Chapter 8
Glossary

401(k) — An employer-sponsored retirement plan where contributions are tax sheltered and to which employers may make a matching contribution.

529 Plan — A college savings plan offered by state governments where contributions are tax deductible, withdrawals are tax free and the account is considered an asset of the donor.

Active Investing — A form of investing where the investor continuously monitors account activity, researches options and buys and sells assets to increase his or her return.

Annuity — A financial product purchased by an investor with a lump-sum payment that pays the investor a series of payments at some point in the future.

Asset Allocation — The percentage of total capital invested in each major asset category, such as mutual funds, savings accounts or 401(k)s.

Balance Sheet — A statement that provides an overall financial snapshot of the farm business by listing all of the business' assets (property) and liabilities (loans) and their respective values as of a specific date.

Bonds — A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

Broker — Someone who charges a fee or commission to buy or sell an investment on behalf of another.

Business Life Cycle — The different stages through which most businesses pass, from establishment to growth to maturity and finally to decline.

Business Plan — A written document that defines a business' product concept, potential customers and necessary financial resources needed to achieve the objectives of the business.

Certificates of Deposit (CD) — A savings certificate with a fixed interest rate and maturity date, insured by the federal government.

Certified Financial Planner — A financial professional paid for advice and planning who has passed a series of exams and met other requirements.

Certified Public Accountant (CPA) — A financial professional paid for accounting and tax-related functions.

Closely Held Corporation — A corporation where most of the shares of stock are owned by a family or small group of investors, and the stock is not traded on a public exchange.

Collateral — Assets pledged by a borrower to secure a loan or other credit and subject to seizure in the event of default on the loan.

College Savings Plan — One of several options that allow you to invest money to pay for an individual's college education.

Common Stock — A security that evidences proportionate ownership or equity capital of a corporation and gives its holder a claim on the corporation's assets and income (after corporate obligations are paid).

Conservator — One who is appointed by a court to manage the estate of one who is unable to effectively manage his or her business and property affairs.

Contract — An agreement between two or more parties, consisting of a promise or a set of promises that are enforceable by law.

Cooperative — An enterprise or organization owned by and operated for the benefit of those using its services.

Corporation — A business structure that is recognized as an entity that is separate and distinct from its owners and where the entity earns the profits and assumes the liability of the business.

Coverdell — A type of college savings plan where contributions are not tax-deductible, but withdrawals are tax-free and the account is considered to be an asset of the student.

Current Assets — Assets that are readily convertible into cash, usually within one year, without loss in value.

Current Liabilities — The amount owed for interest, accounts payable, short-term loans, expenses incurred but unpaid and other debts due within one year.

Debt Capital — The assets of a business that are financed with loans evidenced by promissory notes, bonds or debentures.

Deed of Trust — A document that grants a lender an interest in real property to secure repayment of a loan by a borrower.

Diversification — Dividing the money you invest among a variety of options so that your overall risk of losing money is lowered.

Equity Capital — The assets of a business acquired through the transfer of ownership in the business. For corporations, equity capital is raised through the sale of stock.

Estate Planning — The preparation of a plan of administration and disposition of one's property before or after death.

Estate Tax — A tax imposed by either the federal or state government on the right to transfer property at death.

Executor — A person named in a will to administer the estate.

Farm Operator — The person who runs the farm, making the day-to-day management decisions. The operator could be an owner, hired manager, cash tenant, share tenant and/or a partner. If land is rented or worked on shares, the tenant or renter is the operator.

Fees — Money charged for financial transactions.

Financing Statement — A brief document describing the collateral that is being used to secure a loan and providing the names and addresses of both lender and borrower that are filed as a public record to give third parties notice of the lender's interest in the collateral and to establish the lender's interest relative to other parties.

General Partner — An owner and operator of a partnership, who is personally liable for all the debts of the partnership.

General Partnership — A voluntary association of two or more persons formed for the purpose of operating, as co-owners, a business for profit.

Income Statement — A document that lists all expenses, income and changes in inventory for a business during a specific period of time.

Individual Retirement Account (IRA) — A retirement account where contributions are tax-deductible and distributions are taxed at applicable marginal tax rates at time of withdrawals. Penalties for withdrawal before age 59½ apply.

Interest Rate — A percentage of the money you save or borrow that represents the annual cost of credit.

Intermediate Assets — Assets with a useful life of one to 10 years; they usually support production and are not sold or converted into cash on an annual basis, including machinery, equipment and breeding livestock.

Intermediate Liabilities — Debts with a term of one to 10 years. The value given as intermediate liabilities on the balance sheet should reflect the balance remaining after the coming year's principal and interest have been paid.

Investing — The act of purchasing a financial product or other item of value with the expectation of earning a favorable return on the amount of money paid for the item.

Joint and Several Liability — A type of shared liability where the creditor may sue and collect the entire liability from any one or more of the liable parties or all of the liable parties together, at the option of the creditor. The liability of general partners in a partnership for partnership obligations is joint and several.

Joint Tenancy — A form of co-ownership of real or personal property where the co-owners have the right of survivorship. Title to the property remains with the surviving co-owners upon the death of one of the co-owners and so on to the last survivor.

Joint Venture — An association of two or more parties to conduct a single or isolated project with a limited duration for mutual profit.

Keogh Retirement Plan — A tax-deferred qualified retirement plan available to self-employed people and unincorporated businesses.

Liability — The legal responsibility for a loss or injury.

Life Cycle — The normal stages through which an individual passes over time.

Limited Liability Company (LLC) — A form of business organization that has the attributes of both a partnership and a corporation, as it is characterized by limited liability, management by a member or members and limitations on the transferability of ownership interests.

Limited Liability Partnership (LLP) — A special form of partnership where an individual partner does not have liability for another partner's misconduct or negligence.

Limited Partner — A partner in a limited partnership who has no management authority and whose liability is limited to the amount of his or her investment.

Limited Partnership — Special form of partnership that has both general and limited partners.

Liquidity — The ability to convert an asset to cash quickly and without loss of value.

Long-term — A time range composed of a period of years as opposed to days, weeks or months.

Long-term Assets — Assets with useful lives of more than 10 years that usually cannot be easily sold without disrupting the business. Long-term assets include land, timber, buildings and improvements.

Long-term Liabilities — Debts with a term greater than 10 years, generally representing debt of a long-term asset.

Money Market Account — A type of short-term savings that allows limited withdrawals and check writing.

Mortgage — See Deed of Trust.

Mutual Funds — Accounts where several investors pool their money to buy a variety of investment options, resulting in increased diversity and reduced risk.

Net Worth — The total value of a company's assets minus the total value of the company's liabilities on a given date.

New Generation Cooperative — A relatively new type of cooperative used primarily in the value-added processing of agricultural commodities.

Pass-through Entity — A legal entity that is not taxed, where profits and losses "pass through" the entity to its investors or owners who report the entity's profits or losses on their individual tax returns.

Personal Property — All property other than real property.

Preferred Stock — A type of corporate stock that provides a specific dividend that is paid before any dividends are paid to common stock holders and which takes precedence over common stock in the event of a liquidation of the corporation.

Probate — Court proceedings pertaining to the administration of an estate.

Promissory Note — A promise to pay an amount or amounts at a specified time. Promissory notes evidence debt.

Public or Publicly Traded Corporation — Corporation with many shareholders that is traded on a national stock exchange.

Real Property — Land and items attached to or erected or growing upon land, including timber.

Return — The money received for saving or investing, usually stated as a percentage of the amount originally contributed.

Right of Survivorship — The right of a surviving co-owner to a deceased's interest in property.

Risk — The chance that an investment's actual return will be lower than expected, including the possibility of losing the original money invested.

Risk Capacity — The financial ability to assume risk and possibly lose part or all of an investment.

Risk Tolerance — The emotional ability to assume risk and take the chance of losing all or part of the original investment.

Roth 401(k) — A type of 401(k) where employee contributions are not tax-sheltered (made with after-tax dollars) but distributions from the employee portion of the fund are tax-free after retirement.

Roth IRA — A type of individual retirement account (IRA) where contributions are not tax-deductible but distributions after retirement are tax-free.

S Corporation (or Subchapter S Corporation) — A corporation for which the shareholders have elected to have the corporation treated as a pass-through entity where the corporation's profits are taxed to the shareholders at individual income tax rates.

Saving — Setting aside money in an easily accessible short-term account.

Savings Account — An account that provides total access to the money deposited in the account and pays a relatively low interest rate.

Savings Incentive Match Plans for Employees of Small Employers (SIMPLE) — A retirement plan sponsored by companies with fewer than 100 employees, which is attractive for employers because it avoids some of the administrative fees and paperwork of plans such as a 401(k) plan. A SIMPLE plan may be structured as either a 401(k) or an IRA.

Securities — An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organization, which offers evidence of debt (a loan) or equity (ownership), such as stocks, bonds or mutual funds.

Security Agreement — A written agreement between a borrower and a lender that gives the lender an interest in the collateral being used to secure the debt. The security agreement secures the debt and establishes rights between the lender and borrower relative to the collateral.

Security Interest — Lender's right to take collateral for a loan if the borrower defaults on the promissory note or other loan documents.

Shareholder — An owner of shares of stock in a corporation.

Simplified Employee Pension (SEP) — A retirement program for self-employed people or owners of companies with fewer than 25 employees, allowing them to defer taxes on investments intended for retirement. This type of plan allows employers to contribute on behalf of eligible employees, and all such contributions are tax-deductible as a business expense.

Sole Proprietor — The owner of a sole proprietorship.

Sole Proprietorship — A business run by a single owner who owns the business, earns all profits and is completely responsible for any business debt or other obligations. In a business run as a sole proprietorship, there is no legal distinction between the business and the individual.

Stock — Transferable certificates that represent ownership in a corporation, which can be bought and sold.

Stockholder — See Shareholder.

Succession Planning — The process where management, income and ownership of a family business' assets are transferred to a succeeding operator.

Tax-sheltered — An investment that is at least partially free from taxation.

Tenancy By the Entirety — A joint tenancy between spouses that becomes a tenancy in common in the event of divorce.

Tenancy in Common — A form of co-ownership of property where the co-owners have no right to each other's interest upon the death of the other (compare to joint tenancy).

Treasury Bill — An investment option offered by the government that is sold in $1,000 increments with due dates of less than one year from the date of sale.

Trust — A legal entity created through a trust document in which the creator or trustor places assets to be managed by a named "trustee" for the benefit of the "beneficiaries" of the trust.

Trustee — The person or institution named in a trust to oversee and manage the assets in the trust according to the terms of the trust.

Trustor — The person who creates a trust and places assets into a trust, also referred to as the grantor or settlor.

Will — A legal document that lists instructions regarding the distribution and management of your assets or property after your death.

Withdrawal — The removal of funds from a savings or investment account.

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