

Business Planning for Agritourism Enterprises: Session 5 - Financial

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Who is here today?

- POLL: Are you familiar with the 3 main Financial Statements: Balance Sheet, Income Statement, Cash Flow Statement?
- POLL: Have you developed Financial Statements for an operation (on your own/or with another person)?
- Introduce yourself in chat





Financial



Financial

- For many businesses, the financial section is the most important part of their business plan
- The financial section is particularly important if you are proposing major changes or starting a new business



Financial

- AgPlan financial sections:
 - Financial position
 - Historical performance
 - Financial projections
 - Asset management
 - Benchmarks*
 - Capital request

Financial

- Financial viability is generally evaluated from three perspectives:
 - Solvency
 - Profitability
 - Liquidity





Financial

- Solvency evaluates changes in net worth
 - How much do you own if all debts paid
- Profitability monitors earnings
 - How much income are you generating
- Liquidity estimates cash flow and debt repayment ability
 - The ability to pay bills when due

Financial

- **Financial Position**
 - A balance sheet measures business solvency
 - Compares the assets invested in the business with the financing methods used (liabilities and owner's equity)
 - Documents net worth



Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
Total assets	Total liabilities
	Net worth





Balance Sheet



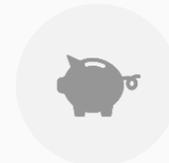
INVENTORY
OF FINANCIAL
& PHYSICAL
RESOURCES



EVALUATES
FINANCIAL
STRENGTHS &
WEAKNESSES



EVALUATES
CREDIT RISK



STARTING
POINT FOR
FINANCIAL
PLAN



On A Sheet of Paper...

- Write down everything you own
 - Examples: Buildings, equipment, real estate, etc.
- On the flip side, write down any loans you have
 - Examples: Loan for a tractor, for a building, etc.



Financial

- **Historical Performance**
 - Usually evaluated using income statements to measure profitability
 - Measures how much income the business is making in relation to the resources used to produce that income

Income Statement

Income	Income Adjustments
Sales of livestock, livestock products, crops, gov. payments, crop insurance	Inventory changes for feed, grain, market and breeding livestock
<i>Total Cash Income</i>	<i>Total Farm Income</i>
Expenses	Expense Adjustments
Chemicals, custom hire, feed, fertilizer, fuel and oil, interest, rent	Prepaid expenses, accounts payable, depreciation
<i>Total Cash Expense</i>	<i>Total Farm Expense</i>
Net Farm Income (cash)	Net Farm Income (accrual)



Financial

- Financial Projections

- Evaluate liquidity using a cash flow statement
- A projection of all sources and uses of cash during a specified planning period
- Evaluates the business's ability to meet loan payments and other financial obligations on time



Cash Flow Projections

+ Cash operating inflow
+ Capital sales
– Cash operating outflow
– Capital purchases
– Loan payments
+ New borrowing
= Net Cash Flow





Financial

- **Asset Management**
 - Your financial plan should also describe how you acquire and manage capital assets - purchase, lease, or custom hire.
 - What is your path to land access?
 - How efficiently are assets being used?



Financial

- **Benchmarks**
 - Compare to similar businesses
- FINBIN.umn.edu



Financial

- Capital Request

- The final part of your financial plan should describe how much money you need to implement your business plan
- Describe the sources of your financing
- Present your financing request if you have one



A man with a beard and short brown hair, wearing a grey and white striped polo shirt, is sitting at a wooden desk. He is looking thoughtfully to the right, with his right hand resting on his chin and holding a blue pen. His left hand is on a computer mouse. In the background, there is a large window with a view of greenery and a building. A white computer monitor is visible on the right side of the desk.

Financial

- Your Financial Statements
 - Generate financial statements using a software program, it's easier
 - FINPACK is a widely used ag financial planning software
 - AgPlan Financial Spreadsheet



What do you think...

- What is something that might still hold you back from developing the Financial section of your business plan?



Financial Statements

How to Put All of this Together





100,000+ business plans have been created using AgPlan

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Secure

https://AgPlan.umn.edu



More on Balance Sheets

“Snapshot of the farm worth at a single point in time”

- **Asset Valuation Guidelines (FFSC Recs)**
 - Variety of Valuations - based on nature of the item.
 - Include footnotes!
 - Consistent and Conservative



More on Income Statements

- Measures profitability
- Main Use: PERFORMANCE ANALYSIS
 - Judging the instruments used to achieve your financial goals
 - This includes management

Does not tell the whole story of the company's financial health

More on Cash Flow Statements

- “Where did it all go?”
- “Where did it come from?”
- “Will I need to borrow, When?”
- “What can I pay myself?”
- SEASONALITY!

Projections / Pro-Formas

- Be honest!
- Be consistent
- “Blue Sky” vs. “Dark Sky” scenario



A Word About Analysis

- Ratios

- Solvency: “Debt to Asset” = Total Debts/Total Assets
- Profitability: “Return on Assets” = Net Farm Income* (IS)/Total Assets
- Liquidity: “Current Ratio” = Current Assets/Current Liabilities

- Vertical Analysis

- Compares an income or cost category to gross sales
- *Combine vertical analysis with horizontal analysis to identify period-to-period change*



Clues for Improved Management

- Find the major expenses
- Identify where the income comes from
- Measure how the business supports the livelihood of the people involved



AND BREATHE!!!!!!!



Financial Statements

What Scares You About Financial Statements?



Homework:

Complete AgPlan “Financial Section”
Next Tuesday: Executive Summary



Support for AgPlan Business Planning

Contact the Center for Farm Financial Management

- Call (612) 625-1964 (US phone number)
- Email: cffm@umn.edu
- Web: cffm.umn.edu

Recordings and resources are online
<https://go.uvm.edu/agplan>



Thanks for joining us!

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