



Financing Multiple Entities



Exercise – List Entity Types



Why so many entities?

- Tax reasons
- Liability reasons
- Generational transfers
- FSA payment limitations
- Non-family members
- Accounting reasons



What's the quality of the financial statements?

- Internal – Borrower Prepared
 - Verification (systems for accuracy)
- Farm Management Service
- Consultant
- CPA Compilation
- CPA Review
- CPA Audit



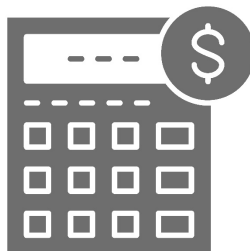
What if there are different fiscal year ends?

- How do you evaluate the financial performance?
- How do you complete a consolidation?
- Why are there different fiscal year ends?



What if there mixed accounting types?

- Situation: Some entities use cash and some accrual accounting
- Answer: Information must be the same basis to consolidate.
 - Can cash be converted to accrual?



Consolidation and Eliminations

- **To created consolidated financial statements, you will need:**

- Personal financial statements
- Financial statements for each entity

- **Information needed includes:**

- Balance sheets
- Income statements
- Cash flows



Consolidating Statements – Case Example

Description
+ Source : Brother Joe - PFS
+ Source : Brother Kevin - PFS
+ Source : Brother Nick - PFS
+ Source : 3B Custom Operations, LLC
+ Source : 3B Farms, LLC
+ Source : 3B Haulers, LLC



Consolidation and Eliminations

- Consolidated statements provide information for a global analysis
- Individual statements are important too.
 - Where are the profits?
 - Where are the leaks?
 - Is someone draining the business?



Eliminations

- Eliminations remove the intercompany transactions and accounts
- Consider:
 - Entity equity reflected in the owner's statements
 - Transfer payments between entities
 - Loans between entities
 - Accounts receivable / accounts payable between entities



Eliminations: Examples

Schedule D: Accounts receivable			
	Quantity	Value Per Unit	Value
Source: 3B Farms, LLC			
Crop Insur. - Corn	-	-	330,000
Crop Insur. - Beans	-	-	15,000
Mach. Rent Due-Custom Op.	-	-	45,000
Elim. Inter-co Xfer	-	-	-45,000
Source: 3B Custom Operations, LLC			
A/R	-	-	139,755
Custom Hire to Farm LLC	-	-	15,000
Elim. Inter-co Xfer	-	-	-15,000
Source: 3B Haulers, LLC			
Kwik Shipping A/R	-	-	121,672
Trucking A/R	-	-	74,820
Due from Farm	-	-	30,000
Elim. Inter-co Xfer	-	-	-30,000
Total accounts receivable			681,247

Schedule T: Accounts payable and other accrued expenses		
Expense Category		Balance
Source: 3B Farms, LLC		
Due -Hauling Grain: Truck		30,000
Due -Custom Hire: Custom		15,000
Elim. Inter-co Xfer		-45,000
Source: 3B Custom Operations, LLC		
Due to Farm LLC		45,000
Elim. Inter-co Xfer		-45,000
Source: 3B Haulers, LLC		
Fuel A/P		18,400
Parts & Repairs A/P		32,750
Total accounts payable and other accrued expen		51,150



Elimination Considerations

- What eliminations are necessary to consider when consolidating?
- If you have personal statements, what additional eliminations are necessary to consolidate:
 - Balance sheets
 - Income statements
 - Cash flows



Global Analysis

- **How do you consolidate?**
 - Balance sheets
 - Income statements
 - Cash flows



Global Ratio Analysis

- **Different than single entity ratio analysis?**



Global Cash Flow Analysis

Alternative analysis method



Annual debt coverage ratio for each entity

This example:

- Farming entity
- Trucking entity
- Rental house entity



Actual \$	Global Cash Flow				
	20x1	20x2	20x3	20x4	Average
Sch F - Updated Sch F					
Net farm profit or loss	71,500	-174,132	96,613	159,645	38,407
+ Other non-taxable income	-	-	-	-	-
+ Depreciation	98,211	94,177	95,860	105,668	98,479
+ Interest (total)	92,789	82,252	92,448	86,431	88,480
- Non-recurring income	-	-	-	-	-
+ Non-recurring expense	-	-	-	-	-
= Cash available for debt service	262,500	2,297	284,921	351,744	225,366
Debt payments	161,476	169,843	185,632	193,925	177,719
Debt coverage ratio	1.63	0.01	1.53	1.81	1.25
Debt repayment margin	101,024	-167,546	99,289	157,819	47,647
Sch C - Trucking					
Net profit or loss	-1,390	763	10,226	-15,213	-1,404
+ Depreciation	20,221	19,210	14,443	12,337	16,553
+ Interest (total)	2,410	1,811	2,639	2,183	2,261
- Disallowed meals and entertainment (50%)	-	-	-	-	-
+ Depreciation, depletion, interest in COGS	-	-	-	-	-
+ Expenses for business use of your home	-	-	-	-	-
- Non-recurring income	-	-	-	-	-
+ Non-recurring expense	-	-	-	-	-
= Cash available for debt service	21,241	21,784	27,308	-693	17,410
Debt payments	17,171	10,020	10,002	9,859	11,763
Debt coverage ratio	1.24	2.17	2.73	-0.07	1.52
Debt repayment margin	4,070	11,764	17,306	-10,552	5,647
Sch E - Houses					
Net rental real estate and royalty income	1,470	2,066	1,352	-11,748	-1,715
+ Depreciation, depletion	6,257	6,257	6,257	6,257	6,257
+ Interest (total)	4,144	3,811	3,458	3,904	3,829
- Non-recurring income	-	-	-	-	-
+ Non-recurring expense	-	-	-	-	-
= Cash available for debt service	11,871	12,134	11,067	-1,587	8,371
Debt payments	9,693	9,693	9,693	10,513	9,898
Debt coverage ratio	1.22	1.25	1.14	-0.15	0.87
Debt repayment margin	2,178	2,441	1,374	-12,100	-1,527

Annual debt coverage ratio for each individual

This example:

- Your borrower
- A guarantor

Global Debt Coverage

Combines total business and personal income debt information.

Actual \$	20x1	20x2	20x3	20x4	Average
1040 - Jim & Sarah					
Total income	130,017	-112,222	168,600	193,532	94,982
+ Other non-taxable income	-	-	-	-	-
- Non-recurring income	-	-	-	-	-
+ Non-recurring expense	-	-	-	-	-
= Recurring total income	130,017	-112,222	168,600	193,532	94,982
- Federal income tax	25,170	-	29,831	58,306	28,327
- State, other taxes	-	-	-	-	-
- Living expenses	-	-	-	-	-
= Cash available for debt service	104,847	-112,222	138,769	135,226	66,655
Debt payments	5,609	5,352	5,352	5,352	5,416
Debt coverage ratio	18.69	-20.97	25.93	25.27	12.23
Debt repayment margin	99,238	-117,574	133,417	129,874	61,239
1040 - Smith - Guarantor					
Total income	244,611	242,165	248,134	223,320	239,558
+ Other non-taxable income	-	-	-	-	-
- Non-recurring income	-	-	-	-	-
+ Non-recurring expense	-	-	-	-	-
= Recurring total income	244,611	242,165	248,134	223,320	239,558
- Federal income tax	54,260	53,795	55,624	49,357	53,259
- State, other taxes	-	-	-	-	-
- Living expenses	75,000	75,000	75,000	75,000	75,000
= Cash available for debt service	115,351	113,370	117,510	98,963	111,299
Debt payments	47,493	46,509	47,688	47,688	47,345
Debt coverage ratio	2.43	2.44	2.46	2.08	2.35
Debt repayment margin	67,858	66,861	69,822	51,275	63,954
Global Debt Coverage					
Business and personal cash available for debt service	515,810	37,363	579,575	583,653	429,100
- Business income included in personal income	71,580	-171,303	108,191	132,684	35,288
= Net global cash available for debt service	444,230	208,666	471,384	450,969	393,812
Total debt payments	241,442	241,417	258,367	267,337	252,141
Total debt coverage ratio	1.84	0.86	1.82	1.69	1.55

Guarantor Considerations

- Are they included in the consolidations?
- How do you keep them informed?
- When are the co-makers versus guarantors?



Management Concerns

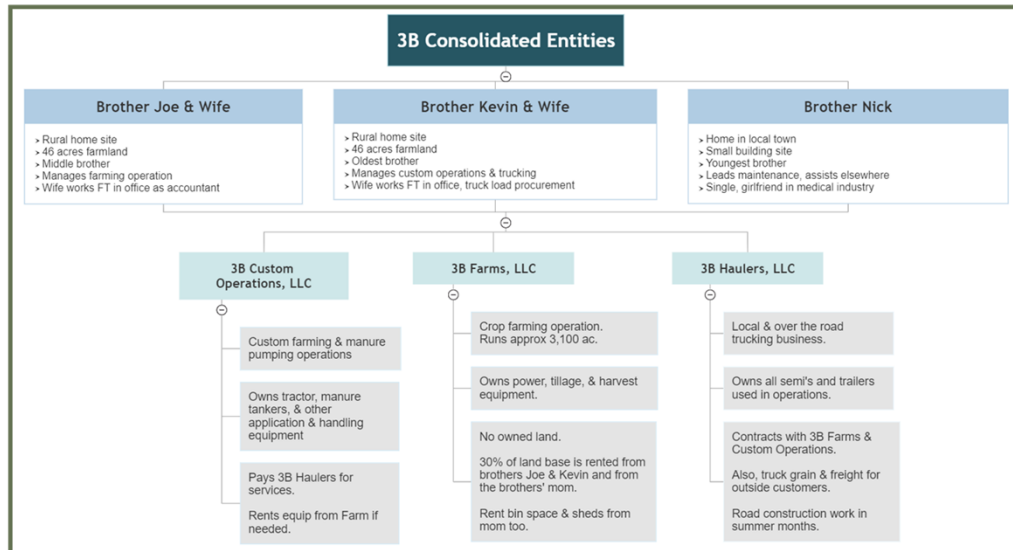
- Who is authorized to do what?
- Key person life insurance needed?
 - Assignability of the policy?
- Buy-sell agreements?
- Follow a management assessment process?



Multi-Entity Case Example



3Brothers Consolidated Entities



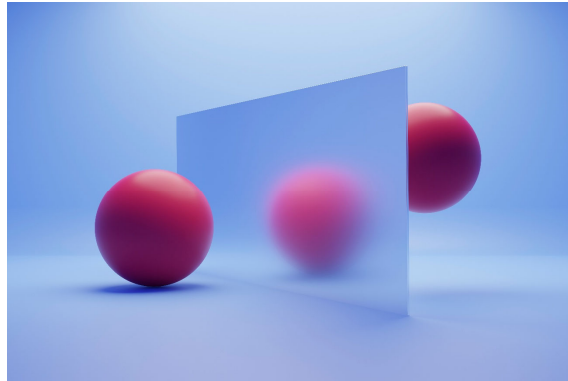
Multi-Entity Financing Considerations



Ownership Mirror Image?

- **Why does it matter if entities are mirror image?**

- Consideration
- Guarantees
- Cross security
- Management and control



Who owns what? How do you know?

- **Who is the borrower?**
- **What is securing the debt?**
- **How is this documented?**
- **What alternative structures could there be?**



Is there split financing?

- **Must know who has what**
- **Location of collateral (co-mingling?)**
- **May require informal creditor coordination**
 - Discuss and acknowledgement
- **May require formal credit coordination**
 - Intercreditor agreement
 - Participation
 - Syndication



Intercreditor & Cross Default Agreements

- **What?**
- **Why?**
- **What are your experiences?**



Covenant Consistency

- **Is there consistency between entities and lenders?**

- Timing of reporting
- Flow of funds
- Coordinated verification (inspections)
- Assurance one covenant doesn't contradict another

