

Finance 411



FARM CREDIT EAST

Presented By: Dawn Edmonds

Finance 411

- What is Farm Credit East and what services do we provide?
 - A non-depository farm bank
 - Operating, Capital, and Farm Ownership Loans
 - Services offered to Ag Businesses:
 - Tax preparation, consulting, appraisal services, leases, financial records, payroll services, crop insurance

Finance 411

- Farm Operations Vary greatly:
 - Some sell only one product
 - Some sell only one type of product:
 - Grain
 - Corn
 - Soybeans
 - Wheat
 - Some only sell in bulk and wholesale
 - Some have a wide variety of related and unrelated products
 - Some sell both wholesale and retail
 - Some sell processed crops, purchased items or by products as well
 - Pies donuts
 - Vegetables
 - Maple syrup
 - Mulling spices
 - Compost

Finance 411

- What does finance mean?
 - It is simply the management of money
- As owners you are the CFO of your business, and what does that mean?
 - You are responsible for the financial success or failure of your business

Finance 411

- Why are numbers important to your business?
 - To know where you are
 - To know where you have been
 - To help determine your future

Finance 411

- Goal of your tax preparer:
 - **Minimize income taxes paid**
 - Accomplish this by shifting income or expenses into another income period or use special tax rules (accelerated depreciation)
 - May have trouble getting financing due to losses

Finance 411

- Why is profitability important?
 - Makes loan payments
 - Fund Building and Equipment Replacement
 - Fund savings and retirement accounts
 - Fund Future Expansion
 - Generates a return on your investment
 - And to make the business one that the next generation is excited to take over

Management Reports

- Profit and Loss Statement
- Accounts Receivable Aging Report
- Account Payables Aging Report
- Cash Flow Statement
- Balance Sheet

How Often Should you Review your Management Reports?

- Managers should review financial statements monthly to ensure:
 - Budgeted goals are being met
 - A/R & A/P are being paid and collected
 - Cash Flow Obligations are met without accumulating operating debt.

Year end reviews are usually too late to be effective.

Finance 411

- Financial analysis needs to focus on four main reports:
 - Income statement (aka profit and loss) - income, expense, and net income
 - Balance sheet - assets, liabilities, and NW
 - Cash flow statement - sources of cash and uses of cash
 - The budget forecasts - where you plan to go

Income Statement

Accrual Income Statement Earning Period

<u>Category</u>	Cash Basis Tax Profits	Balance Sheet Adjustments	Accrual Profits	Per Cwt
<u>INCOME</u>				
Milk Sales	\$ 900,000	\$ 30,000	\$ 903,000	\$ 15.05
Cattle Sales	37,000	5,000	42,000	0.70
Other Income	3,000		3,000	0.05
Total Income	\$ 940,000	\$ 35,000	\$ 948,000	\$ 15.80
<u>EXPENSES</u>				
VARIABLE				
Labor & Payroll	\$ 95,000	\$ 2,000	\$ 97,000	\$ 1.62
Repairs- Buildings	10,000		10,000	0.17
Repairs- Equipment	30,000	-5,000	25,000	0.42
Feed Purchases	310,000	-20,000	290,000	4.83
Dairy Supplies	120,000		12,000	2.00
Vet & Medicine	20,000		20,000	0.33
Breeding	8,000		80,000	0.13
Crops (seed, fert., chem., Fuel	60,000		60,000	1.00
Marketing	75,000		75,000	1.25
Variable Total	\$ 728,000	\$ (23,000)	\$ 669,000	\$ 11.75
FIXED				
Interest	\$ 32,000		\$ 32,000	\$ 0.53
Rent (Land, Equipment)	10,000		10,000	0.17
Property Taxes	15,000		15,000	0.25
Insurance (Fire, Liability)	10,000		10,000	0.17
Utilities (Electric & Phone)	20,000		20,000	0.33
Depreciation	60,000		60,000	1.00
Other (Custom, Services)	10,000		10,000	0.17
Fixed Total	\$ 157,000	\$	\$ 157,000	\$ 2.62
TOTAL EXPENSES	\$ 885,000	\$ (23,000)	\$ 826,000	\$ 14.37
NET FARM EXPENSES	\$ 55,000	\$ 58,000	\$ 122,000	\$ 1.43

Income Statement

- **Uses/Goals**
 - Shows if a business has a profit or not
- **Income**
 - Money flowing into the business
 - Ex. Sales, Collection of a crop insurance claim
- **Expenses**
 - Money flowing out of the business

Income Statement (Continued)

- Two Types of Expenses:
 - Variable: expenses that are directly related to the production of a product. Variable costs increase as production increases.
 - Examples: Supplies, Fertilizer, Chemicals, & Direct Labor
 - Fixed: any expenses that a business incurs regardless of production.
 - Examples: Rent, Interest, Insurance, Officer's Salary

Balance Sheet

12/31/1999

<u>Items</u>	<u>Book Value</u>	<u>Fair Market Value</u>
Assets		
<u>Current</u>		
Cash	10,000	10,000
Acct. Rec		75,000
Supplies		10,000
Feed Inventory		100,000
Pre-Paids		2,000
Subtotal	10,000	197,000
<u>Intermediate</u>		
Cattle	5,000	242,500
Equip & Trucks	140,000	200,000
Coop Stock	21,400	21,400
Subtotal	166,400	463,900
<u>Long Term</u>		
Farm Real Estate	85,000	800,000
Total Assets	261,400	1,460,900
Liabilities		
<u>Current</u>		
Acct Payables		30,000
Portion of Capital Line	30,000	30,000
Portion of Mortgage	10,000	10,000
Subtotal	40,000	70,000
<u>Intermediate</u>		
Capital	188,000	188,000
<u>Long Term</u>		
Mortgage	200,000	200,000
Total Liabi	428,000	458,000
Net Worth	(166,600)	1,002,900

Balance Sheet

- **Assets:** the things your company owns that have a value (ex. Cash, Accounts Receivable, Equipment, Real Estate).
 - **Liabilities:** money that the company owes.
 - **Good to Know Calculations:**
 - **Net Worth = Assets - Liabilities**
 - **Working Capital = Current Assets – Current Liabilities**
 - **Current Portion:** One year of loan payments -interest paid
- Successful Businesses have positive WC & NW*

Working Capital

- Why is Working Capital Important?
 - Cushion for business losses
 - Shows you can cover debt for the next 12 mos
 - Options are limited with no WC

Cash Flow Statement

53	Misc.	1,640	1,640	1,640	1,640	1,640	1,640	1,640	1,640	1,640	1,640	1,640	1,640	19,680
54	Total Fixed Costs (FC)	12,563	10,551	10,551	10,551	10,551	10,551	11,551	10,551	10,551	10,551	10,551	10,551	125,612
55	NET MARGIN (TI-YC-FC)	(15,130)	(13,118)	(13,118)	(13,118)	(13,118)	(13,118)	(11,028)	(13,118)	(13,118)	346,882	(13,118)	(13,118)	202,662
56	NET MARGIN %	-500.7%	-434.1%	-434.1%	-434.1%	-434.1%	-434.1%	-364.9%	-434.1%	-434.1%	95.6%	-434.1%	-434.1%	51.1%
57														
58	Total Funds Available (NM-Int)	(13,130)	(11,118)	(11,118)	(11,118)	(11,118)	(11,118)	(9,028)	(11,118)	(11,118)	348,882	(11,118)	(11,118)	226,662
59														
60	Family Living Expense	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
61														
62	Operating Payment (Interest Only)	11	11	11	11	11	11	11	11	11	11	11	11	132
63	FarmStart Payment	100	100	100	100	100	100	100	100	100	100	100	100	1,200
64	Capital Payment	11	11	11	11	11	11	11	11	11	11	11	11	132
65	Other Payments	11	11	11	11	11	11	11	11	11	11	11	11	132
66	Dealer Payments	4,130	4,130	4,130	4,130	4,130	4,130	4,130	4,130	4,130	4,130	4,130	4,130	49,560
67	FSA Mortgages	867	867	867	867	867	867	867	867	867	867	867	867	10,404
68	FPFC Mortgage	1,056	1,056	1,056	1,056	1,056	1,056	1,056	1,056	1,056	1,056	1,056	1,056	12,672
69	Total Scheduled Debt Payments	6,186	6,186	6,186	6,186	6,186	6,186	6,186	6,186	6,186	6,186	6,186	6,186	74,232
70														
71	Total Cash Required	8,186	8,186	8,186	8,186	8,186	8,186	8,186	8,186	8,186	8,186	8,186	8,186	98,232
72														
73	Operations Cash Surplus/Deficit	(21,316)	(19,304)	(19,304)	(19,304)	(19,304)	(19,304)	(17,214)	(19,304)	(19,304)	340,696	(19,304)	(19,304)	128,430
74														
75	Other Sources/Uses of Cash													
76	FarmStart Funds	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000
77	Draw from Savings	200	200	200	200	200	200	-	-	-	-	-	-	1,200
78	Money Borrowed	-	-	-	-	-	-	1,000	1,000	1,000	1,000	1,000	1,000	6,000
79	Capital Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
80	Capital Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
81	Extra Principal Paid on Loans	-	-	-	-	-	-	-	-	-	-	-	-	-
82	Net Cash from Other Sources/Use:	50,200	200	200	200	200	200	1,000	1,000	1,000	1,000	1,000	1,000	57,200
83														
84	Monthly Cash Flow	28,884	(19,104)	(19,104)	(19,104)	(19,104)	(19,104)	(16,214)	(18,304)	(18,304)	341,696	(18,304)	(18,304)	185,630
85														
86	Beginning Cash/Checking Balance	1,000	29,884	10,780	(8,324)	(27,428)	(46,532)	(65,636)	(81,850)	(100,154)	(118,458)	223,238	204,934	186,630
87	Ending Cash/Checking Balance	29,884	10,780	(8,324)	(27,428)	(46,532)	(65,636)	(81,850)	(100,154)	(118,458)	223,238	204,934	186,630	
88	Cumulative Cash Flow	29,884	10,780	(8,324)	(27,428)	(46,532)	(65,636)	(81,850)	(100,154)	(118,458)	223,238	204,934	186,630	186,630
89														

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Cash Flow Statement

- Has four main sections:
 - Income
 - Expense (variable and fixed)
 - Debt payments
 - Available funds in bank account

Cash Flow Statement

- What does the cash flow statement tell you?
 - ARE you going to have enough money at the end of the month to pay all of your obligations?!?!
 - If not how are you going to cover the short fall.

Farmer Jane

Jane is a local vegetable farmer. She triple crops 30 acres of land. She sells her produce through local vegetable auctions and local farmers markets. Last year she sold \$100,000 through the produce auction and \$42,000 through local farm markets. She also got a crop insurance claim of \$5,000.

Last year she purchased the following items to plant: tomatoes, bell peppers, and lettuce. Her expenses included \$1,500 advertising, \$7,000 chemicals, \$14,400 fertilizer, \$8,280 interest, \$1,900 trucking, \$9,100 fuel, \$23,000 labor, \$9,500 seed/ plants, \$13,200 supplies, \$3,300 utilities, \$6,800 repairs, \$4,250 insurance, \$3,500 rent, and \$11,780 other expenses.

As of 12/31 this is what Jane had left:

Jane had \$24,000 between her checking and savings account and \$29,000 in accounts receivables. All other assets include \$28,300 inventory, \$13,467 supplies, and \$13,467 prepaid expenses. Machinery and equipment totals \$75,000, and all land is valued at \$300,000.

Jane has a balance on her Operating line of credit with Farm Credit in the amount of \$30,000. All other debt includes \$10,868 in accounts payables, \$31,800 John Deere loan \$494.69/month (equipment purchase), \$20,000 International loan \$282.68/month (equipment purchase) and \$89,800 20 year Farm Credit Loan \$524.96/month (real estate purchase). For the purpose of this example, the interest rate for all loans are 0%.

Farmer Jane - Income Statement

Income Statement:

Sources of Income:

\$ _____
\$ _____
\$ _____
\$ _____
\$ _____

Total Income:

\$ _____

Expenses:

\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____
\$ _____

Total Expenses:

\$ _____

Net Farm Income

\$ _____

Farmer Jane - Income Statement

Income Statement:

Sources of Income:

Produce Auction	\$ 100,000
Local Farm Markets	\$ 42,000
Crop Insurance Claim	\$ 5,000
_____	\$ _____

Total Income: \$ 147,000

Expenses:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Expenses: \$ _____

Net Farm Income \$ _____

Farmer Jane - Income Statement

Income Statement:

Sources of Income:

<u>Produce Auction</u>	<u>\$ 100,000</u>
<u>Local Farm Markets</u>	<u>\$ 42,000</u>
<u>Crop Insurance Claim</u>	<u>\$ 5,000</u>
_____	<u>\$ _____</u>

Total Income: \$ 147,000

Expenses:

<u>Advertising</u>	<u>\$ 1,500</u>
<u>Chemicals</u>	<u>\$ 7,000</u>
<u>Fertilizer</u>	<u>\$ 14,400</u>
<u>Interest</u>	<u>\$ 8,280</u>
<u>Trucking</u>	<u>\$ 1,900</u>
<u>Fuel</u>	<u>\$ 9,100</u>
<u>Labor</u>	<u>\$ 23,000</u>
<u>Seed/Plants</u>	<u>\$ 9,500</u>
<u>Supplies</u>	<u>\$ 13,200</u>
<u>Utilities</u>	<u>\$ 3,300</u>
<u>Repairs</u>	<u>\$ 6,800</u>
<u>Insurance</u>	<u>\$ 4,250</u>
<u>Rent</u>	<u>\$ 3,500</u>
<u>Other Expenses</u>	<u>\$ 11,780</u>
_____	<u>\$ _____</u>

Total Expenses: \$ 117,510

Net Farm Income \$ 29,490

Farmer Jane - Balance Sheet

Assets:

Current Assets:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Intermediate Assets:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Assets:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Assets: \$ _____

Net Worth: \$ _____

Liabilities:

Current Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Intermediate Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Liabilities: \$ _____

Working Capital: \$ _____

Farmer Jane - Balance Sheet

Assets:

Current Assets:

Cash & Savings	\$ 24,000
Accounts Receivable	\$ 29,000
Inventory	\$ 28,300
Supplies	\$ 13,467
Pre-Paid Expenses	\$ 13,467

Intermediate Assets:

Machinery & Equipment	\$ 75,000
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Assets:

Land	\$ 300,000
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Assets: \$ 483,234

Net Worth: \$ 300,766

Liabilities:

Current Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Intermediate Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Liabilities:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Liabilities: \$ _____

Working Capital: \$ _____

Farmer Jane - Balance Sheet

Assets:

Current Assets:

<u>Cash & Savings</u>	\$ <u>24,000</u>
<u>Accounts Receivable</u>	\$ <u>29,000</u>
<u>Inventory</u>	\$ <u>28,300</u>
<u>Supplies</u>	\$ <u>13,467</u>
<u>Pre-Paid Expenses</u>	\$ <u>13,467</u>

Intermediate Assets:

<u>Machinery & Equipment</u>	\$ <u>75,000</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Assets:

<u>Land</u>	\$ <u>300,000</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Assets: \$ 483,234

Net Worth: \$ 300,766

Liabilities:

Current Liabilities:

<u>Accounts Payable</u>	\$ <u>10,868</u>
<u>FCS Operating Loan</u>	\$ <u>30,000</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____

Intermediate Liabilities:

<u>John Deere</u>	\$ <u>31,800</u>
<u>International</u>	\$ <u>20,000</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____

Long Term Liabilities:

<u>LT FCS Loan</u>	\$ <u>89,800</u>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Total Liabilities: \$ 182,468

Working Capital: \$ 67,366

Changes to Business

- Proposal Process for a change to the business
 - Identify problem/opportunity
 - Describe favorable outcome
 - Offer alternatives
 - Recommend one of the alternatives
 - Identify resources and assistance needed
 - Must be realistic and sufficient time
 - Include timeline and deadline

Changes to Business

Purpose –

- Test a business proposal/investment on paper before implementing it to be sure it will improve net income.
- Project the costs and returns resulting from an investment and calculate the effects on net income.

Changes to Business

Partial Budgeting

- Appropriate for analyzing changes that affect only a segment of the total business.
- Only considers the income and expense accounts that change if the proposal is adopted.

Changes to Business

- Partial Budgeting Procedure
 - Outline the proposal in detail
 - Describe the investment
 - Determine the cost of the investment
 - Describe the anticipated results
 - Make realistic assumptions
 - Increase sales by 5%
 - Increase productivity by 5%
 - Etc
 - Calculate all costs and all returns

Proposal Worksheet

Proposal:

Concept Behind Proposal:

Good Points

Weak Points

Costs To Implement:

Steps to Implement:

Questions to Research:



Partial Budget Form

Proposed change: _____

- Assumptions: 1. _____
2. _____
3. _____

ITEMS THAT ADD TO NET INCOME:

Added Returns:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
	Total \$ _____

Reduced Costs:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
	Total \$ _____

Total added returns and reduced costs (A) \$ _____

ITEMS THAT REDUCE NET INCOME:

Reduced Returns:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
	Total \$ _____

Added Costs:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
	Total \$ _____

Total reduced returns and added costs (B) \$ _____

A minus B equals change in net farm income: \$ _____

Changes to Business

Partial Budgeting Example

Farm Type: Retail Market

Gross Sales \$1,000,000

Net Worth \$500,000

Net Worth % 50%

Business cash flows debt with
minimal excess cash.

Proposed Change:

- Enclosed, insulated 500 sq ft addition
- Cost - \$100/ sq ft or \$50,000
- More product and displayed better

Changes to Business

Assumptions:

- This will increase sales by 5% minimum.
- Need to buy/grow more product.
- Cost of money @ 6% = annual loan payment of \$11,500.
- 100 % financed.
- Historically earned 40% Gross Margin

Is this worth doing?

Changes to Business

Practical Approach to Partial Budgeting

Identify what will: (annual basis)

- Increase income / reduce costs

\$50,000 – sales – 5%

\$ _____

\$ _____

Total "Gains" - \$50,000

- Reduce income / increase costs

\$30,000 – labor and production costs

based on 60% variable exp.

\$11,500 – fixed expenses

\$ _____

Total "Losses"- \$41,500

Net Effect of Investment / Worth Doing?

\$8,500

Changes to Business

- Is this investment worth doing?
- Why or why not?
- What other factors in this example would you need to know?
- What alternatives would you suggest?

Changes to Business

➤ Years Payback =

$$\frac{\text{Investment Cost}}{\text{Net Return/Income}}$$

	5% Sales Growth	10% Sales Growth
	$\frac{\$50,000}{\$8,500} = 5.9\text{Yrs}$	$\frac{\$50,000}{\$26,500} = 1.9\text{ Yrs}$

Under 2 – great

Under 3 – good

Under 4- think again

TEST YOUR ASSUMPTIONS

Increase sales by 10% or \$100,000 total sales increase.

At (\$10 sales/customer) need 10,000 more customers.

Or,

Need 10% increase in sales per customer (\$1.00 based on 100,000 customers)

What is the annual financial breakeven point?

Is this realistic??

Business Plans & Financing



FARM CREDIT EAST

Business Plans

Why should I create a business plan?

- To show potential investors that you are prepared and serious
- Go through the thought process of all aspects of the new venture

Business Plan

- Create a Business Concept
 - Type of Business
 - Diversification from Competition
 - Brief Sketch of future goals
- Define Vision
 - What is the desired future state?
- Set Goals
 - Detailed, Realistic & Measurable

Business Plan

Components of a Business Plan:

- Business Description
- Operations
- Marketing
- Management & Organization
- Financial

Business Plans

- Get started today at:

www.agplan.umn.edu



The Agriculture, Fisheries and Small Business Planning Website



What is AgPlan?

AgPlan helps rural business owners develop a business plan. Everyone can use AgPlan—for FREE.

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- **Learn** what you need to include in your plan with **Tips & Resources**
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"How do I get started using AgPlan?"

Getting Started

We are committed to safeguarding your info

Private Security Statement

AgPlan's User-oriented Features



Choose your business type
AgPlan is designed to provide customized assistance to different types of businesses.



Editor
Our feature-rich type editor acts just like your computer's word processor. For each section of your business plan write



Tips, Resources & Samples
In each section of AgPlan you will find specific Tips, Resources & Samples to help you create the best business plan



Reviewers
AgPlan allows you to share your business plan and interact with your business advisors, educators, or

Feedback



The Agriculture, Fisheries and Small Business Planning Website



Complete

You have been successfully registered. Click Continue to begin building your business plan.

Continue

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Feedback



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Cover Page

Executive Summary

- Business Description
- Mission Statement
- Goals
- Plan Summary
- Capital Request

Business Description

- Business Overview
- Location
- Facilities
- Business History
- Ownership Structure

Operations

- Products
- Services
- Production System
- Licenses, Permits & Regulations
- Risk Management
- Environmental Issues
- Quality Control
- Implementation Timeline

Marketing Plan

- Market Trends
- Marketing Strategy
- Marketing Contracts
- Strategic Partners
- Competitive Advantage

Management & Organization

- Management Team
- Board of Directors
- Advisory Board
- Personnel Plan
- Professional Services

Financial Plan

- Financial Position
- Historical Performance
- Financial Projections
- Asset Management
- Benchmarks
- Capital Request

Kaufman Farm > Cover Page

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Tips Resources Samples Comments

This is the cover page for your business plan. Enter the name of your business, contact information, including address, email, fax, phone, website, and the date the plan was prepared. You may also want to include a graphic image or photo representing your business. Make the business name the most prominent feature and otherwise, keep the page relatively clean - lots of white space. This is a good place for a logo.

The page may also include a "title". The title might say "Business Plan", or might briefly describe what the business plan is for. For example, it might say "Business Plan for Dairy Expansion".

Feedback



Edit

View/Print

Attachments

Help



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Kaufman Farm > Financial Position

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, text color, background color, bulleted list, numbered list, link, unlink, font name, and font size. Below the toolbar is a large empty text area for editing content.

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Tips Resources Samples Comments

The financial position of your business communicates the financial resources you have available and your ability to withstand future risks. Your financial position can be evaluated in terms of the solvency and liquidity position of your farm business.

Document your solvency by including and discussing your balance sheet. A balance sheet indicates how funds are invested in the business (assets), and the financing methods used (liabilities and owner's equity). It also documents the business' net worth. Use your balance sheet to discuss your financial strengths and weaknesses. What is your debt to asset ratio? How much has your net worth changed in the past three to five years?

Liquidity indicates whether the farm has money when it is needed. Discuss your liquid assets, cash reserves and how you use operating loans. What is your current operating loan balance and when will you pay it off? Often lenders use the current ratio and working capital to evaluate liquidity.

FINPACK is the premier agricultural financial software to help analyze your financial position and make financial projections. Information on using and purchasing FINPACK is available at [http://www.finance.umn.edu/finpack](#)

Feedback

- Cover Page
- Executive Summary
 - Business Description
 - Mission Statement
 - Goals
 - Plan Summary
 - Capital Request
- Business Description
 - Business Overview
 - Location
 - Facilities
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 - Ownership Structure
- Operations
 - Products
 - Services
 - Production System
 - Licenses, Permits & Regulations
 - Risk Management
 - Environmental Issues
 - Quality Control
 - Implementation Timeline
- Marketing Plan
 - Market Trends
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 - Management Team
 - Board of Directors
 - Advisory Board
 - Personnel Plan
 - Professional Services
- Financial Plan
 - Financial Position**
 - Historical Performance
 - Financial Projections
 - Asset Management
 - Benchmarks
 - Capital Request



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Kaufman Farm > Financial Position

Cover Page

Executive Summary

- Business Description
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Business Description

- Business Overview
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Operations

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Marketing Plan

- Market Trends
- Marketing Strategy
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Management & Organization

- Management Team
- Board of Directors
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Financial Plan

- Financial Position**
- Historical Performance
- Financial Projections
- Asset Management
- Benchmarks
- Capital Request

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, font color, background color, bulleted list, numbered list, indent, outdent, link, unlink, and font size. Below the toolbar is a large empty text area for editing content.

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Tips Resources Samples Comments

Navigation tabs: Transitioning to Organic Production, Direct Market Beef, Dairy Farm Expansion

As of January 1, 2002, Moore Milk Dairy has a net worth of \$613,240. Our current ratio is 1.29 but almost all of our current liabilities are principal due on term debt in the next year. We typically self finance our operating needs from milk sales and we do not currently have a short term operating loan. The level of accounts payable is normal and has not increased over the past year. At present Moore Milk Dairy has a debt to asset ratio of 47%. After the proposed expansion, our debt to asset ratio will increase to 70%. While this is high, our projections indicate that we will be able to increase net worth by \$40,000 to \$50,000 each year after the expansion.

<<FINPACK DATA>>

Feedback

Business Plan

- Tips for Getting Started
 - Be Realistic in Budgets
 - May need three years to be profitable
 - Unlikely to make \$1,000,000 in your 1st year
 - Make sure to include all expenses
 - Make sure that your yields and prices are realistic
 - Cooperative Extension Office
 - USDA – Ag Statistics

Business Plan

- Financial Plan
 - Financial Position
 - Historical Performance
 - Financial Projections
 - Asset Management
 - Benchmarks
 - Capital Requirements

Business Plan

- Financial Position
 - Resources & Ability
 - Balance Sheet
 - Assets
 - Liabilities
 - Document Net Worth
 - Discuss Strengths & Weaknesses
 - Debt to Asset Ratio

Business Plan

- Historical Performance
 - Trends from past 3-5 years
 - Net Farm Income
 - Debt Capacity
 - Income Statement
 - Explanation for major changes over the past few years

Business Plan

- Financial Projections
 - Investors & Lenders want to see:
 - Projected Cash Flow, Income Statement & Balance Sheet
 - Projected Cash Flow:
 - Can you meet expenses
 - Make debt payments
 - Survive the transition period

Business Plan

- Financial Projections
 - Projected Income Statement:
 - Once plan is fully implemented, it documents:
 - Income
 - Expenses
 - Profitability
 - Proforma Balance Sheet:
 - Evaluates how the plan will impact NW

Business Plan

- **Asset Management**
 - **How do you plan to Acquire & Manage Assets?**
 - Purchase
 - Lease (Describe lease arrangements)
 - Custom Hire
 - **What are your Non-Farm Assets?**
 - Give summary of investments:
 - Retirement
 - Other

Business Plan

- **Benchmarks**
 - Compare your business to other similar businesses.
 - Lets you know where your business stands compared to others

Business Plan

- **Capital Requirements:**
 - How much money do you need?
 - What will be the purpose for funds?
 - Equipment
 - Labor
 - Purchase Land, etc.
 - What terms & rates are being used?
 - Can you afford the debt schedule?

Start-Up Financing Options



- Less than 3 years
- No significant credit issues



United States Department of Agriculture
Farm Service Agency

Beginning Farmers and Ranchers Loans

America's next generation of farmers and ranchers are supported through FSA's "Beginning Farmer" direct and [guaranteed loan](#) programs. [Farm Ownership](#) loans can provide access to land and capital. [Operating loans](#) can assist beginning farmers in become prosperous and competitive by helping to pay normal operating or family living expenses; open doors to new markets and marketing opportunities; assist with diversifying operations; and so much more. Through the [Microloan programs](#), beginning farmers and ranchers have an important source of financial assistance during the start-up years.

While FSA is fully committed to all farmers and ranchers, there is a special focus on the particular credit needs of farmers and ranchers who are in their first 10 years of operation. Each year, FSA targets a portion of its lending by setting aside a portion of all loan funds for financing beginning farmer and rancher operations. With the single exception of the Direct Farm Ownership Down Payment Loan, the Beginning Farmer classification is not related to a type of loan program; it references a specific, [targeted funding source](#).

Farm Credit East, ACA

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