



The Critical Role of a CPA Firm in Bank Financing

by Deborah Dickson, CPA, CFF, MAFF

Recently a \$30 million company was declined a renewal of its working capital line of credit and term loan due to failure to meet its required ratio covenants. Management had tried to find replacement financing through a loan broker but had been unsuccessful. Smith Dickson CPAs were called upon to make introductions and to arrange this critical financing. We put together a loan package that clearly explained the company's plans to turn around its business and then sourced the loan to a new bank. The bank granted a working capital line of credit of \$3 million along with a \$2 million term loan. During the process, Smith Dickson analyzed the company's operations and identified \$1 million in cost-cutting measures which were more than sufficient to help assure future covenant compliance.



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In another situation, a new client came to us with some extraordinary issues affecting their ability to obtain outside financing. Their underlying financial statements were misstated: current year accounts payable were \$1.2 million too high, accounts receivable were \$800,000 too low, and net worth was understated by \$1 million. Our accountants supervised the client in adjusting their financial statements and then prepared compiled financial statements. The corrected

financial statements showed \$9 million in revenue, \$280,000 in profit, and positive retained earnings of \$800,000. With our guidance and assistance, the company was able to obtain its first ever \$650,000 working capital line of credit from a highly reputable bank. In addition, through our tax consulting services we identified another \$350,000 in net operating loss carryback, resulting in an overall \$1,000,000 in new working capital.

A proactive, knowledgeable and well-connected CPA firm can make a major impact on the ability of a company to obtain bank financing. Through understanding the company's objectives and financial position, a CPA firm can help in structuring and managing opportunities throughout the year in order to position the company for external financing.

At Smith Dickson, our work typically includes: determining financing requirements; preparing financial statements, calculating projections and plans that lenders request; ascertaining banks' requirements; and negotiating loan fees and terms with bank officers. In many situations in which a client has experienced difficulty in obtaining traditional bank financing, we are able to help turn their situation around.

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