USDA Pro Forma Tangible Balance Sheet Equity Calculation

One of the key financial ratios in qualifying for B&I assistance is tangible balance sheet equity. USDA analyzes the overall equity-to-asset ratio of the business on a pro forma basis to decide whether there is adequate solvency in the business. The following rules apply when calculating a business's tangible balance sheet equity:

1. This is a ***pro forma*** test of the business's equity position. This means it requires a projection of the applicant's balance sheet once the B&I-funded project is complete -- i.e., the B&I loan is listed as a liability and assets being acquired are also reflected.

2. Only ***business assets*** are included in the analysis. This is generally straightforward if the applicant is a corporation or partnership. When individuals are applying, personal assets, such as their home and assets not directly connected with the business, must be excluded.

3. The test is based on cost, not market values. The ***depreciated book value of assets*** is used in this test. Thus, ***appraisal surplus cannot be used*** to satisfy equity requirements. Remember, this is not a collateral test.

4. In performing this test, USDA considers ***only the tangible assets*** of the business. Intangible assets are excluded from consideration. Intangible assets include:

   - Expense "assets" -- e.g., advertising, amortization costs, organizational costs, financing
   - expenses, development expenses, exploration expenses, R&D expenses
   - Contracts -- e.g., franchises, licenses, publishing rights
   - Goodwill
   - Mailing lists, subscription lists
   - Patents, copyrights
   - Proprietary rights -- e.g., blending rights, bookplates, bottling rights, designs, dies, drawings, formulas, models, patterns
   - Trade names, brand names, labels
   - Items without tangible value -- e.g., bond discounts, catalogs, debenture discounts

5. ***Only true equity*** counts toward this test. ***Subordinated debt and deferred loans are not considered equity***. (Subordinated debt may be converted into stock to meet this requirement however.) In essence, the primary sources of tangible balance sheet equity are cash, paid-in equity investments, and retained earnings.

6. Established businesses need a minimum of 10% tangible balance sheet equity. New and emerging businesses need a minimum of 20% tangible balance sheet equity.

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Instructions

1. Attach the current balance sheet from which the "Beginning Position" (column 1 below) figures are taken. Be sure that the "Beginning Position" values are based on depreciated book value (cost), not current market values. If the applicant's balance sheet is not prepared on a cost basis, provide an attachment explaining adjustments made to derive cost basis figures.

2. Deduct intangible assets (columns 2 & 3). Itemize intangible assets deducted in the explanation section below the table.

3. Debt and credit assets and liabilities (columns 4, 5, & 6) to reflect the effect of the B&I financing. Itemize debits and credits in the explanation section below the table.

4. Divide pro forma tangible equity by pro forma tangible assets to determine % equity position.

Applicant: _____

Derived from Balance Sheet (attached) as of:_____

	1	2	3	4	5	6
	Beginning Balance Sheet Position	*less* Intangible Assets[1]	*equals* Tangible Beginning Position	*plus* Debits[2]	*less* Credits[3]	*equals* Pro Forma Tangible Position
Total Assets						
Total Liabilities						
Equity						
					%Equity =	

1 Itemize intangible assets:

2 Itemize debits:

3 Itemize credits:

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