (84)                  |
| CASH FROM SALES                        | 3,765                 | 4,346                 |
| C0GS (Less noncash expenses)           | (2,756)               | (3,173)               |
| Change In Inventory                    | (5)                   | (3)                   |
| Changes in Accounts Payable            | 17                    | 9                     |
| CASH PRODUCTION COST                   | (2,743)               | (3,167)               |
| GROSS CASH PROFITS                     | 1,022                 | 1,179                 |
| SG&A (Less noncash expenses)           | (805)                 | (926)                 |
| Changes in Prepaid Expenses            |                       |                       |
| Change in Accrued Expenses             | 4                     | 2                     |
| CASH OPERATING EXPENSES                | (801)                 | (924)                 |
| CASH AFTER OPERATIONS                  | 221                   | 255                   |
| Miscellaneous Income (Expenses)        | 10                    | 13                    |
| Change In Other Current Assets         | (4)                   | (3)                   |
| Change In Other Current Liabilities    | (2)                   | (1)                   |
| Change In Other Noncurrent Assets      | (6)                   | (3)                   |
| Change In other Noncurrent Liabilities | (4)                   | (3)                   |
| Income Tax Provision                   | (80)                  | (93)                  |
| Change In Taxes Payable                | 0                     | 0                     |
| MISCELLANEOUS INOME & TAXES PAID       | (74)                  | (82)                  |
| NET CASH AFTER OPERATIONS              | 147                   | 173                   |
| Interest (Existing Debt)               | (30)                  | (35)                  |
| Dividends                              | (109)                 | (159)                 |
| TOTAL FINANCING COSTS                  | (139)                 | (194)                 |
| NET CASH INCOME                        | 8                     | (21)                  |
| CPLTD                                  | 0                     | 0                     |
| CASH BEFORE LONG-TERM USES             | 8                     | (21)                  |
| Capital Expenditures                   | (0)                   | (0)                   |
| FINANCING SUPPLUS REQUIREMENT          | 8                     | (21)                  |
| Change In Short-Term Debt              | 57                    | 33                    |
| Change In Long-Term Debt               | 0                     | 0                     |
| Change In Equity                       | 0                     | 0                     |
| TOTAL EXTERNAL FINANCING               | 57                    | 33                    |
| CASH AFTER FUNDING                     | 65                    | 12                    |
| ACTUAL CHANGE IN CASH                  | 65                    | 12                    |

**HOME CARE PLUS, INC.**  
Notes to Financial Statements

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.
2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.
3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.

# LA BODEGA

## Business Overview

|                   |                              |
|-------------------|------------------------------|
| Company:          | La Bodega                    |
| Annual Sales:     | \$4,536,187                  |
| Total Assets:     | \$648,356                    |
| Type of Business: | Independent Grocer           |
| Established:      | 2013                         |
| SIC Code:         | 5411                         |
| Legal Structure:  | C Corporation (Family Owned) |

## Background Information

L Bodega was established in 2013 by Julio Sanchez. In late 2011, Sanchez, a long –time active community member, began expressing concerns regarding the slow, yet constant, deterioration of the intercity neighborhood. Sanchez was quoted in the local press saying:

The continued erosion of the Intracity area results from the near mass exodus of such basic services as dry cleaners, Laundromats, grocery stores, shoe repair shops, and the like. This exodus, which is occurring at an ever-increasing rate, stems from the merchants' fear of a basic change in the demographic makeup of the Intracity area. Instead of getting to know their new neighbors, who essentially hard working immigrants, the merchants are simply leaving. The result is gaps (abandoned builds) in the cityscape. The long-term effect will be a continuous decline in the neighborhood's economic base. This development is clearly unacceptable to the people remaining, and it conflicts with basic premise of the founders of Intracity. The problem, however, is that the people who remain in Intracity do not have the political influence to stop the deterioration.

As a result of the efforts of Sanchez and other community activists, private and public sector support was rallied and La Bodega was established. In 2012, the town of Intracity sold to Sanchez an abandoned building containing a large storefront for the sum of \$1.00. The town had foreclosed on the building for nonpayment of taxes. A local association of building managers assisted in the La Bodega project, while regional food wholesalers provided lines of credit for the purchase of inventory and lease financing for the needed refrigerated display units.

Sanchez is now ready to expand and refurbish the store and has asked his priest, Father Mendez, for help. Father Mendez is extremely well connected in the community and has been heavily involved in community-based economic development projects.



## Bank Relationship

Your bank established “Your Community Development Corporation” (YCDC), a wholly owned subsidiary of the holding company, within the past nine months and hired you. The senior management of Your Bank has stated, “We are pleased and proud to announce the establishment of Your Community Development Corporation, which is the vehicle that will be aggressively used by Your Bank in the revitalization of the communities we serve and to achieve our community reinvestment goals and responsibilities”. In a recent speech, the newly elected chairman of Your Bank stressed that active involvement in the low-to moderate-income communities is an integral component of the corporation’s mission. Given the corporate importance of YCDC and its high level of visibility, the staff of Your Community Development Corporation has been handpicked by senior management.

Your Community Development Corporation has been established to provide a gamut of financial services including:

- Equity and debt investments in development projects and local business.
- Loans to community developers and small business.
- Technical assistance such as assisting local business owners with marketing needs assessment, and feasibility studies.
- Term loan and lines of credit to small business, ranging from \$20,000 to \$500,000, maximum term of seven years.

To date, YCDC has not made any loans or investments. Given the fanfare surrounding the opening, the pressure to achieve results is mounting. Nonetheless, everyone acknowledges that early losses at YCDC could adversely affect the corporate (parent) support it current enjoys.

The majority of staff time has been consumed with understanding the market and the key players. While this is an essential step in entering any new market, given the general lack of available information, it is extremely important within this market of microenterprises.

You have recently received information regarding La Bodega. The information package was forward to you by Father Mendez, who you recently met at a community function. Based on your brief meeting with Mendez, you know that his financial knowledge is extremely limited. However, owing to his incredible persistence, you have agreed to review the information on La Bodega and meet with Sanchez. Your gut is telling you beware. Father Mendez seems to be a very aware of the tremendous pressure you are under to show results (book loans and investments).

Sanchez is requesting a \$175,000 term loan for six years at the market interest rate of (assume Prime +2.00%). This request is rather large given that the company is unknown to the management of Your Bank and the store is located in one of the most unsafe sections of Intracity.

**LA BODEGA**

Balance Sheet (\$s)

December 31

|                                       | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|---------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                         |                       |                       |                       |
| Current Assets                        |                       |                       |                       |
| Cash                                  | 64,449                | 67,154                | 70,350                |
| Marketable Securities                 | 0                     | 0                     | 0                     |
| Accounts Receivable (Net)             | 23,589                | 24,226                | 18,642                |
| Inventory                             | 215,644               | 212,137               | 217,258               |
| Other Current Assets                  | <u>29,065</u>         | <u>19,580</u>         | <u>20,089</u>         |
| Total Current Assets                  | 322,747               | 323,097               | 326,339               |
| <b>FIXED ASSETS</b>                   |                       |                       |                       |
| Property, Plant & Equipment           | 629,343               | 675,285               | 722,555               |
| Accumulated Depreciation              | <u>(426,468)</u>      | <u>(464,302)</u>      | <u>(504,840)</u>      |
| Net Fixed Assets                      | 202,875               | 210,983               | 217,715               |
| Investments                           | 0                     | 0                     | 0                     |
| Other Noncurrent Assets               | 76,560                | 84,215                | 92,638                |
| Intangible                            | 11,070                | 11,368                | 11,664                |
| <b>Total Assets</b>                   | <u><b>613,252</b></u> | <u><b>629,663</b></u> | <u><b>648,356</b></u> |
| <b>LIABILITIES</b>                    |                       |                       |                       |
| Notes Payable Bank                    | 27,605                | 74,802                | 84,694                |
| CPLTD                                 | 28,200                | 28,200                | 28,200                |
| Accounts Payable                      | 134,777               | 138,350               | 145,468               |
| Accrued Expenses                      | 0                     | 0                     | 0                     |
| Interest Payable                      | 0                     | 0                     | 0                     |
| Dividends Payable                     | 0                     | 0                     | 0                     |
| Taxes Payable                         | 3,075                 | 3,158                 | 3,240                 |
| Other Current Liabilities             | <u>0</u>              | <u>0</u>              | <u>0</u>              |
| Total Current Liabilities             | 249,817               | 302,916               | 322,345               |
| <b>OTHER IABILITES</b>                |                       |                       |                       |
| Long term                             | 120,000               | 91,800                | 63,600                |
| Deferred Taxes                        | 644                   | 690                   | 739                   |
| Other Noncurrent Liabilities          | <u>17,400</u>         | <u>17,400</u>         | <u>17,400</u>         |
| Total Liabilities                     | <b>387,861</b>        | <b>412,806</b>        | <b>322,345</b>        |
| <b>STOCKHOLDERS'S EQUITY</b>          |                       |                       |                       |
| Common Stock                          | 5,000                 | 5,000                 | 5,000                 |
| Capital Surplus                       | 20,000                | 20,000                | 20,000                |
| Retained Earnings                     | <u>200,392</u>        | <u>191,857</u>        | <u>219,272</u>        |
| Total Stockholders' Equity            | 225,392               | 216,857               | 244,272               |
| <b>Total Liabilities &amp; Equity</b> | <u><b>613,253</b></u> | <u><b>629,663</b></u> | <u><b>648,356</b></u> |

**LA BODEGA**  
**INCOME STATEMENT (\$s)**  
**DECEMBER 31**

|                                | <b><u>YE/2018</u></b> | <b><u>YE/2019</u></b> | <b><u>YE/2020</u></b> |
|--------------------------------|-----------------------|-----------------------|-----------------------|
| Net Sales                      | 4,305,000             | 4,431,235             | 4,536,187             |
| Cost of Goods Sold             | (3,279,582)           | (3,366,517)           | (3,447,791)           |
| Depreciation                   | (35,268)              | (37,834)              | (40,537)              |
| <b>Gross Profit</b>            | <b>990,150</b>        | <b>1,016,884</b>      | <b>1,047,859</b>      |
| Operating Expenses             | (912,660)             | (937,302)             | (966,208)             |
| Operating Income               | 77,490                | 79,582                | 81,651                |
| Interest Expenses              | (19,927)              | (23,153)              | (26,477)              |
| Miscellaneous Expenses         | 0                     | 0                     | 0                     |
| Miscellaneous Income           | 0                     | 0                     | 0                     |
| <b>Net Profit Before Taxes</b> | <b>57,563</b>         | <b>56,429</b>         | <b>55,174</b>         |
| Income Tax Provision           | (19,571)              | (19,186)              | (18,759)              |
| <b>Net Profit After Taxes</b>  | <b>37,992</b>         | <b>38,243</b>         | <b>36,415</b>         |
| Dividends                      | (7,000)               | 0                     | (9,000)               |
| Change In Retained Earnings    | 30,992                | 37,243                | 27,415                |
| Adjustment to Equity           | 0                     | (45,777)              | 0                     |
| Change in Net Worth            | 30,992                | (8,534)               | 27,414                |

**LA BODEGA**

## Cash Flow Statement (\$s)

December 31

|  | <u><b>YE/2018</b></u> | <u><b>YE/2019</b></u> | <u><b>YE/2020</b></u> |
|--|-----------------------|-----------------------|-----------------------|
| NET SALES                              | 4,305,000             | 4,421,235             | 4,536,187             |
| Change in Accounts Receivable          | 2,211                 | (621)                 | 5,584                 |
| CASH FROM SALES                        | 4,307,221             | 4,420,598             | 4,541,771             |
| C0GS (Less noncash expenses)           | (3,279,582)           | (3,366,517)           | (3,447,791)           |
| Change In Inventory                    | 1,556                 | 3,507                 | (5,121)               |
| Changes in Accounts Payable            | 8,777                 | 3,573                 | 7,118                 |
| CASH PRODUCTION COST                   | (3,269,249)           | (3,359,437)           | (3,445,794)           |
| GROSS CASH PROFITS                     | 1,037,962             | 1,061,161             | 1,095,977             |
| SG&A (Less noncash expenses)           | (912,660)             | (937,302)             | (966,208)             |
| Changes in Prepaid Expenses            | 0                     | 0                     | 0                     |
| Change in Accrued Expenses             | 0                     | 0                     | 0                     |
| CASH OPERATING EXPENSES                | (912,660)             | (937,302)             | (966,208)             |
| <b>CASH AFTER OPERATIONS</b>           | <b>125,302</b>        | <b>123,859</b>        | <b>129,769</b>        |
| Miscellaneous Income (Expenses)        | 0                     | 0                     | 0                     |
| Change In Other Current Assets         | (465)                 | (515)                 | (509)                 |
| Change In Other Current Liabilities    | 2,160                 | 2,246                 | 2,337                 |
| Change In Other Noncurrent Assets      | (6,960)               | (7,655)               | (8,423)               |
| Change In other Noncurrent Liabilities | 0                     | 0                     | 0                     |
| Income Tax Provision                   | (19,571)              | (19,186)              | (18,759)              |
| Change In Taxes Payable                | 75                    | 83                    | 82                    |
| MISCELLANEOUS INOME & TAXES PAID       | (24,717)              | (24,981)              | (25,223)              |
| NET CASH AFTER OPERATIONS              | 100,585               | 98,878                | 104,546               |
| Interest (Existing Debt)               | (19,927)              | (23,153)              | (26,477)              |
| Dividends                              | (7,000)               | 0                     | (9,000)               |
| TOTAL FINANCING COSTS                  | (26,927)              | (23,153)              | (35,477)              |
| NET CASH INCOME                        | 73,658                | 76,725                | 69,069                |
| CPLTD                                  | (28,200)              | (28,200)              | (28,200)              |
| CASH BEFORE LONG-TERM USES             | 46,458                | 47,525                | 40,869                |
| Capital Expenditures                   | (42,543)              | (45,942)              | (47,269)              |
| Change In Intangibles                  | (270)                 | (298)                 | (296)                 |
| Change In Long-Term Investments        | 0                     | 0                     | 0                     |
| FINANCING SUPPLUS REQUIREMENT          | 2,645                 | 1,285                 | (6,696)               |
| Change In Short-Term Debt              | (595)                 | 47,197                | 9,892                 |
| Change In Long-Term Debt               | 0                     | 0                     | 0                     |
| Change In Equity                       | 0                     | (45,777)              | 0                     |
| TOTAL EXTERNAL FINANCING               | (595)                 | 1,420                 | 9,892                 |
| CASH AFTER FUNDING                     | 2,050                 | 2,705                 | 3,196                 |
| ACTUAL CHANGE IN CASH                  | 2,050                 | 2,705                 | 3,196                 |

**LA BODEGA**  
**FACT SHEET**  
December 31

|  | <b><u>YE2018</u></b> | <b><u>YE2019</u></b> | <b><u>YE2020</u></b> |
|--|----------------------|----------------------|----------------------|
| Return On Equity                       | 19.9%                | 17.2%                | 14.9%                |
| Return On Sales                        | 0.9%                 | 0.8%                 | 0.8%                 |
| Asset Turnover                         | 7.02                 | 7.02                 | 7.00                 |
| Asset Leverage                         | 2.72                 | 2.90                 | 2.65                 |
| <b><u>Profitability</u></b>            |                      |                      |                      |
| Sales (\$s)                            | 4,305,000            | 4,421,235            | 4,536,187            |
| Percentage Change                      | N/A                  | 2.7%                 | 2.6%                 |
| Cost Of Goods Sold/Sales               | 76.2%                | 76.1%                | 76.0%                |
| Gross Profit Margin                    | 23.0%                | 23.0%                | 23.0%                |
| Operating Profit Margin                | 21.2%                | 21.2%                | 21.3%                |
| Net Profit Before Taxes/               | 1.8%                 | 1.8%                 | 1.8%                 |
| /Net Profit Before Taxes               | 1.3%                 | 1.3%                 | 1.2%                 |
| <b><u>Asset Efficiency</u></b>         |                      |                      |                      |
| Accounts Receivable Days On Hand       | 2                    | 2                    | 2                    |
| Inventory Days On Hand                 | 24                   | 23                   | 23                   |
| Accounts Payable Days on Hand          | 15                   | 15                   | 15                   |
| <b><u>Liquidity &amp; Leverage</u></b> |                      |                      |                      |
| Current Ratio                          | 1.29                 | 1.07                 | 1.01                 |
| Quick Ratio                            | 0.35                 | 0.30                 | 0.28                 |
| Coverage Ratio                         | 0.83                 | 0.78                 | 0.81                 |

## **LA BODEGA**

### Notes to Financial Statement

We have compiled the accompany balance sheet of La Bodega as of December 31, 2020 , and the related statement of income, retained earnings, and changes in financial position for the year ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance

1. **Basis of Accounting:** The Company reports net income on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.
2. **Depreciation:** Fixed assets are stated on the basis of cost and depreciation is primarily calculated on the straight-line method.
3. **Income Taxes:** Current income tax provisions approximate taxes to be paid or refunded for the applicable period.