

Carnegie Mellon University
Swartz Center for Entrepreneurship

Strength in Numbers

Welcome to CMU!

- Dave Mawhinney, Executive Director,
Swartz Center for Entrepreneurship
- Christine Ferguson-Rau, CMU Alumna
- Donald Bonk, CMU Alumni
- Sonya Ford, Program Manager, CMU
- Aleks Petkov, Program Manager, CMU

Why Convene this Cohort?

- Build capacity in women and minority owned businesses in communities close to CMU
- First pilots in Homewood and Wilkinsburg

Where will Cohort Meet?

- First dinner in Wilkinsburg
- Second dinner in Homewood
- Educational sessions at Swartz Center for Entrepreneurship at CMU Tepper Quad

Cohort Meeting Dates

- Wednesday, September 29th
- Wednesday, October 20th
- Tuesday, November 9th
- Wednesday, December 1st

Program Strategy

- Identify the **road to profitable growth**
- Understand **blocks on that road**
- Work together to **clear them away**

Challenges

What “road blocks” have you experienced?

Resources Required for Business

- To make a product or deliver a service **resources** are needed:
 - Labor
 - Materials
 - Energy
 - Property, Plant, and Equipment
 - **MONEY a.k.a. Capital**

Sources of Capital

- Friends and Family
- Angel Investors
- Venture Capitalists
- Crowd Funding
- **Banks and other financial institutions**

Build a Bridge to Capital

Connect sources of capital in our community with women and minority owned business enterprises (WMBE's) that can put capital to use in traditionally under-resourced parts of our community

Local Capital Sources

- **Urban Redevelopment Authority (URA)**
- **Bridgeway Capital**
- **Small Business Administration (SBA)**
through banks: *Huntington Bank* is
#1 SBA lender in western PA

How to obtain Capital?

- **Requirements** to obtain financing:
 - **Business Plan**
 - Demonstrate viability of current business through financial reporting, e.g. **financial statements for the prior 2 years at minimum**
 - Demonstrate cash flow potential of business in future through **projected (*proforma*) financial statements for 3 years into the future**

Skill Needed to Obtain Capital

The ability to
speak the languages of business

What are the Languages of Business?

Three main languages of business:

- Accounting
- Finance
- Economics

Accounting

- Provides **historical information**
- A way to **track** overall financial position, including **revenues, expenses, capital**, and other items
- The **rules-based system** of accounting enables companies to track these items and **communicate the results** to a wide range of interested parties

Finance

- Finance is **forward-looking** and therefore critical to decision-making processes at companies
- The accounting numbers need to be analyzed and interpreted to create forward-looking **projections about what might happen in the future**

Finance

When you think of the **language of finance**, think of:

- Assessing value
- Looking into the future
- Rates of return
- Allocating capital

Economics

- Economics looks externally outside the organization and at the “laws” of behavior in markets, governments (regulation), and individuals
- Provides a sound understanding of supply and demand, consumer preferences, price sensitivity, etc.

The Financial Statements

- Companies produce three main financial statements:
 - Balance Sheet
 - Income Statement
 - Cashflow Statement

The Balance Sheet

- The balance sheet displays the company's total assets and how the assets are financed, either through either debt or equity
- The balance sheet is based on the fundamental equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Balance Sheet

Total Assets

Current Assets
+
Non-Current Assets

Total Liabilities

Current Liabilities
+
Non-Current Liabilities

Total Equity

Share Capital
+
Retained Earnings

Sample Balance Sheet

**Example Company
Balance Sheet
December 31, 2017**

ASSETS

Current assets

Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>

Investments	<u>36,000</u>
-------------	---------------

Property, plant & equipment

Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	(56,000)
Prop, plant & equip - net	<u>337,000</u>

Intangible assets

Goodwill	105,000
Trade names	200,000
Total intangible assets	<u>305,000</u>

Other assets	<u>3,000</u>
--------------	--------------

Total assets	<u>\$ 770,000</u>
--------------	-------------------

LIABILITIES

Current liabilities

Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	<u>61,000</u>

Long-term liabilities

Notes payable	20,000
Bonds payable	400,000
Total long-term liabilities	<u>420,000</u>

Total liabilities	<u>481,000</u>
-------------------	----------------

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>

Total liabilities & stockholders' equity	<u>\$ 770,000</u>
--	-------------------

The notes to the sample balance sheet have been omitted.

The Income Statement

Revenues

Expenses

Profit or Loss

Sample Income Statement

Income statement example

TEDDY FAB INC. STATEMENT OF INCOME Year Ended December 31, 2100	
Revenues	\$ 1,000,000
<u>Cost of goods sold</u>	<u>200,000</u>
Gross profit	<u>800,000</u>
Operating expenses	
Selling, general, and administrative expense	357,700
Interest expense	20,000
<u>Depreciation and amortization expense</u>	<u>5,200</u>
Operating income	<u>417,100</u>
Interest income	20,000
Net earnings before taxes	<u>437,100</u>
Income tax expense	<u>240,000</u>
Net income	<u>\$ 197,100</u>

Cashflow Statement

Operating: Sale of Goods and Providing of Services

Investing: Buying or selling of a building or other asset

Financing: Obtaining a loan or grant or equity investment

Sample Statement of Cash Flows

Cash Flow Statement	
For the Year Ended December 31, 2016	
Cash Flow from Operations	
Net income	79,000
Adjustments for depreciation	2,000
Adjustments for increase in inventories	(22,000)
Adjustments for decrease in accounts receivable	12,000
Net Cash Flow from Operations	71,000
Cash Flow from Investing	
Cash receipts from sale of property and equipment	10,000
Cash paid for purchase of equipment	(12,000)
Net Cash Flow from Investing	(2,000)
Cash Flow from Financing	
Cash paid for loan repayment	(5,500)
Net Cash Flow from Financing	(5,500)
Net Increase in Cash	63,500

Accurate Financial Statements

Building **accurate financial statements** is **essential** to understand your company's financial performance and being able to **convey** that performance to those that can provide **capital**

Where to build Financial Statements?

- Every company has a ledger
- Ledgers used to be paper based
- Today ledgers are electronic -
Quickbooks

Quickbooks

- **Quickbooks (QB)** is the industry standard for small business
- Links to **Quickbooks** from most banks allow for **automatic downloading of transactions** into **QB software**

How do you keep track?

Discussion: *How* do you keep track of
your business transactions today?

Preparation for October Meeting

- **Complete the Intake Survey** that was sent to you by Aleks Petcov
- **Make a list of the top challenges** that your business is currently facing and share them with Christine Ferguson-Rau at fergusonfinancialconsulting@gmail.com
- **Print a copy of the Chart of Accounts** for your business
 - If you have one – bring a copy
 - If you don't have one – bring a copy of your financial receipts and bank and/or credit card or Shopify or other statements

Next Steps

- Each entrepreneur will be **introduced to their Mentors via e-mail** in the next week
- Schedule time to **speak with each of your mentors** about the challenges that you are facing and **ask for help**
- If mentors need **additional resources** or someone else to consult – they can reach out to Christine Ferguson-Rau, Donald Bonk, and their fellow mentors
- Entrepreneurs and Mentors will receive **rosters with contact information by Friday, October 1st**.