Farm Finances
UVM Farmer Training Program 2018

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Last Time

• Values
• Start Up Decisions and Check List
• SMART Goals

SWOT Analysis

• Internal: Strengths and Weaknesses
• External: Opportunities and Threats

SWOT

Myer Skills
Land Quality
Access to Credit
Market Conditions
Profitability
Weather
Why crop insurance?
Crop insurance is designed to mitigate loss. An indemnity payment will never fully replace a successful harvest, but it might provide the means to continue your sugaring operation following losses caused by unexpected weather events or market shifts.
Whole Farm Revenue Protection

Includes specialty or organic farms
Marketing to local, regional, specialty, farm-identity preserved or direct market

Up to $8.5 million in insured revenue

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Financial Goals

• Increased Equity and Net Worth
• Cash generation for owner draw (your paycheck)
• Profitability: Covering all costs and generating a positive return on capital investments.

The Skills You Need

• Addition, Subtraction, Multiplication, Division
• Ability to set goals
• Time and System to RECORD
• Commitment to REVIEW
Financial Statements

- Balance Sheet
- Cash Flow Statement
- Income Statement or Profit and Loss

Analysis

- Forecasts/Pro Forma
- Enterprise Analysis/Break Even
- Ratios...

Balance Sheet

A snapshot of the farm worth at a single point in time. Successive balance sheets need to be completed over time to analyze trends.

On a balance sheet:
- Inventories and their value
- Assets Value: Items with a useful life over 1 year
- Liabilities: Obligations to be paid back
- Net Worth = Assets minus Liabilities
Equity Looks Like

Equity or Net Worth

• Assets – Liability = Net Worth
• Generating wealth over time through ownership of assets
• Can be liquidated (converted to cash) through a sale

Valuation Technique

Historical Cost:
the initial cost of asset, plus improvement, less accumulated depreciation

Market Value (FMV)
Estimated value using current prices (less selling costs?)
• Land:
  – $3,000 per A if more than 30 acres.
  – $6,000 per A if less than 30 acres
• Farmstead:
  – ~$200,000 depending on residence and infrastructure

• All purpose:
  – Used $25,000
  – New $49,000

• Offset Cultivating:
  – $5,000 - $7,500

• Post Harvest
  – Cooler box $5,000
  – Refrigeration and install $5,000
• $1-1.25 per lb live weight
• Breeding Stock: $1,000 - $1,500
• What if they die

Mark’s Balance Sheet

Jan 1 2001

<table>
<thead>
<tr>
<th>Assets</th>
<th>$</th>
<th>Liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account</td>
<td>$ 500</td>
<td>Credit Card</td>
<td>$300</td>
</tr>
<tr>
<td>Savings</td>
<td>$4,000</td>
<td>Loans: College</td>
<td>$21,000</td>
</tr>
<tr>
<td>Auto: Civic</td>
<td>$3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>$7,500</td>
<td>Total Liabilities</td>
<td>$21,300</td>
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<tr>
<td></td>
<td></td>
<td>Equity – Net Worth</td>
<td>-$ 13,800</td>
</tr>
</tbody>
</table>

Making Progress

Jan 1 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>$</th>
<th>Liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking Account</td>
<td>$ 750</td>
<td>Credit Card</td>
<td>$ 900</td>
</tr>
<tr>
<td>Savings</td>
<td>$3,000</td>
<td>Loans: College</td>
<td>$ 6,000</td>
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<tr>
<td>Auto: Tacoma</td>
<td>$7,500</td>
<td>Loan: Auto</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$11,250</td>
<td>Total Liabilities</td>
<td>$ 9,900</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity – Net Worth</td>
<td>+$ 1,350</td>
</tr>
</tbody>
</table>
Samples

- Let’s make a Balance Sheet

Cash Flow Statements

The focus is on transactions

**Cash Flow Statement:**
summarizes all cash in-flows and cash out-flows over a specific time

**Cash Flow Budget/Projection:**
Forecasts cash activity for a future time period.
Cash Flow

- The Purpose: to maintain sufficient cash on hand so you can pay bills as they come due
  - Will you need to borrow, when?
  - How much can you draw for salary?
  - Unplanned opportunities or problems

Clues to Improved Management

- Find the major expenses
- Identify where the income comes from
- Measure how much the business supports the livelihood of owners
- What else can you find?

Expense Categories

- Variable Expenses: Expenses that go up or down in relation to changes in production level.
Expense Categories

- **Fixed Expenses**: Expenses that hold steady even if the business produces more or less goods

Expense Categories

- **Capital Expenses**: A special category for the purchase of items or improvements that have a useful life more than one year. These items can often be re-sold (i.e., used drip tape cannot)
**Capital Activity**

**+ Capital Inflows +**

- Sale of Farm Assets
- Contributions from Savings
- New Loans/Borrowing

**- Capital Expenses -**

- Purchase of Equipment and Real Estate
- Loan Payments
- Cash Draw to Owners

**Samples**

- What are the major expenses?
- Where does the income come from?
- How does this business support the livelihood of owners?
- What else can you find?
The Five C’s of Credit

- **CHARACTER** – Credit History, knowledge, experience
- **CAPITAL** - Financial position, equity, cash
- **CAPACITY** – Repayment ability and borrowing capacity
- **COLLATERAL** – Lender’s security
- **CONDITIONS** – Of the economy, the industry

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**Loans**

- Loan Schedule:
  - Interest Rate
  - Periods (# of months)
  - Borrowed Amount

- Try a loan calculator online

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**Profiles: John**

- 24 years old
- Renting part of barn
- Growing dairy herd (seasonal milking)
- Skis in winter
- No computers
Profiles: John

- Farm Yellow Book
- Up to 20 owned Cows
- Seeking Land
- FSA Loan Application
  - Herd Expansion ($45,000)
  - Real Estate ($280,000)
- Land Trust Deal
- Cash Flow Projections

Profiles: Rosa

- Wants to feed community with nutritious food
- 1 acre market garden
- 30-40 crops
- Starts with farmers market

Profiles: Rosa

- Stuck at $26,000 gross sales
- Needs to mechanize
- Carrot Project micro-loan
- Needs a new marketing plan
Next Time

• Market Research
• Setting Prices
• Product Development
• Promotion and Sales

Benchmarks: Produce

• Sales
  – Low Value / Wholesale: $5,000 per acre
  – High Value Crops: $20,000 per acre
  – Mixed Crops / Markets: $12,000 per acre
  – CSA: how many member shares per acre?

Benchmarks: Produce

• Expenses
  – Labor: 50% of total sales
  – Capital Expenses /Loans: 10-15% of sales
  – Owner Draws: 15-20% of sales
  – Insurance: $1,000 per year
Benchmarks: Livestock

- Sales
  - ~1,200 finish weight
  - 55% Hot Hang Weight
  - Trim Out to Retail:

- Net Income
  - $200-$400 per animal