

# FINANCIAL INFORMATION CHECKLIST FOR ECONOMIC DEVELOPMENT PROJECTS

NORTH DAKOTA DEPARTMENT OF COMMERCE

DIVISION OF COMMUNITY SERVICES

SFN 61491 (06-2018)

## Items that are considered during the funding process and negotiated:

- Business Plan: This plan, at a minimum, should include a history of the company; a description of the product, company and industry; management team members resume's; a marketing plan that addresses markets, customers, competition and niche; historical and projected financials that include balance sheets, income statements, and cash flows; and, financing requirements with detailed sources and uses of funds.
- Historical numbers, if not a startup company:
  - a. Three years of historical financials
  - b. Three years of tax returns
  - c. Personal financial statement of owners (over 20% ownership)
  - d. Three years of personal tax returns on owners (over 20% ownership)
- Monthly projections for 3 years with assumptions (including new financing structure):
  - a. Balance sheet
  - b. Income statement
  - c. Cash flow statement

## Terms and Conditions included, but not limited to, that are listed in the commitment letter on funding requests, in which the DCS is an "Equity" investor:

- Exit strategy on investment (generally no longer than 5 years, subject to cash availability within the company, which the repayment term could start sooner (ex.: repayment begins in 2<sup>nd</sup> year with annual repayment over 3 years plus dividends). Repayment of principal investment based on profitability of the company.
- Dividends paid annually, subject to the profitability of the company.
- Rate of return to be determined based on the risk of each project.
- Conversion option: The DCS would have the option to convert its preferred stock to common shares in the event the company went public or was merged or sold.
- Capitalization chart: List of capitalization of the company including number of shares authorized and outstanding (preferred stock and common stock), along with a list of the current investors, type of stock, and amount of investment.
- Prior to funding: The DCS would require letters of commitment from other funding sources.
- Corporate documents:
  - a. Articles of Incorporation
  - b. Bylaws
  - c. Certificate of Good Standing
  - d. Board resolution authorizing equity investment
- Life insurance on key players and owners of the company.
- Salary and dividend limitations.
- Sale and transfer of company: In the event the controlling interest in the company is sold or closed, the remaining stock investment at that time would become due and payable.
- If investment funding is "stage" based on monthly operating and meeting "Performance Standards", a funding agreement would be required listing the funding stages and performance standards that the company would need to meet in order to access the funds.
- Financial reporting requirements:
  - a. Financial statements (monthly, quarterly, annually) including balance sheet, income statement and cash flow, if completed. Also included would be a breakdown of jobs.
  - b. Annually: Accountant prepared financial statements.
  - c. Quarterly aging of accounts receivable and accounts payable.
  - d. Corporate tax return on an annual basis.
  - e. Annual projections.
- Insurance coverage verification of appropriate coverage on all company assets and liability coverage.
- Costs associated with the closing of the equity investment would be paid by the requesting company.

**Terms and conditions included, but not limited to, that are listed in the commitment letter on funding requests, which the DCS is a "Loan" investor:**

- Financial reporting requirements:
  - a. Financial statements (monthly, quarterly, annually) including balance sheet, income statement and cash flow, if completed. Verification of jobs breakdown.
  - b. Annually: Accountant prepared financial statements.
  - c. Quarterly aging of accounts receivable and accounts payable.
  - d. Corporate tax return on an annual basis.
  - e. Annual projections.
- Personal financial reporting:
  - a. Updated personal financial statement on an annual basis.
  - b. Personal tax return on an annual basis.
- Assignment of life insurance on key persons in the company.
- Personal guaranties are required.
- Hazard insurance requirement.
- Corporate documents:
  - a. Articles of Incorporation
  - b. Bylaws
  - c. Certificate of Good Standing
  - d. Board resolution authorizing the officers to sign on behalf of the company.
- Sale and transfer of company: In the event, the controlling interest in the company is sold or closed, the loan becomes due and payable.
- Salary and dividend limitation.
- Loans will be required to be secured.
- Loan agreement is generally drafted.
- Intercreditor agreement may be used.
- Prior to funding: The DCS would require letters of commitment from other funding sources.
- Financial covenants may be required. Would be negotiated. (ex.: Equity requirement, debt service coverage ratio, current ratio requirement, leverage ratio.)
- The borrower will cover all costs associated with the loan.