

Behind the Counter

External Sources of Financing for your business continued

Happy New Year to everyone!

There are currently 39 federal and 57 provincial Government Grant programs available. The money is yours to use under the terms of the grant or subsidy and you don't have to pay it back. Unfortunately, it is very difficult and time consuming to research grants on your own as you would need to contact every government department to determine if there is a grant available for your type of business venture. Some government employees that you will speak with are probably not even aware that grants are available. There are a number of internet sources that will direct you and assist you with your Grant application (for a fee). These sources are:

The Small Business Funding Centre - <http://www.grants-loans.org/> or The Small Business Guide - <http://www.businessguide.net/> or Grant Canada.com - <http://www.grantcanada.com/> .

These sites also promote sources of Government funding, which are repayable, but at a reduced rate and over a longer period of time. These programs will all require a business plan.

Bank financing for a small business, as discussed previously will probably require the business owner to provide a personal guarantee or some collateral. Banks tend to prefer short term loans rather than long term as they can then match their investment portfolios and better react to changes in the local economy.

Finance companies tend to lend to people that banks may consider 'high risk', but the interest rates are higher than rates offered by the banks to offset that risk.

Some business collateral that banks and finance companies will use if the business has been in existence for some time is Accounts Receivable and Inventory. The banks and finance companies tend to loan up to 70% of the Accounts Receivable value and 50% of the Inventory Value. The company will be required to submit Accounts Receivable and Inventory reports to the bank or finance company on a monthly basis.

Leasing equipment rather than purchasing it is another method of financing. However, the interest rates charged in a lease are usually higher than the bank rates. In a leasing

arrangement, there is usually little or no down payment required, but the company would not own the asset at the end of the lease. Leasing arrangements are beneficial if the item being leased is in danger of going out of date quickly such as computer systems or photocopiers. At the end of the lease, the company has the option of leasing the newest version of the asset for another lease term and returning the old one.

Another leasing situation is where a company sells their equipment to another company and then leases it back. That provides lump sum financing up front while making payments over the duration of the lease which may be enough to cover the short term working capital that was required in this situation.

Finally we have sources of private investing typically called 'Angel' investors or venture capital investors. Angel investors will invest in a business idea and the growth of the company in exchange for shares or part ownership in the company. Venture capital investing is similar in that they will only invest in companies that they believe will significantly increase in value over the next 5 – 7 years and will expect a return on their investment of 25-40%. Usually the amounts invested are in excess of \$100,000. The process can be quite rigorous and requires a bullet proof business plan and the willingness to allow outsiders to view your financial records.

I still need to mention the option of 'going public' which is the selling of a class of shares on the stock exchange. In order to offer shares to the public a company must comply with the Securities Act and the regulations of the stock exchange and will require an investment underwriter to prepare the public offering.

Your accountant can assist you when it comes to securing any type of financing providing that you have built up a relationship with your accountant and he or she has no problem promoting your company to a financing agency. Thanks to Enron, the independence rules have changed for accountants. We used to be able to compile a yearend financial statement and help the same company obtain financing. Today, this extra service would be considered to impair the independence of the accountant.

Gabriele Banka is a Certified General Accountant and the owner of Banka & Company Inc. She can be reached at 763-4528 or info@bankaco.com.