

Due Diligence Documents and Procedures for the Profeta Urban Investment Foundation February 1, 2013

(Please note, you may not have all of the documents, or some of these requests might be irrelevant. Please submit everything that is appropriate.)

I. DESCRIPTION OF BUSINESS:

1. Describe your business or service.
2. How much money do you need to start/expand your business? Please list the items and the associated costs for the total amount of money that you want to borrow.
3. How is your product or service unique?
4. What market have you identified or targeted and why?
5. How big is your market?
6. Is it growing?
7. Who is your competition?
8. How is your pricing relative to the competition?
9. What percentage share do you project you will capture in that market?
10. What sales and/or market strategies are you going to employ to capture that percentage of the market?
11. Have you utilized any other local programs for financing within the last 12 months?

II. PROJECTIONS:

1. **TOTAL COST OF EVERYTHING NEEDED.**
This would be an itemization of all the costs and expenses you will incur to open the front door. Please do not forget to include an allowance for "start-up." You will need cash reserves to meet your expenses once you open and before your gross revenue meets your expectations. You might also have special marketing costs to "launch" your enterprise. Do not forget to include all of these.
2. **INCOME AND EXPENSE STATEMENT.**
 - a. First project the revenue you are expecting from sales, please use realistic numbers that you can justify.

b. Then deduct all of the expenses you can think of. Remember that these kinds of projections don't turn out to be grossly inadequate because you improperly estimated an expense. The "overs" and "unders" normally cancel each other out. It's when you forget a whole category that the projections become significantly deficient and less helpful. Here are some of the categories I can think of:

- i. Payroll
- ii. Cost of goods
- iii. Trash
- iv. Utilities
- v. Water and sewer
- vi. Advertising
- vii. Computer
- viii. Office supplies
- ix. Insurance
- x. Maintenance
- xi. Rent/Mortgage
- xii. Taxes
- xiii. Vehicle costs/gas
- xiv. Credit Card payments
- xv. Misc.

3. **FIXED COSTS.**

Fixed Costs are defined as the costs that you will incur even if you don't sell one sales item. For example, your rent is a fixed cost. Your insurance, advertising, etc. are fixed costs. They are not dependent on the volume of sales.

4. **VARIABLE COSTS.**

These are the costs that vary with sales. They are normally the cost to buy your sales items or the cost of the ingredients to make your sales items. It is also the incremental cost of the labor to make your sales item. In short, it is the incremental cost that you incur to buy and produce one sales item.

5. **VARIABLE PROFIT.**

This is the revenue from one sales item, less the variable costs that you will incur in making one sales item.

6. **BREAK EVEN.**

You can do this by dividing your fixed costs by the variable profit. Your break even will indicate how many items you will have to sell in order to break even, which is another way of saying how many items you will have to sell in order to not "feed" more cash into the business to keep it afloat. This is a very critical number, please be sure to include the break even analysis in your proposal.

III. DUE DILIGENCE CHECKLIST:

1. PERSONAL QUALIFICATIONS

- a. Resume/CV – Include your background and qualifications to run your business. Also include length of time at current residence, landlord name or mortgage documentation, driver’s license and social security number.
 - i. Criminal Background Check
 - ii. Credit Report
 - iii. Certified Minority Business Owner (8A Certificate)
 - iv. Personal and business account information
 - v. Business references

2. CORPORATE RECORDS

- a. Certificate/ Articles of Incorporation, Company Ownership, List of Officers, Loan Agreements and shares outstanding, if applicable.
- b. By-Laws and Minute Books
- c. Schedule of Officers, Directors, and Committees of the Board of Directors
- d. Ownership by Officers, Employees and Directors: Total Shares vs. Outstanding Shares
- e. Agreements with investors, brokers, and similar advisors (i.e. List of all Shareholders and percentage ownership)
- f. Loan Agreements

3. MATERIAL AGREEMENTS

- a. Schedule and description of pending litigation, if any
- b. Schedule of current leases and subleases for real property, including location, square footage, and rent and lease term
- c. Insurance policies
- d. Governmental licenses, permits and authorizations to do business
- e. Schedule of material suppliers and third-party service vendors
- f. Agreements with customers and clients
- g. Security Agreements affecting assets and property, such as sales and liens
- h. Inter-company Agreements
- i. Marketing Agreements

4. FINANCIAL INFORMATION

- a. Business plan/ Investor's Kit including company background info, balance sheet, forecasts and budgets.
- b. Exit Strategy Agreements for investors and corporation
- c. Three years previous annual audited financial statements and tax returns, as well as the interim period, or if a start-up operation, individual tax returns
- d. Current prospective financial data (forecasts/budgets/balance sheets)
- e. Detail of Revenue and/or Accounts Receivable for the last twelve months (if service provider, copies of five largest contracts in the last year)
- f. US Federal Income and State Tax Returns for the last two years

5. PREQUALIFICATION CHECK

- a. Is your business in the adult entertainment business?
- b. Do you have an active bankruptcy pending or had a bankruptcy discharged within the past two years?
- c. Is your business involved in the sale of illegal or counterfeit goods?
- d. Do you make child support payments? If so, are they current?