



Overview Financial Management



<http://farminmaine.wordpress.com>

Basic Business Plan


Your Business Plan #3005 by Dr. Jim McConnon, UMaine Extension

- Summary
- Description of business
 - Mission & goals
- Market analysis
- Competition
- Management plan
 - Personal histories
 - Duties & responsibilities of you and employees
- Sources and uses of funds & resources
- Production plan
 - Production cycles
 - Tillage, planting, harvest
 - Breeding, birthing, feeding
- Market Strategy
- Financial data (*Past & Future*)
 - Balance sheets
 - Cash flow
 - Financial statements
 - Tax forms
 - Capital equipment

Business Analysis




Knowing where your business is!
 Directing where you want it to go!




Business Analysis

Types of Financial Analysis


- Comparative
 - Measuring the impact of business decisions from one period to another
- Projected
 - Useful in forecasting changes in the financial picture using the recorded history and cash flow





Three common sheets throughout the session

- **Income statement**
- **Cash flow statement**
- **Balance sheet**



Financial Statements and List of Required Records

Statement	Records Required
Balance Sheet	Farm Assets Cost & Value Farm & Personal Asset Changes Livestock, Crop & Other Product Inventories Loan Balances
Cash Flow	Farm Income & Expenses Non-Farm Income & Expenses Debt Payments
Enterprise Budget Analysis	Farm Income & Expenses Livestock & Crop Yields
Income Statement	Farm Income & Expenses Interest Payments Livestock & Feed Inventories Accounts Payable & Receivable
Income Taxes	Farm Income & Expenses Non-Farm Income & Expenses Interest Payments Depreciation Schedule



Profitability

- “ The return or income received as a result of owner/manager inputs of labor, management and Capital into the business.” But is that enough detail?
- Does that mean ***each*** year?
- What about depreciation (Economic vs. tax)
- What about family living?
- A farm that is NOT profitable cannot survive in the long run.
- Thus: need to look at Past, Present, and projected future income / expense streams.
- A TREND is needed to really determine LONG term profitability



What determines Profitability

- **Sales Volume** – how many pots, how many plants, how many pints, quarts, bulbs, pounds, head, side, etc. of the item sold.
- **Pricing** – prices of products, quality bonus, diff. market
- **Expenses** – costs going into products – production, marketing, storage, etc.



How do we account for profits?

Cash

- Counts when an item is Sold - MONEY received
- Counts when an item is purchased - PAID for
- NET Income is at the bottom of the Schedule F
 - except Depreciation is a tax depreciation NOT Economic Depreciation – there is usually a huge difference

Accrual

- Income reported when products produced
- Expenses reported when inputs USED...
- Cash throughout year but +/- inventories, production inputs on hand at beginning/ending of year



Changing items outside the business does influence profit of the business

- Family living
- External sources
- Another business
- Off farm income



3 ways to increase profit

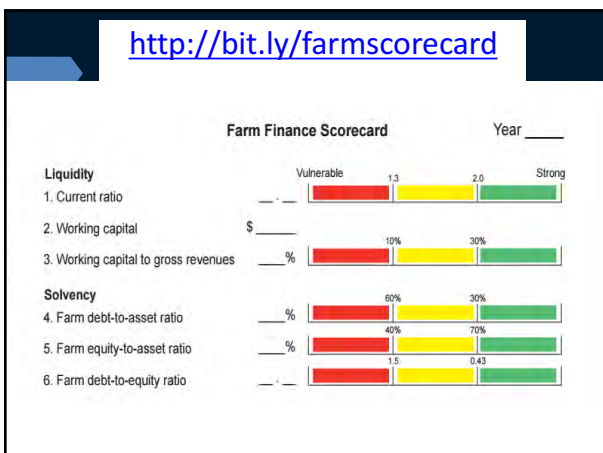
1. Increase income In the business
 - More production,
 - More acres
 - More greenhouses
 - More animals,
 - More milk
 - Higher market price
 - Niche market
 - Higher quality
2. Decrease Expenses
 - In the business
 - Concentrate on the top 3 to 5 expenses
3. Combination of the two
 - And it's this approach we tend to look at closely
 - No simple answer



Financial Measures on a farm

- Farm Finance Scorecard
 - Liquidity – Balance Sheet
 - Solvency – Balance Sheet
 - Profitability – Income statement
 - Repayment Capacity – “Cash flow” statement
 - Financial Efficiency – from all the statements
- Benchmarking
 - Comparing yourself to others





- ### The benefits of a business plan
- Shows how the business (YOUR business) will make money
 - Determines the future financial plans, its needs, and what portion will be financially successful
 - Outlines spending (and Income)
 - Demonstrates how YOU will avoid pitfalls. (You've done the research)
 - Need it for Funding sources - Part of the loan package now
 - Update the plan periodically – Don't let it sit on the shelf gathering dust!!!!

Benchmark Data – Farm Credit East

Knowledge Exchange Partner, Vol 10, Iss. 6, June 2016

Industry	Retail Farm Market	Equine	Greenhouse	Vegetable
Current ratio	4.7	0.95	1.98	3.98
% Net worth	80.8%	62.1%	73.3%	81.3%
Owner's draw as % of sales	3.9%	6.2%	1.9%	3.8%
Fixed expenses as % of sales	25.7%	45.2%	21.0%	29.5%
Gross income/unit	\$185/SF sales area	\$17,176/stall	\$17/SF sales area	\$4,668/acre
Net margin as % of gross income	5.7%	9.4%	8.4%	12.4%
Return on equity	3.2%	4.7%	9.3%	6.5%

Iowa State Financial Benchmarks

	Gross Income / A	FTE / A	Labor as % of Production Cost	Net Income Ratio	Acres needed for \$30,000 farm income
Mixed Veg – CSA model	\$17,500 50 shares/A	½ to ¾	65% to 75%	35%	5 A at \$6,125 net
Mixed Veg – non-CSA model	Organic \$21,000 Non-organic \$17,000 Wholesale \$7,000	½ to ¾	65% to 75%	35%	4-1/2 A at \$6,650 net 12 A at \$2,450 net
Strawberry	\$11,000	Var.	50% to 60%	40%	7 A at \$4,400 net
Raspberries	\$5,000	Var.	50% to 60%	40%	15 A at \$2,000
Apple	\$5,000	Var.	60% to 65%	40%	12-1/2 A at \$2,400 net
Aronia Berry	\$17,000	Var.	70% to 80% hand harvest 10 to 20% machine harvest	40%	4-1/2 A at \$6,800 net

Pork Check Off

Pork Industry Benchmarks

www.pork.org

Average Sow Farm Productivity


	2010	2011	2012	2013	2014	2015
Pigs/Mated Sow/Year	23.5	24.1	23.9	23.7	22.2	23.4
Litters/Mated Sow/Year	2.33	2.33	2.31	2.30	2.26	2.27
Total Born	13.0	13.4	13.4	13.6	13.5	13.5
Stillborn and Mummies	1.22	1.24	1.17	1.14	1.21	1.35
Number Born Alive	11.8	12.1	12.3	12.4	12.3	12.1
Number Weaned	10.0	10.2	10.3	10.2	9.7	10.0
Pre-weaning Mortality (%)	14.6	15.5	15.5	17.3	20.5	17.4
Weaning Weight (lbs.)	13.0	13.1	13.2	13.4	13.6	13.9
Weaning Age (days)	20.8	20.9	21.5	21.9	21.7	22.0

Hay, Mixed 2016; Cash Rent

Benchmark Report, 6th Edition

FINBIN

Group	Count	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Yield per acre (ton)	3,007	1,181	1,360	2,101	2,517	2,941	3,361	3,781	4,201	4,621	5,041
Value per unit	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000	140,000	150,000	160,000
Total product value	186,644	98,280	108,880	127,650	150,900	173,160	195,420	217,680	240,000	262,320	284,640
Gross return	211,856	108,140	127,650	147,160	166,670	186,180	205,690	225,200	244,710	264,220	283,730



Break-even Analysis

- At a given selling price and known cost, how many must be sold to cover all costs?
 - Fixed and Variable


Break-even
Level of
production

=

Fixed Cost

/


Unit Price – Unit Variable Cost

 **Beef**

Excel spreadsheet
Beef Price & Yield Estimator
available from Donna

Expected Revenue Per Head – Unit Price


Cut	Average Price per Pound	Pounds per Head	85% of Lbs. per Head	Revenue
Low Price				
Steak	\$11.00	140 lbs.	119 lbs.	\$1,309
Roast	\$5.50	140 lbs.	119 lbs.	\$654
Ground	\$4.50	140 lbs.	119 lbs.	\$536
Total Revenue per Head Low Price				\$2,499
High Price				
Steak	\$15.00	140 lbs.	119 lbs.	\$1,785
Roast	\$7.00	140 lbs.	119 lbs.	\$833
Ground	\$6.00	140 lbs.	119 lbs.	\$714
Total Revenue per Head High Price				\$3,332

 **Beef**

Break-Even Analysis

Farm capacity of 40 head marketed per year

Options	Fixed Costs	Unit Price per Head	Unit Variable Cost per Head	Number of Head to sell to break-even
Farm Stand / Farmers Mkt Low Price	\$65,699 /	\$2,499	- \$1,717	84
Farm Stand/ Farmers Mkt High Price	\$65,699 /	\$3,332	- \$1,717	41
Farmers Mkt Low Price	\$53,474 /	\$2,499	- \$1,717	68
Farmers Mkt High Price	\$53,474 /	\$3,332	- \$1,717	33

 **Beef**

Sensitivity Table

Retail Beef – Cuts of Meat	Number of Head must sell to break-even Low Price	Number of Head must sell to break-even High Price
Market at On-Farm Retail Store and Farmers’ Market	84	41
Market only at Farmers’ Market	68	33



Presentation adapted from



- Farm Financial Scorecard, UVM
- Measures of Profitability / Farm Financial Scorecard by Glenn Rogers – Professor emeritus – UVM Extension
- Establishing and Using a Farm Financial Record-Keeping System, University of Tennessee, Knoxville
- Beef Price & Yield Estimator, Matt LeRoux, Cornell



FSA Borrower Training Meet with any Educator



- Donna Coffin – Piscataquis, Penobscot & Hancock
- Gary Anderson – dairy & other livestock
- Rick Kersbergen – Waldo & dairy
- Caragh Fitsgerald – Kennebec
- Kathy Hopkins – Somerset
- Other counties in Southern Maine





Borrower Training Check-in

- A. Describe goals, changes needed to reach goals, present and projected budgets
- B. Maintain recordkeeping system (production & financial), household budget, statement of financial condition & accurate adjusted income statement.
- C. Understand and utilize income statement


Borrower Training Check-in

- D. Understand and utilize a balance sheet
- E. Understand and utilize a cash flow
- F. Use production records & other production information to ID problems, evaluate alternatives & make corrections to better efficiency & profitability

FSA Borrower Training Score

Score	Criteria Used to Determine Score	Agency Consideration
1	If the applicant: <ul style="list-style-type: none"> • Attended sessions as agreed, • Satisfactorily completed all assignments, and • Demonstrated an understanding of the course material. 	Training requirement associated with course is complete.
2	If the applicant: <ul style="list-style-type: none"> • Attended sessions as agreed, and • Attempted to complete all assignments, but • Does not demonstrate an understanding of the course material. 	Training requirement associated with course is complete. Additional Agency supervision may be necessary.
3	If the applicant: <ul style="list-style-type: none"> • Attend sessions as agreed, or • Attempt to complete assignments, or • Otherwise make a good faith effort to complete the training. 	Training requirement associated with course is not complete. The borrower is ineligible for future direct loans until training is completed.



Evaluations – From Extension & from FSA

- All registered folks will receive this weblink to a course evaluation from UMaine Extension. <http://conta.cc/2pZlwF1>
- FSA Borrower Training Folks - after meeting with educator will receive a course evaluation from FSA

Please – Please – Please

- Complete these evaluations to make this type of course available in the future.



*Thank you and best wishes
in the future success of your
farm venture*

*From Your SYWTFIM
Central Maine Team*