

GLOSSARY

Abatement - The reduction of or exemption from the payment of local taxes, typically property taxes.

Abundance of Caution Mortgage - A mortgage placed on assets not being financed by the creditor.

Accelerated Depreciation - A depreciation method by which a larger amount of depreciation is recognized in the early years of an asset's depreciable life and a reduced amount is recognized in the later years of the asset's life. This method of depreciation is typically selected to shield the company's earnings from tax when the company is experiencing good profitability.

Accounts Payable (A/P) - The current liability that represents the amounts owed to trade suppliers for goods or services (usually inventory) provided to the company. These are often evidenced by invoices.

Accounts Receivable (A/R) - The current asset that represents the amounts owed to the company by its customers for the purchase of its product.

Accounts Receivable Financing - or, "factoring" is a means by which the company can receive cash by selling their accounts receivable or pledging these assets as collateral for a loan. The receivables are typically discounted in these transactions, therefore the amount of the loan or the sale is less than the face value of the accounts receivable.

Accrual Basis - The method of accounting in which revenue is recorded in the period in which it is earned and expenses are reported in the period in which they are incurred.

Accruals (ACC) - The current liability that represents obligations owed but not billed such as wages and payroll taxes or obligations accruing but not yet due such as interest on a loan.

Accumulated Depreciation - The cumulative sum of all the years' worth wearing out of assets that has occurred.

Adjusted Basis - The original cost of an intangible asset less depreciation, amortization, and any rehabilitation tax credits.

Ad Valorem Tax Revenues - Income that is generated from collecting a tax at each stage of the process of production, distribution or sale of goods and services that typically becomes a sales tax paid by the customer.

Affiliate - A company that is controlled by another company under common ownership.

Amortization - a) The process of repaying a loan is referred to as "amortization," the retirement of the debt; b) also refers to the accounting process by which a tax payer can deduct the cost of intangible assets like franchise agreements, copyrights, patents, goodwill, permanent loan fees, etc.



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Appreciation - The increase in the market value of an asset above its value at a prior time.

Assets - Things that a company owns (and have a dollar value). Assets are uses of cash.

Assignment of Leases and Rents - The transfer of the rights and interest in the income generated from leases and rents usually given to secure a debt, typically a mortgage. In most instances, the assignment is activated only in the event of default in payment of the debt. The assignment is reversed when the debt is repaid.

Average Weighted Life of Assets - A process of arriving at a proposed maturity for a loan by weighting the useful lives of the assets to be financed by the percentage of the financing which they comprise.

Balance Sheet - A statement of a firm's financial position at one particular point in time.

Balloon Payment - The principal balance due at the maturity of a loan in which the term is shorter than the amortization schedule.

Basis Point - The unit of measure used to express interest rates and the yields on bonds. One basis point is equal to one-hundredth of a percent.

Bond Insurance - Insurance provided to protect the repayment on large issue debt when there is concern about the beneficiary of the bond's ability to repay the debt. Bond Insurance increases the cost of financing.

Bonds - An obligation to repay debt evidenced by certificate(s) in denominations of \$1,000.00 or more and bearing long term interest rates. A bond makes it possible for a company or government to borrow large sums of money in the public markets at lower rates of interest than typical bank financing would be able to provide. The credit strength of the company or government unit will determine access to bond markets, the initial cost of issuing the bonds and the carrying cost. A bond is also referred to as a debenture.

Book Value - The amount at which an item is currently being carried in the company's accounting records. For depreciable assets, the book value is the original cost minus accumulated depreciation. For liabilities, the book value is the face amount minus any discount or plus any premium. The book value of a company is equal to the total assets minus the total liabilities.

Break-Even Point, Business - The point where revenues equal expenses or profit equals zero. Breakeven Point is calculated by dividing the total fixed costs by the contribution margin. The contribution margin is the percentage of revenues which are left after all variable costs are covered.

$$\text{BEP} = \frac{\text{Total Fixed Costs}}{100\% - \text{Variable Costs} \div \text{Sales}}$$

$$\text{Contribution Margin} = 100\% - \frac{\text{Variable Costs}}{\text{Sales}}$$



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Break-Even Point, Real Estate - The measure of a project's downside risk cushion. It is calculated by dividing the expenses and debt service of the project by the gross rent. The breakeven point indicates the percentage of occupancy required in order to meet fixed obligations. In other words, the break-even point measures the maximum percentage of vacancy a project can tolerate.

Bridge Financing - Interim financing provided to a company or project which is to be taken out by another loan, typically a long-term mortgage loan.

Buy-Out - The act of purchasing an existing business usually by financing the cost of the purchase with loans, thereby conserving equity for future working capital needs that the business may require.

Capital Expenditure - The purchase of a fixed asset such as land, building, machinery and equipment, furniture, fixtures, automobiles, trucks or leasehold improvements.

Capital Structure - The relative percentages of debt and equity which comprise a company's financing.

Capital Surplus (K/S) - (Also known as paid-in capital in excess of par) represents the excess of dollars paid into the company to purchase stock over the par value of the stock. Generally, when a sale of stock is made, the dollars paid into the company are divided into two categories, common stock and capital surplus. The dollars received by the company which correspond to the par value of the stock are recognized in the common stock account. The dollars received in excess of that amount are represented in the capital surplus account. Both of these accounts are part of the net worth, or equity, of the company.

Cash Basis - A method of accounting in which income is considered earned when it is received, and expenses are recorded when they are paid.

Cash Flow Rate (CFR) - A term used by lenders in reference to real estate projects which means the same as the cash-on-cash rate of return. Mathematically, it is defined as cash flow divided by imputed equity (fair market value less debt).

Cash-on-Cash Rate of Return (COC) - One way in which developers measure their return from a real estate project. This ratio shows the cash return on the developer's cash investment. Mathematically, it is defined as cash flow divided by cash equity. The cash flow is the net cash flow available to the developer after all expenses and debt service have been paid. The equity is the actual cash equity invested into a project. The cash-on-cash rate of return is the current cash-out on the original cash-in.

Certified Development Company (CDC) - An organization certified by the U.S. Small Business Administration (SBA) to package and service SBA 503 and 504 loan programs.

Chattel Mortgage - A lien against tangible personal property which secures a loan. Chattel mortgages are liens against personal property rather than real estate.

Collateral - A tangible asset like land, building, inventory, machinery and equipment, etc., offered as security on a loan. Typically, the value of the offering is greater than the amount loaned.



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Collateral Cushion - In lending, the difference between the value of the assets pledged as collateral and the outstanding balance of the loan.

Collateral Risk - As perceived by a lender, the risk that the value of the asset will not be adequate at the time of the foreclosure to liquidate the value of the outstanding loan.

Common Stock (C/S) - The purchased equity in a business evidenced by a certificate. The owner of the certificate has claim against all of the assets of the company after all debts are paid and any claims by preferred stockholders are satisfied.

Compensating Balances - Typically, deposits are often expected in consideration for a bank making a loan. The "expected" deposits are known as compensating balances and are an integral part of a bank's profit picture.

Constant Annual Percent ("c") - The amount of debt service divided by the amount of the loan. The constant represents the number of cents of debt service paid for each dollar borrowed. Example, a 12%, 30 year loan has a constant of .1235. Each dollar borrowed requires annual payments of 12.35 cents.

Contingent Liabilities - Potential liabilities which may never become due and payable. Contingent liabilities are not listed on the balance sheet. They should be included in the notes to the financials and include such items as warranties, guarantees, litigation, etc.

Convertible Debenture - A convertible debenture is a bond that has an option to convert into a specific number of shares of stock during a specified conversion period at a previously agreed-upon price.

Cost of Goods Sold - A company's production-related expenses, typically comprised primarily of raw material, direct labor and manufacturing overhead.

Credit Enhancement - A method of improving the quality of the credit by offering a guaranty or additional collateral.

Credit Risk - The risk, as perceived by lenders, that profits and cash flow are insufficient to repay debt service.

Current Assets (C/A) - Assets which mature into cash in less than a year.

Current Liabilities - Obligations normally paid by a company within one year.

Current Portion of Long Term Debt (CLTD) - The amount of long term debt (principal only) which is to be paid within the next twelve months.

Debentures - Bonds which are not protected by a specific lien or mortgage.

Debt - Obligations incurred by a company, usually to third parties, which must be repaid, generally on a fixed schedule. This differs from equity, which may never have to be repaid.



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Debt Capacity - The amount of money a company can afford to borrow at its current level of profitability, given a specific interest rate and term for a loan. It is calculated by dividing the company's cash flow (profit after tax [PAT] plus depreciation) by the loan's constant.

Debt Coverage Ratio - The measure of a real estate project's ability to service debt as determined by dividing the asset's Net Operating Income by the debt service.

Debt to Equity Ratio (DCR) - The measure of relative financing provided by outside lenders and the internal financing provided by outside lenders and the internal financing provided by the company's owners. Mathematically, it is determined by subtracting subordinated officer's debt from total liabilities, and dividing this amount by the sum of the company's total assets plus subordinated officer's debt less the value of any intangibles.

Depreciation - The portion of the cost of a tangible asset which may be claimed as an expense during a certain period. Depreciation is an allowance for the wearing out of an asset. Land is not depreciable. There are various methods of depreciation, such as straight-line depreciation and accelerated depreciation.

Discretionary Expense - Those expenses which exist at the discretion of the principals, such as officer salaries and depreciation. This expense can generally be manipulated to manage Earnings Before Tax (EBT).

Earnings Before Tax (EBT) - A company's earnings after all expenses and prior to the payment of taxes. EBT determines the income taxes to be paid.

Earned Equity - See "Retained Earnings."

Economic Development - Is the process by which individuals and organizations make decisions to invest capital in a business or an area.

Economic Development Financing System - A financing system that catalytically brings together the incentives, the investors, and the lenders necessary to make investment happen. The goals of an economic development financing system are to stimulate private sector investment into long-lived physical plant and equipment, to increase productivity and to create new, permanent private sector jobs.

Economic Life - Equivalent to the time an asset is expected to last; e.g., a car has an expected economic life of four years.

Economic Development Finance Professional (EDFP) - The staff in an economic development financing system. The EDFP will market the program, build relationships, and screen, analyze, package and close investment loan proposals.

Entrepreneur - A person who organizes and manages a business and assumes the risk of loss.

Equity - A right to claim an interest in property after all obligations are satisfied. Equity in a company is measured as the excess of assets over liabilities. (ASSETS - LIABILITIES = EQUITY) Equity takes the form of common stock, preferred stock, capital surplus and retained earnings.



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Exempt Facility - Refers to a bond issue to pay for facilities that serve the general public.

Fast Growth Syndrome - See "Rapid Growth Syndrome."

Feasibility Study - An evaluation made by a qualified professional of the benefits and problems of implementing a specific plan of action. Usually required in order to evaluate risk in a project.

Federal Reserve Discount Rate - Interest rate charged by the federal reserve to its member banks on borrowed funds.

Federal Volume Cap - A limit on the amount of tax exempt bonds that a state may issue as set by the federal government.

Finder's Fee - Refers to the commission a borrower pays to any individual or entity for assistance in obtaining financing. Typically, public sector programs restrict the use of loan proceeds for this purpose because there is concern that the borrower will be overcharged for a service that is easily accessible to the public.

First In, First Out (FIFO) - A method for valuing inventory by assuming that the first goods purchased are the first goods used or sold.

Fixed Asset (FA) - A tangible asset with an expected useful life of at least one year.

Fixed Interest Rate - An interest rate that does not change during the life of the loan.

Foreclosure - A legal procedure in which property mortgaged as security for a loan is taken by the lender and can be sold to pay the defaulting borrower's debt.

Franchise Agreement - A contract which gives an individual or group the right or privilege of selling a company's goods or services in a particular geographic territory for a given time.

General Security Agreement - A lien placed on all the assets of the business.

Goodwill - An accounting device which explains the difference between the purchase price of a company and the company's tangible assets. Goodwill arises through the sale of a company.

Guarantee Fee - Money paid by a borrower to a government agency, company, or individual to guarantee repayment of a loan. The fee is usually a percentage of the amount of the guarantee.

Impacted Expense - Costs on the Profit and Loss Statement which are separated from Cost of Goods Sold because they may be impacted by a fixed asset loan (interest expense, depreciation expense and possibly the cost of occupancy).

Intangibles (INT) - Uses of cash to purchase assets of indeterminable value. These non-current assets may never mature into cash.

Interest - The amount charged by a lender for the use of his/her money.



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Inventory (INV) - This current asset consists of goods and materials a company purchases to re-sell at a profit. In the process, sales and receivables are created. The company purchases raw material inventory, which is processed (work-in-progress inventory) to be sold as finished goods inventory.

Investments in Subsidiaries (INV in SUB) - This non-current asset represents the investment of cash into an affiliated company. The investment usually takes the form of a loan to the affiliate or the purchase of stock in the affiliated company. In the latter case, this investment may never mature into cash.

Last In, Last Out (LIFO) - An accounting method for inventory which assumes that the most recently purchased inventory (last in) is the first to be sold (first out).

Lender Commitment Program - A public/private initiative in which the public sector secures commitments from private sector financial institutions to make available long-term fixed asset financing for qualified economic development projects (usually in conjunction with a public sector financing program).

Letter of Credit - A bank's guarantee of payment by a borrower.

Level Debt Service - The repayment schedule requiring equal payments over the life of the loan.

Level Principal Payment - The amount of each principal payment is established by dividing the total principal amount due at the start of the loan by the number of payment periods. This type of payment is usually coupled with a variable interest rate where the interest fluctuates periodically up or down depending on market condition.

Leverage - The ability to increase the return on equity by borrowing capital that will generate income that will increase equity.

Leveraged Buyout - The purchase of control of a company through loans which are secured by the assets of the company.

Liabilities - The obligations owed by a company to its investors, lenders, and trade suppliers.

Lien - A security interest in an asset, such as a mortgage on real estate.

Limited Partnership - A form of group ownership with at least one general partner and one limited partner. The general partner has unlimited liability. Limited partners can only lose their initial investment.

Liquidity - The ability of a company to convert its assets into cash.

Loan to Value Ratio (LVR) - The measure of a lender's collateral cushion as determined by dividing the loan by the fair market value of the asset.

Long Term Debt (LTD) - Also referred to as "term debt", is a loan whose maturity exceeds one year. This liability is divided into two segments - the portion due within 12 months (current portion of long term, CLTD) and the portion due beyond one year (non-current long term debt, LTD). CLTD is listed as a current liability, LTD is listed as a non-current liability.



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Long Term Financing Gap - The ability of an entrepreneur to gain financing that matches the term of the loan to the life of the asset.

Matching Sources and Uses of Funds - The concept of structuring a company's balance sheet in a way that nearly matches the term of the financing to the life of the asset purchased.

Maturity - The time at which a note, loan, bond, etc., becomes due and payable in full.

Maturity Risk - In lending, the risk that the credit risk and the collateral risk will increase over time.

Moratoriums - A period of time during which a borrower is awarded a postponement of the payment of the principal and/or interest on a loan. This is usually done in order to give a project or a business time to improve its cash flow.

Mortgage - (Verb) The pledging of property to a creditor as security for repayment of a debt. (Noun) The deed that evidences and accomplishes this pledging.

Net Fixed Assets (NFA) - The value which represents the gross fixed asset value (purchase price) less accumulated depreciation.

Net Operating Income (NOI) - The income available in a real estate project to repay all lenders and investors who have assisted in financing the project. NOI is the cash available from a project after all operating expenses have been paid.

Net Worth (NW) - See "Equity."

New York Prime - The interest rate charged by major New York banks to their best customers.

Non-current Assets (NCA) - Assets which mature into cash in longer than one year.

Non-current Liabilities (NCL) - Obligations which become due in more than one year.

Notes Payable (N/P) - These current liabilities are obligations evidenced by promissory notes with short-term maturity dates (less than 12 months hence). Often, they are demand notes (payable on demand). Other times, they have specific maturity dates. The notes payable always lists only the principal amount of the debt. Any interest is listed under accruals.

Notes Receivable (N/R) - These assets are receivables due to a company, evidenced by a promissory note, arising because the company made a loan. These can be current or non-current assets, depending on the maturity of the note.

Officer Loans - The owners of a company may choose to invest additional equity in a company through a loan. This can be in the form of note payable officer or long term debt. Lenders often require officers to sign subordination or standby agreements which can lower the priority of the owner's lien on company assets or prohibit the owner from repaying all or part of the officer loan until the lender's loan is repaid.



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Participation - The act of two or more banks or other sources of money who spread the risk in a project by splitting the amount of money loaned to a borrower. It also occurs when a bank has a legal lending limit that is lower than the amount of the total debt required to fund a project, but wants a share of the loan in order to earn the interest and/or keep a customer happy.

Permanent Working Capital (PWC) - The minimum adequate level of cash which must be invested in the company's operating cycle to maintain operations. Mathematically, it is the sum of Accounts Receivable plus Inventory less Accounts Payable and Accruals.

Personal Endorsement - A pledge to pay the obligation, also known as a guarantee of payment.

Pledges of Revenue - An assignment of the income to be derived from a specific project; e.g. assignment of the income stream from the rental of property

Preferred Stock - Capital stock with a claim to income after all debt holders, but before common stockholders.

Prepaid Expenses (PPD) - These current assets are the uses of cash to purchase in full a good or service, the benefit of which will be received within the next 12 months.

Prime Rate of Interest - The commercial rate of interest banks charge their best customers.

Principal - The amount owed by a borrower on a loan.

Profit and Loss Statement (P & L), Business - Also known as an "Income Statement", this statement records the cumulative revenues and expenses of a company over a specified period of time. The business P & L focuses on matching expenses to revenue or period recognitions.

Profit and Loss Statement (P & L), Real Estate - Also called the "developer's P & L", it is a pure cash flow statement which records the revenues and expenses of a real estate project. It ignores the impact of depreciation as well as principal amortization on taxes, and the impact of depreciation and taxes on cash flow.

Pro-forma - A pro-forma is a projection of a profit and loss and balance sheet statement.

Promissory Note - A written promise of one person to pay another a specified sum of money on a given date.

Public Company - When a company receives permission from the Securities and Exchange Commission to sell stock to the general public, it is said to be a public company.

Purchase Money Mortgage (PMM) - A mortgage loan for the purchase of real property.



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Rapid Growth Syndrome - Occurs in companies where the company's increasing investment in receivables may outstrip the company's ability to generate the cash from its operation, thus causing a shortfall in permanent working capital.

Rate Risk - In lending, the risk that rates will rise to the level where the bank's cost of money (interest on deposits) exceeds the revenue it earns on the loans made with the deposit.

Recission - Withdrawal or cancellation.

Reconciliation of Surplus - Also known as the reconciliation of the net worth account. It is calculated as follows: Beginning Net Worth + Current Income - Dividends/Withdrawals = Ending Surplus/(Deficit).

Refinance - The act of paying off one loan with the proceeds of another loan. Typically, discouraged in public sector programs unless they are small.

Registered in Form - Bonds recorded in the name of a specific investor and the periodic interest earned on the bond are sent to only that person.

Repaymentability - The capacity of a company to repay a loan.

Restructuring - Redesigning a financing scenario to make a project feasible while meeting the needs of a company. This can be done through means such as reducing the project size, decreasing the loan amount and increasing equity, and increasing debt capacity.

Retained Earnings (R/E) - Also called "earned equity" or "earned surplus", retained earnings represents profits earned by the company and retained within the business. It is a measure of past profitability and represents earnings the owners could have withdrawn, but chose to reinvest into the business.

Return on Equity Investment (ROE) - The rate of return of an investment project, mathematically defined as the return of the investment divided by the original investment.

Return on Investment (ROI) - The rate of return of an investment project, mathematically defined as the return of the investment divided by the original investment.

Rolling Stock - Assets like automobiles, trucks, and boats are said to be rolling stock because they are useful only when they are moving and are often difficult to seize in the event of non-payment of a loan secured by these movable assets.

Sales - The revenues of a company arising from the purchases of its product (goods or services) by the company's customers. On a company's profit and loss statement, gross sales should be reduced by discounts and returns to provide a net sales figure.

Seed Capital - Capital for the earliest stages of a business, usually seed capital is equity.



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Self-amortizing Loan - A loan that is completely repaid through regular payments of principal and interest. At the end of the loan term, there is no outstanding principal balance. (A variable rate loan can be self-amortizing.)

Selling, General and Administrative Expenses (SGA) - The expenses of a company which are not directly related to production (not COGS), and are therefore considered "overhead." SGA includes variable and fixed expenses, as well as selling, some indirect production and period expenses.

Small Business Investment Company (SBIC) - A privately owned corporation whose purpose is to provide long-term loans and equity capital to small businesses. SBICs are licensed and regulated by the Small Business Administration.

Small Issue - Refers to industrial bond issues which are small and require a municipality or a community development corporation to act as sponsor in order to market the issue.

Standard Industrial Classification (SIC) Code - A method for the classification of a business by indexing the company's line of business.

Standby Agreement - An agreement in which a creditor, usually a company owner, agrees to postpone receiving payment on a debt until certain conditions regarding another obligation are met. Typically, company owners are asked by commercial lenders to suspend all or part of repayment on officer debt until the bank's loan is repaid.

Straight Line Depreciation/Amortization - Is the equal periodic charge to expense of the depreciation of an asset over the depreciable life of the asset as opposed to accelerated depreciation which takes a higher depreciation in the earlier years, and a lower rate for the remaining depreciable life. The decision over which method to use is governed by the income tax benefit to be derived from one method versus the other and Internal Revenue Service guidelines for depreciation allowance.

Subordination Agreement - An agreement changing the priority of interest (stating that one claim is subordinate to another). Banks often ask company owners to execute subordination agreements for their loan to the company.

Subsidiary - A business enterprise which is controlled by another corporation. A subsidiary has its own charter and structure, although, it is controlled by a holding (or parent) company.

Syndicate - A form of group ownership of an asset.

Tangible Personal Property - Property other than real estate or intangible assets, such as machinery, equipment, and inventory.

Title Insurance - Insurance against loss from defects in the title to real property.

Treasury Stock - Authorized stock which has been returned to a corporation, usually by purchase.

Unearned Income - Consists of revenue that a company has collected in advance for goods and services that will be provided at some point in the future.



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Variable Amortization - Refers to a schedule of debt repayment that is structured specifically to meet the cash flow needs of a business. It can consist of different interest rates over time, typically a lower rate at the start, with an escalation clause and no principal reduction in the first few years. The goal is to tailor the payments so that they do not become a cash flow burden that could hurt the project's future viability.

Variable Interest Rate (Floating Rate) - A means by which a lender is permitted to adjust the interest rate on a loan to reflect changes in the prime rate; usually within a prescribed range and with advance notice.

Venture Capital - Risk capital for business investment. Generally, venture capitalists demand a high return on their investment and a share in the ownership commensurate with the risk in the project.

Warrants - A certificate entitling the owner to buy a specified amount of stock at a specified price during a specified period of time.



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