

Managing Cash: The Small Business Owner's Guide to Financial Control

U.S. SMALL BUSINESS ADMINISTRATION



VETERANS BUSINESS OUTREACH CENTERS

Veterans Business Outreach Center at Fayetteville State University

Broadwell College of Business and Economics

1200 Murchison Road

Fayetteville, NC 28301

Phone: 910-672-2683 Email: sespinos@uncfsu.edu

Site: www.fsuvboc.com

U.S. SMALL BUSINESS ADMINISTRATION



Dear Entrepreneur:

The Veterans Business Outreach Center at Fayetteville State University is a division of the U.S. Small Business Administration and functions as a business and technology entrepreneurial start-up and extension service for veterans, active duty members transitioning into civilian life, Army National Guard, reserve components, and spouses.

The primary mission of the VBOC is to support economic development by providing assistance in the start-up, successful operation, and expansion of small businesses. Whether your business is just getting started, or going strong and ready to expand, the Veterans Business Outreach Center is here to assist you in any way. Contact us for legal registrations and certifications for your small business, marketing and business plans, or financing. Our service is always free of charge, and we are always ready to help. Give us a call or email today!

CONTACT INFORMATION

Tamara Bryant
Director
Veterans Business Outreach Center at FSU
Broadwell College of Business and Economics
1200 Murchison Road, Room 238
Fayetteville, NC 28301
Phone: 910-672-1107
Email: tcbryant@uncfsu.edu

Sarah Espinosa
Business Counselor
Veterans Business Outreach Center at FSU
Broadwell College of Business and Economics
1200 Murchison Road, Room 242
Fayetteville, NC 28301
Phone: 910-672-2683
Email: sespinos@uncfsu.edu

CASH

THE FUEL THAT RUNS YOUR BUSINESS

HOW MUCH MONEY comes into your business and how much goes out is called cash flow. Gaining financial control by understanding cash flow is crucial to your success.

Many people think their business is sound as long as “more money is coming in than going out.” This way of thinking can weaken a business’ short-term stability and its long-term growth.

A certain amount of cash must be on hand at all times for day-to-day operations and to pay expenses on time. But what about the gap that occurs when your bills are due before you collect the cash that’s owed you? What about unexpected expenses, like equipment repair?



Without proper cash flow, even a thriving business can fail. Think of your business as a rope with three intertwined strings. One string is what you sell (your products and services). The other string is what you earn, and the third is what you spend. If one string weakens, it affects the strength of the rope.

Learn how it all works in the pages ahead.

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Maximize Your Cash Flow

KEY TERMS

BUSINESS

CREDIT REPORT

An overview of a company's financial history. Companies that offer these reports include Dunn & Bradstreet at 800-234-3867 or visit www.dnb.com.

COLLECTION AGENCIES

Companies who try to collect your past-due invoices. The fee for this service varies, so be sure to ask.

CREDIT APPLICATION

Form that houses a customer's financial information, such as bank and credit references.

CREDIT POLICIES

Terms or rules that your company expects customers to follow, when you allow them to pay at a later date. For example, customers pay you in 30 days.

RATING

Customers' credit worthiness based on their history of borrowing and repaying.

REFERENCES

A list of organizations that have extended credit to this customer.

RETAINER

Agreement in which your customer agrees to pay you a flat fee every month in exchange for a pre-determined amount of work. Retainers are usually used for long-term projects.

What is Accounts Receivable?

Accounts receivable is the money customers owe you. Your cash flow is "tied up" in these accounts, so it's good business to collect your money as quickly as possible. Collecting money requires a commitment on your part – maintain accurate records and stick to deadlines.

TOOLS FOR SPEEDING UP CASH COLLECTIONS

- Require deposits when making sales.
- Divide invoices. *For example, ask for a third up front, a third when the job is in progress and a third when the job is done.*
- Work on **retainer** whenever possible.
- When a job stalls for longer than a month, send an invoice. Include a breakdown of the work completed to date and an estimate of the work remaining.
- Review your **credit policies** — it may be smart to print them right on your invoices.
- Develop a **credit application** and don't be afraid to use it.
 - > **CALL** the customer's bank and ask the following information: the date the account was opened, its 12-month average balance and if any checks have been returned in the past 6 months.
 - > **SEND** your credit application to customer's references or fill it out during a phone conversation with them. Ask each reference how long they've been doing business with the company in question, the credit limit, the highest amount of credit that's been extended, and the date of the last sale. Finally, ask for any other information that might be helpful — anything you can gather to make sure the customer is worth the risk of extending credit.
- Check a potential customer's **credit rating** by ordering a **credit report**.
- Send an invoice as soon as the job is completed.
- Offer **early payment discounts** to encourage promptness (see Key Terms, page 5).

WHAT ABOUT OVERDUE INVOICES?

- Sort late invoices by dollar amount and collect larger balances first.
- Send a letter along with a copy of the overdue invoice, then follow up with a phone call.
- If the entire invoice cannot be paid in full, develop a schedule of smaller payments.
- If your efforts aren't successful, use **collection agencies**.

THREE TOOLS FOR HELPING WITH ACCOUNTS RECEIVABLE

- 1. LOCK BOX ACCOUNT** - Special post office box used by banks to speed up payments. Checks in your mail are picked up and entered into the bank's collection system, eliminating "mail float" — days spent waiting for checks to arrive and then be deposited.
- 2. MERCHANT ACCOUNT** - Allows you to accept credit cards for payment of goods and services through an agreement with a card-processing bank.
- 3. PRE-AUTHORIZED PAYMENTS** - A process of getting regular payments from customers. Money is electronically withdrawn from a customer's account and deposited into yours.

THE MORE MONEY A BUSINESS CAN ACCUMULATE AND ADD TO ITS SURPLUS, THE GREATER ITS STABILITY AND STRENGTH.

What is Accounts Payable?

Accounts payable is the money you owe to others. For example, you've bought equipment and services but haven't paid for them yet. In order to keep your good credit, you must pay your bills on time, but there *are* ways to be savvy about it.

TOOLS FOR SLOWING DOWN EXPENSES

- Predict sales realistically so you can determine your expenses accurately.
- Don't buy unnecessary or unimportant items.
- Buy used items when possible.
- Control **overhead expenses**. Keep your **fixed costs** as low as possible.
- Your **variable expenses** should relate to your income. If income drops, so should variable expenses.

FOUR WAYS TO HELP WITH ACCOUNTS PAYABLE

1. Use a **payroll service** to calculate wages and pay the associated taxes.
2. Consider purchasing equipment and services outside the country. Calculate the costs to see if foreign currency is less than U.S. dollars.
3. Take advantage of **early payment discounts**.
4. Don't be hesitant about negotiating with vendors. When you make a purchase, ask for **extended payment terms**.

TO LEASE OR NOT TO LEASE?

You can often reduce the amount of cash you spend by leasing equipment rather than buying it. Leasing allows you to pay a fixed monthly amount, usually over a long period of time, for the use of the equipment.

Crunch the numbers to determine whether leasing or buying is better for you. Compare the cost of leasing (upfront costs plus the monthly fee) to the cost of buying (don't forget to include the interest).

There are several kinds of leases, including:

- **EQUIPMENT LEASE** - A lender purchases and owns the equipment and gives you the right to use it in exchange for a monthly fee.
- **SALE-AND-LEASE BACK** - A leasing company buys your equipment, then leases it back to you for a fee.

KEY TERMS

EARLY PAYMENT DISCOUNTS

An incentive to collect payments quickly by reducing the invoice amount. *For example, 1% is deducted from an invoice if it is paid within 10 days.*

EXTENDED PAYMENT TERMS

Paying for an expense over a longer time period than is customary.

FIXED COSTS

Expenses that remain the same, not changing along with sales volume.

OVERHEAD EXPENSES

The operating expenses of a company, like rent.

PAYROLL SERVICE

A company that calculates wages, making the appropriate deductions for state and federal taxes, pension funds, medical insurance, etc.

VARIABLE EXPENSES

Costs that rise and fall according to sales volume. These expenses include raw materials, utility bills, labor, sales commissions and advertising.

Cash reserves should be on hand not only for everyday expenses, but also for:

AN "EMERGENCY" FUND

Unplanned expenses can damage your cash flow. What if your water heater breaks? What if you make an insurance claim and need a few thousand dollars to meet your deductible? It's smart to set aside a portion of your income for expenses like these.

A CAPITAL EXPENSE FUND

Equipment eventually needs to be replaced. A portion of the cost is regularly set aside in a fund so the money will be available when the item needs replacing.

INVESTMENTS

If your cash flow statement shows a positive balance, one of the biggest mistakes you can make is to let the money sit there, when it could be earning you money (see page 10).

The Cash Flow Statement

A SIZABLE REPAIR BILL IS DUE THIS FRIDAY. And Christmas bonuses aren't far behind. Exactly how much money will you need, and when? The Cash Flow Statement gives you a clear picture of when cash should arrive and how much is needed for expenses.

Start by researching your expenses, breaking them down on a monthly basis. At the end of the month, subtract expenses from income and you'll have the cash balance, which could be a positive or negative number. Now you'll know if there's enough cash to:

- COVER DAY-TO-DAY OPERATIONS
- PAY DEBTS ON TIME
- GROW YOUR BUSINESS

DO A REALITY CHECK

The Cash Flow Statement should be refined as time goes on. Make sure the numbers you're using are realistic. If they're not, revise them. Review the Cash Flow Statement every month. Once you become adept at reading the numbers, it will become an "early warning system," giving you time to get cash before it's needed.

CASH FLOW STATEMENT SAMPLE:

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
A. Cash On Hand (Beginning of month)	10,000	6,900	21,700	41,200	54,700	68,400	72,800	91,200	113,800	133,300	155,800	183,500	
B. Cash Receipts													
1. Cash Sales	2,000	5,000	5,000	5,000	10,000	10,000	15,000	15,000	10,000	10,000	15,000	15,000	
2. Collections from Credit Accounts	30,000	75,000	75,000	80,000	85,000	85,000	90,000	90,000	85,000	85,000	80,000	80,000	
3. Loan or Other Cash injection (Specify)													
C. Total Cash Receipts (B1+B2+B3)	32,000	80,000	80,000	85,000	95,000	95,000	105,000	105,000	95,000	95,000	95,000	95,000	
D. Total Cash Available (A+C, before cash paid)	42,000	86,900	116,700	126,200	149,700	163,400	177,800	196,200	208,800	228,300	250,800	278,500	
E. Cash Paid Out													
1. Purchases (ex: Merchandise)	0	30,000	40,000	40,000	45,000	45,000	45,000	40,000	40,000	40,000	35,000	35,000	435,000
2. Gross Wages (excludes withdrawals)	10,000	10,000	10,000	10,000	10,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000	135,000
3. Payroll Expenses (Taxes, etc.)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
4. Outside Services	800	700	800	800	800	900	900	900	800	800	800	700	9,700
5. Supplies (Office and operating)	400	400	400	400	400	400	400	400	400	400	400	300	4,700
6. Repairs and maintenance	400	400	400	400	400	400	400	400	400	400	400	300	4,700
7. Advertising	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
8. Car, Delivery and Travel	2,000	2,000	3,000	2,000	2,000	2,000	3,000	3,000	2,000	2,000	2,000	2,000	27,000
9. Professional Services (Accounting, legal, etc.)	1,000	0	0	1,000	0	0	0	0	0	1,000	0	0	3,000
10. Rent	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
11. Telephone	300	300	300	300	300	300	300	300	300	300	300	300	3,600
12. Utilities	400	400	400	400	400	400	400	400	400	400	400	400	4,800
13. Insurance	0	400	400	400	400	400	400	400	400	400	400	0	4,000
14. Taxes (real estate, etc.)	0	800	0	0	800	0	0	800	0	0	800	0	3,200
15. Interest (on loans)	500	500	500	500	500	500	500	500	500	500	500	500	6,000
16. Other/Miscellaneous Expenses (Specify)	0	0	0	0	0	0	0	0	0	0	0	0	0
17. Subtotal	22,800	52,900	63,200	63,200	68,000	72,300	73,300	69,100	62,200	63,200	58,000	56,500	724,700
F. Other Operating Costs													
1. Loan Principal Payment	300	300	300	300	300	300	300	300	300	300	300	300	3,600
2. Capital Purchases (ex: Buy a computer)	0	0	0	0	0	5,000	0	0	0	0	0	0	5,000
3. Other Start-up Costs (specify)	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Reserve and/or Escrow (ex: Pay \$100K loan)	10,000	10,000	10,000	5,000	10,000	10,000	10,000	10,000	10,000	5,000	5,000	5,000	100,000
5. Owner's Withdrawal	2,000	2,000	2,000	3,000	3,000	3,000	3,000	3,000	3,000	4,000	4,000	4,000	36,000
G. Total Cash Paid Out (E17 + F1 through F5)	35,100	65,200	75,500	71,500	81,300	90,600	86,600	82,400	75,500	72,500	67,300	65,800	
H. Cash Position (End of month, D minus G)	6,900	21,700	41,200	54,700	68,400	72,800	91,200	113,800	133,300	155,800	183,500	212,700	

BALANCE This company always has positive cash flow. 

IF YOUR BALANCE IS NEGATIVE



INCOME \$5,000
EXPENSES - \$9,000

BALANCE - \$4,000 negative

RISKY BUSINESS

Working with a small cash surplus is risky. It seems obvious that you cannot run a business with negative cash. Before you're dangerously low on money, you must arrange for cash infusions by:

- increasing sales
- speeding up cash collections (see page 4)
- slowing down expenses (see page 5)
- getting cash from business owners
- financing (see page 8)

EXAMPLE: A GROWING BUSINESS LOSES ITS SPARKLE
Gemma's Jewels received new orders at a trade show, but when production was increased to fill those orders, here's what happened:

- Gemma had enough money to pay for labor.
- Accounts payable increased, since Gemma buys materials on credit.
- Accounts receivable increased because Gemma sells her products on credit.
- Before the money from her sales was received, Gemma's bills were due! Sixty days after filling the new orders, Gemma was out of cash.

WHAT'S THE LESSON?

Gemma has learned that **fast growth eats cash quicker than it produces it**. A Cash Flow Statement would have shown her that the business was low on cash three times a year. She has since gotten a line of credit (see page 8) to help cover expenses during those lean months.

IF YOUR BALANCE IS POSITIVE



INCOME \$5,000
EXPENSES - \$2,000

BALANCE \$3,000 positive

IN THE PLUS COLUMN

If your business shows a positive cash flow, congratulate yourself, but don't relax! Remember, the numbers can change from month to month. But do squeeze more profit out of your business by investing extra cash (see pages 10 and 11).

EXAMPLE: A SMALL BUSINESS WITH DESIGNS ON SUCCESS
Claire Velleca and Max Smith began an interior design firm with \$5,000 in personal savings. Their goals were to win big clients, collect money quickly and reinvest profits into the business. In three years, annual sales reached \$5 million. But Velleca and Smith were so busy running the business, they lacked the time to deal with their "idle cash surplus." It was not unusual to have 10 to 20 thousand dollars sitting in their checking account!

WHAT'S THE LESSON?

After developing a Cash Flow Statement, Smith and Velleca began investing monthly into a savings account and mutual funds. They also set up retirement accounts.

KEY TERMS

CAPITAL

The equity of a business, including owner(s) investments and retained earnings (accumulated money left in the business).

DEPRECIATION

Except for land, assets lose their value. This loss in value is amortized (spread out over time). *For example, if a machine is bought for \$10,000 and used for 5 years, the annual book depreciation is \$2,000.*

INTEREST

Money paid for the use of money.

PRINCIPAL

Amount of a loan, not counting the interest.

WHAT'S MISSING FROM THE CFS?

These four categories are not on your Cash Flow Statement, but should be calculated at the end of each month:

- Accounts receivable
- Accounts payable
- Inventory on hand
- Bad debt

THE BIG 3 IN FINANCIAL STATEMENTS

A TRIO OF VALUABLE TOOLS FOR CASH FLOW MANAGEMENT

CASH FLOW STATEMENT

Shows how much money comes in and how much goes out.

(Explained in detail on page 6)

- Includes only cash transactions.
- Shows cash received and paid, which is different from accounts receivable and accounts payable.
- Includes pre-paid items like insurance and supplies.
- Shows breakdown of loan payments into **principal** and **interest**.

INCOME STATEMENT

Think of this as your business "report card." It shows your business' performance.

- Shows income and expenses over a period of time.
- Shows net profit (or loss) over a period of time.
- Shows interest payments only (not the principal) on loans.

BALANCE SHEET

This is a "photo" of your business, a moment frozen in time. It shows your overall financial condition, but the numbers change every day.

- Includes accounts payable, accounts receivable and **depreciation**.
- Shows assets (what you own), liabilities (what you owe) and **capital**.

If Your Cash Balance Is Negative



INCOME	\$5,000
EXPENSES	-\$9,000
<hr/>	
BALANCE	-\$4,000 negative

IF YOUR BALANCE IS NEGATIVE...FINANCING CAN HELP

If your Cash Flow Statement shows a negative or low balance, financing is one way to infuse the business with cash. *Check around carefully and compare the interest rates for credit cards, loans and lines of credit.* Don't begin the financing process without giving serious thought to some key questions:

- How large a loan will you need?
- How will the loan be used?
- How will the loan be repaid? Make sure you can handle the added monthly expense. It is crucial that you add the loan payment to your Cash Flow Statement (see sections E & F on page 6).
- How much **collateral** do you have? The value of your collateral should match the loan amount you are requesting. Lenders can order **appraisals** of your collateral and remember, they will **discount** the value of your **assets**.
- How long will it take you to repay the loan? This period of time is called the loan's "term."

FOUR SHORT-TERM FINANCING SOLUTIONS

Short-term financing has a term of under a year and is typically used for **working capital** — turning negative cash flow positive, purchasing inventory and prepaying expenses.

- 1. THE LINE OF CREDIT (LOC)** - The lender will determine a maximum amount of money available to you, then you borrow as you need it. You make a monthly payment, but it is not a fixed amount, since the loan amount varies according to how much you have "used." Interest is calculated on the balance you owe. Once a year, your LOC needs to be paid down to zero and will be reviewed by the lender.
- 2. BUSINESS CREDIT CARDS** - This is a credit card issued to your business and, as you know, it's accepted everywhere. Before you use it, make sure the card's credit limit is enough for what you need. Balances should be paid back within months. If not, the accumulated monthly payments, which may include substantial finance charges, could affect cash flow.
- 3. ACCOUNTS RECEIVABLE FINANCING** - Your company's receivables are sold to a lender or third party, called a factor. You get quick cash. From that point on, their payments are sent directly to the factor, who gets a percentage of the receivables. If any of your receivables become uncollectible, factors assume the risk. Pledging receivables is different; in this case, you are responsible for repaying any uncollectible bills.
- 4. INVENTORY FINANCING** - This method gives you money based on your inventory.
 - **BLANKET INVENTORY** financing is based on part or all of your inventory. You are free to use this inventory, and to sell it.
 - Inventory held in a **TRUST RECEIPT** is held separately for the lender. If a portion of it is sold, you give money to the lender.
 - When inventory is in **WAREHOUSE RECEIPT**, it is kept in a separate area or warehouse, with third party supervision.

INTERMEDIATE-TERM FINANCING

These loans are for one to five years and are used for a specific purpose, such as buying equipment. You receive the amount of the loan in one lump sum up front, then repay it in monthly installments for the length of the loan. Interest is charged on the outstanding balance.

LONG-TERM FINANCING

A long-term loan has a term of 6 years or longer and is usually for larger expenses, like commercial real estate or expensive equipment.

- **COMMERCIAL REAL ESTATE LOANS** - These are used for new construction, as well as to purchase (or refinance) commercial industrial property or investment property.
- **EQUITY LOANS** - Using the real estate you own as security, an equity loan lets you borrow larger amounts of money over a longer period of time.

THE SBA LOAN

The role of the Small Business Administration (SBA) is to guarantee loans to qualified borrowers. These loans are made and processed by a lender with an SBA Loan Guarantee. With this guarantee, the lender is assured of repayment by the SBA if the borrower cannot repay the loan. SBA lenders often approve loans they might otherwise decline.

YOUR COMPANY'S CREDIT

When you seek financing, the financial history of your business will be uncovered. This information will help lenders decide how much money to finance and also at what interest rate.

A good credit rating doesn't necessarily mean an inactive history. It's fine that you've had previous loans or credit card purchases. Lenders are interested in whether you made timely payments. They will look at the amount of credit you've been extended in the past and how much of it was used. Be prepared to explain any liens or bankruptcy proceedings. Have your financial papers in order.

YOUR PERSONAL CREDIT

As a business owner, your personal financial health will also be examined when applying for business financing. It would be wise to order **personal credit reports** for yourself and any other owners of the business. Check the report(s) for mistakes, late payments or other problems and be prepared to discuss them with lenders.

A personal credit report is scored on a scale. To score you, lenders review many items including:

- the number of credit cards and loans you have
- the average size of your balances
- the timeliness of your payments
- how old your accounts are

KEY TERMS

APPRAISAL

The monetary value assigned to an asset, such as equipment or property.

ASSETS

Things you own that are worth money. Includes savings, investments, accounts receivable, inventory, equipment and real estate.

COLLATERAL

Assets pledged to secure a loan. If the loan is not repaid, assets would be sold and the money used for that purpose.

DISCOUNT

Assets are valued lower than their market value to make sure they can be sold quickly.

PERSONAL CREDIT REPORT

A complete picture of your financial history. Companies that offer these reports include:

- Equifax at 800-525-6285 or visit www.equifax.com
- Experian at 800-311-4769 or visit www.creditexpert.com
- Trans Union at 800-680-7289 or visit www.transunion.com

WORKING CAPITAL

The difference between your current assets and liabilities (those that can be converted or paid within one year). This shows your available "liquid" money and your ability to pay current debts.

If Your Cash Balance Is Positive



INCOME	\$5,000
EXPENSES	- \$2,000
BALANCE	\$3,000 positive

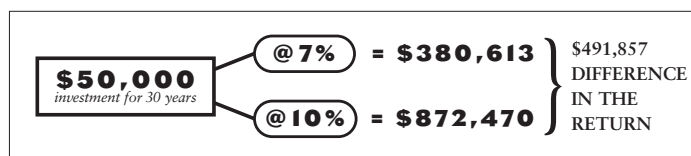
IF YOUR BALANCE IS POSITIVE...INVESTING IS SMART

One of the biggest mistakes you can make is to let an excess of cash sit idly, when it could be earning you money.

It's important to work with qualified financial advisors when you're planning to invest. Their expertise can make a significant difference.

You should consider four factors when thinking about an investment:

- 1. RETURN** - The percentage you earn on an investment is key. Some products, like bonds, offer a specific, guaranteed return. Some products offer a higher return, but it is not guaranteed.



- 2. SAFETY** - What's the risk factor? Conservative investors might choose Certificates of Deposit (CDs) because the investment is insured and the return is guaranteed. Aggressive investors might lean toward mutual funds, but their money is not insured, nor is the return guaranteed.
- 3. LIQUIDITY** - If and when you need your invested money, how quickly can you access it? Money market accounts and savings accounts are considered **liquid** assets because they can be turned into cash quickly. Products with staggered **maturity** dates give you access to cash at different times.
- 4. DIVERSITY** - A smart way to reduce risk is by spreading your money among several types of investment products. For example, you could own both CDs (which are safe) and mutual funds (which offer higher returns).

SO MANY OPTIONS FOR GROWING YOUR MONEY

Take the time to learn about your options before investing. Set up a routine for saving, either with automatic monthly withdrawals or an account with a **sweep** feature. Some of the ways surplus cash can be invested are:

- **SAVINGS AND CHECKING ACCOUNTS** - Shop around for the ones that earn interest.
- **MONEY MARKET ACCOUNTS** - Liquid money accounts that typically earn a higher interest rate than savings accounts, but require a minimum balance.
- **CDS (CERTIFICATES OF DEPOSIT)** - An account where money is invested for a set period of time (anywhere from 3 months to 10 years) at a set interest rate. Upon maturity, you get back your initial investment plus interest, guaranteed.

- **TREASURY BILLS** - T-bills are issued by the U.S. Treasury and have terms of several months up to about a year. You purchase T-bills at a discounted price and your return is the difference between that price and the face value upon maturity.
- **COMMERCIAL PAPER** - This is a very short-term unsecured money market obligation. The term, or length of obligation, can be anywhere from a few days to over 250 days.
- **SECURITIES**
 - > **BONDS** - There are many types of bonds, but generally, they are loans made to corporations or governments. Bonds pay investors a specified amount of interest on a regular basis.
 - > **STOCKS** - Investors own shares or pieces of a company. The value of an investor's stock changes daily.
- **MUTUAL FUNDS AND BOND FUNDS** - Rather than investing in one stock or bond, money is pooled and professional money managers invest in many stocks or bonds.
- **REAL ESTATE** - Whether commercial buildings or land, real estate develops **equity** over time. This equity can be used as collateral to secure financing. Use caution when investing in real estate, as it can take longer than most investments to turn into cash – and if the market value goes down, you can lose money.

HELP MAKE YOUR GOLDEN YEARS GOLDEN

When it comes to saving for retirement, small business owners are on their own. No matter how old – or young – you are, planning ahead is crucial.

Keep in mind that retirement investments should be long-term. If you take money out before retirement age, you'll probably be penalized. The smart approach is to invest in retirement funds, then leave them to grow. Rules for retirement products change often and the information you should know about each one is more than can be printed here. The bottom line is to consult with a qualified financial planner who will explain your options in detail.

- **INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)** allow you to set aside a portion of your annual income for retirement. There are several kinds of IRAs.
- **SIMPLIFIED EMPLOYEE PENSION (SEP)** is a retirement plan for self-employed individuals and small companies. It's similar to an IRA, but with more flexibility. The amount of your tax-deductible contribution can vary from year to year.
- **KEOGH PLANS** allow the self-employed to save for retirement. Keogh owners contribute to a profit-sharing plan or pension, under a qualified trustee.

KEY TERMS

EQUITY

The difference between the fair market value of something and the balance due on the loan.

For example, you own a building valued at \$100,000 but you owe \$60,000 on the mortgage. The equity is \$40,000.

GUARANTEE

A promise by the lender that you'll get your investment back, plus interest.

LIQUID

Assets that can be turned into cash within one year.

MATURITY

Date on which the investment vehicle ends and the money (both principal and interest) are due to the investor.

PROFIT

Difference between the sale price and the cost of an investment.

RETURN

The percentage that you earn on an investment over time.

SWEEP

When there's excess cash in an account (above a pre-determined amount), the money is automatically transferred (or "swept") into another account.