CONCLUSION

Timely and accurate measurement, collection, and evaluation of cost data are essential for the survivability of the helicopter industry. Operating costs must be accurately determined and can be an important element in the management control system of planning, control, measurement, and evaluation. The old adage "We'll make up for the decrease in profits by flying more hours" is not valid (and never was) if you don't know your costs. The benefits to the entire helicopter industry through better cost awareness are as significant as the danger of treating costs, and cost estimates, lightly. We don't fly into a thunderstorm, neither should we operate without knowing our true costs.

ASSET MANAGEMENT: THE FIRST STOP IN FINANCING A CORPORATION

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PREFACE

The owner of an air transportation company has many financial issues to keep a pulse on:

- Cash reserves needed,
- Amount of debt maintained,
- Return on assets,
- How to attract lenders,
- How to attract capital.

Unfortunately, many small to medium companies try to address the "how-to" issues before they address the cash flow issues. To address the issues from a different view, I wish to have the owner-operator step back and look at the business first from an organizational standpoint before addressing operations.

Many times in a smaller corporation the owner/president fills many positions in the organizational chart. The owner is the financial expert, flight operations manager, director of maintenance, and custodian. But the smaller the organization, the more important it becomes to have the right procedures in place to keep the company going when multiple tasks are to be accomplished.

THE FINANCIAL AND LEGAL TEAM

Many corporations have little idea of what their cash flow needs will be over the next ninety days, let alone having laid out their cash flow needs for the coming twelve months. How many businesses have looked at last year's budget and compared it to last year's cash flow projections or actual cash flow? Were the cash flow charts developed for last year analyzed to see if any events were one time cash sponges, or are all events seasonal? Just because a corporation grows does not mean that the owner is a good business person or that the owner manages cash flow wisely.

To start with, a corporation should put together a good financial and legal team. The idea of building a financial and legal team should not sound like a term out of a management training book. The team should have qualified attorneys, CPAs, bankers, brokers, and corporate controllers. The team's goal should be:

> To help grow and protect the corporate assets by development of policy and implementing those policies in a professional and ethical manner.

The team's charge is to work for the executive committee and the board of directors.

The lead person on the finance team is the equivalent of a Chief Financial officer (CFO). The CFO may wear several hats for the corporation, and probably will in a smaller corporation. The person who most often puts together the team is the CFO. The other positions a CFO may fill are corporate controller and the investment manager. At the corporate level, the important areas to control are:

- Coordination of financial efforts,
- Monitoring of investments vs. cash flow needs,
- Monitoring of tax impact of investments,
- Direction and execution of investment policy.

The other members of the financial team come from outside the corporation and should be chosen on the basis of education, work with similar kinds of businesses, and professional insight into the corporate strategy. Professionals are often chosen based on referral and the reputations they have developed over time. The main point is that these professionals should work well together and work to fulfill the corporate goals.

One of the areas in which to establish good practices of management from the first day of business is managing the corporate assets. To many aviation companies managing assets means keeping all machines in good operating order. Many times the diligence given to the equipment is not given to the cash in the bank account. The assets in the bank need to be monitored and maintained very much like the 100-hour inspection given to engines.

Free cash is that asset a corporation has in reserve to pay current obligations, expand corporate business opportunities, and repay long-term debt. Free cash also allows a corporation to weather uncertain economic times. This asset, like operating equipment, needs to be maintained and monitored. This activity is best called corporate cash management.

A corporation needs to have laid out a plan on how its free cash is to be invested and accounted for. This action plan should spell out appropriate investments, the minimum quality rating of these investments, the financial institutions that domicile these assets, and who may execute decisions on behalf of the corporation. This plan should be laid out and presented to the board of directors for their approval.

Many corporations have neglected setting appropriate procedure and practices to paper. Instead these corporations try to invest from the back of an envelope. I recommend all corporations have a formal policy statement and that time be taken to learn the rudiments of the money markets. The attachment is an investment policy statement one corporation uses, but each corporation is distinct and should have its own unique statement.

Once a pool of free cash has been accumulated by the corporation, what is the corporation now to do? First, I recommend that the book *Jon Z's Primer: New and Readable Insights into Government Securities and Money Market Instruments*. This book is not in your local bookstore, but can be purchased for $16.00 (including postage) from: X-RHO Enterprises, Suite 353, 540 Route 10 West, Randolph, New Jersey 07869.

Jon Zayachek, the author, will give the reader not only names of money market instruments, but also helpful hints as to how to manage corporate assets.

The corporate controller should monitor the cash assets and make sure investments measure up to the investment policy. It is very important to close the books monthly and balance the cash accounts. At the same time it is also important to take into consideration those non-cash accounts such as depreciation, accumulated taxes, and deferred maintenance to give the CFO a true picture of the corporate cash position.

Many smaller corporations, especially in the first two to three years of operations, use the non-cash accounts as a way to expand. This may work so long as there are no great maintenance costs and the assets appreciate, but many times this approach becomes a step towards disaster.

Non-cash accounts give the corporation a way to set aside operating cash flow before taxes. This set aside is the conduit for the corporation to maintain and replace equipment. In short, the government allows for replacement of equipment on a pretax basis and if the cash flow allowed for replacement is spent, equipment and safety may suffer.

FINANCIAL MANAGEMENT

At this point the corporation is assumed to be knowledgeable in cash management and is looking to manage its finances. Now is time to start the second check list:

- How much debt does the corporation maintain?
- What is the return on assets currently owned?
- What are the maturities for the debt?
- What is the cash flow compared to the repayment schedule?

The use of debt is a double-edged sword. In good times, returns are enhanced. In bad times, debt becomes another drag on earnings. As a result, the corporation needs to be nimble with managing assets. The corporation should be willing to sell assets if a return cannot be earned on the assets. That is the bottom line.

Assuming the corporation has made the determination that it can earn a profit on the assets currently owned and the corporation has divested assets that are under used, how much debt should be maintained? A little homework needs to be done. Look at other companies who have a successful track record and whose financials are in the public domain. Compare the data available to you such as:

- Assets to long-term debt,
- Equity to long and short-term debt,
- Revenues to debt repayment,
- Amount of equipment owned vs. leased,
- Amount of income generated from gross revenues.

The owner should contrast the corporate finances of a public corporation to that of privately held corporation. If the returns at the privately held corporation are not better than the public corporation, something is amiss. Try working a financial model for the corporation assuming both greater debt, then greater capital. If a greater debt load improves the performance then it may be time to expand or time to pay a dividend to shareholders. If a company's performance needs less debt, the owner needs to add capital or sell assets to reduce the interest drag on earnings.

This may seem that it is harder for the small company to expand and contract than for the larger company. Many times this is hard because the smaller corporation has approached the business as a family, and the business owner is no more likely to sell an asset than sell a child. This should not be the case, the business owner must be dispassionate and honest or else risk losing all the assets.

FINANCING

Finally, the issue of financing can surface. The issue of being able to manage cash reserves has been addressed. The issue of whether the corporation needs to add equity or add debt has been discussed. Now, what are the ways to bring in the cash wanted by the owner.

First, put together a business plan to organize the amount of money the corporation wishes to raise and how the money will be used. What is the track record of the corporation? Discuss the competition the corporation faces and all the pertinent financials. This will crystalize the way to finance the corporation, i.e. add capital or add debt.

Next you should choose the sources of cash that you may wish to approach. I have included a list for discussion. The order does not imply a preference.

- Bank Line of Credit
- Borrow vs cash assets
- Issue more capital stock
- Equipment lease financing
- Asset Lending
- ESOP
- Retain Earnings
- Equipment rental

All have advantages and disadvantages. Discuss each source with your financial team to help understand the benefits and costs.

Now that the corporation has chosen a source of cash and is armed with a business plan, make a list of companies you wish to approach. For example, if you choose to approach asset lenders, make a list of the top ten lenders on the capital equipment you are looking to borrow upon. Interview these companies to see what their current attitude is and request a rate sheet. Take notes on how you feel about those who give positive responses and ask for references you can call. once you have completed the initial interview, you should have a qualified list of two to four asset lenders to approach regarding your borrowing needs. Now you and the lenders can work together to put together the best deal possible at that time.

Financing a corporation should be a well thought out process. The organization needs to be in place for an investor or lender to take you seriously and to offer you good terms. Come to the table with what you want, why you want it, and why it is a good deal for both parties.

SHORT-TERM INVESTMENT POLICY

General

The purpose of this policy is to establish guidelines for the management of the Company's cash and short-term investments.

Responsibilities
It is the responsibility of the Board of Directors to approve the investment policy.

The President and Chief Financial officer have the authority to:
1. Open accounts with brokers/bankers,
2. Monitor the existing portfolio for suitability,
3. Propose alterations to the investment policy,
4. Maintain administrative approvals,
5. Execute investment policy and designate those who can execute it.

INVESTMENT OBJECTIVE

Available funds are to be invested in a manner that assures maximum safety and liquidity and, secondarily, maximizes yield within such constraints. Funds will be invested over a range of maturities governed by cash forecasts and market conditions to ensure short-term liquidity and future operating requirements. The company may not borrow money for short-term investment purposes.

INVESTMENT GUIDELINES

1. A diversified portfolio will be maintained as to quality, maturity, and issuers. The emphasis and weighing to be determined by market conditions.
2. Investments of funds that are forecasted to be consumed by the corporation within six months will be limited to securities having a maturity date of 60 days or less from the date of investment. other funds may be invested for a period of 360 days (one year) or less.
3. Principal and interest income will be reinvested immediately on receipt.
4. Investments may be made without limitation as to amount in obligations issued, insured, or guaranteed by the United States Government, or its agencies or instrumentalities.
5. Investments in banks rated P-1 by Moody's or A-1 by Standard and Poor's may be made in negotiable certificates of deposits, time deposits, and banker's acceptances.
6. Investments in taxable municipal securities will be rated AAA/Aaa.
7. Investments in commercial paper will be rated A1/P1.
8. Investments may be made in repurchase agreements collateralized by U.S. Government securities with government securities dealers recognized by the Federal Reserve Bank or with member banks of the Federal Reserve System.
9. A statement of account detailing transactions and providing a portfolio summary by investment type, institution, maturity and return will be available upon demand.
10. This policy/procedure shall be reviewed at six-month intervals during the coming twelve months, and thereafter on an annual basis.