


CULTIVATING HEALTHY COMMUNITIES

Farm Finances

UVM Farmer Training Program 2018

Mark Cannella
Farm Business Management Specialist

Mark.Cannella@uvm.edu 802-476-2003 UVM Extension Farm Viability



COMMUNITY | FOOD & NUTRITION | ENVIRONMENT | AGRICULTURE | FOOD

UNIVERSITY OF VERMONT EXTENSION
CULTIVATING HEALTHY COMMUNITIES

Last Time

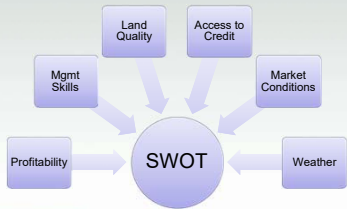
- Values
- Start Up Decisions and Check List
- SMART Goals




UNIVERSITY OF VERMONT EXTENSION
CULTIVATING HEALTHY COMMUNITIES

SWOT Analysis

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



```
graph TD; LQ[Land Quality] --> SWOT((SWOT)); AC[Access to Credit] --> SWOT; MS[Mgmt Skills] --> SWOT; P[Profitability] --> SWOT; MC[Market Conditions] --> SWOT; W[Weather] --> SWOT;
```



UNIVERSITY OF VERMONT EXTENSION
CULTIVATING HEALTHY COMMUNITIES

Management Analysis and Risk Management

“SWOT” (Strengths, Weakness, Opportunities, Threats)

Strengths:

- Good Marketing Location
- Long running business with a very loyal customer base and a supportive community
- Prime agricultural soils, extremely fertile
- Experience and commitment to the farming business
- Efficient use of current labor and equipment

Weaknesses:

- Lacking a solidified vision for the farm’s future
- Lack of cohesion and good communication between [redacted]
- Lacking enough labor to grow the business; little experience with finding and managing larger numbers of employees to maximize efficiency.
- At the beginning of the Viability process, had poor sales records, and financial records, and a lack of good tracking system for sales from the farmstand.
- Limited seasonality of the business since the stand is only temporary structure
- Little in the way of season extension
- Inefficient weed control system—too much hand labor
- Lack of irrigation, which is not a problem in most years

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

Opportunities:

- Improved record-keeping system including the use of Quickbooks
- Increasing wholesale markets and restaurant sales
- Adding cold storage
- Improving weed management with a flame weeder, and another tractor for cultivation
- The eventual addition of high tunnel growing
- If land for the stand can be secured by long-term lease or purchase, build a more substantial stand.
- Working with the Monadnock Conservancy and the Russell Foundation to conserve some of the leased parcels including the stand location.
- Long-term there may be potential to buy the [redacted] property in [redacted] property [redacted] property in Walpole.

Threats:

- Lack of Financial buffer
- Insufficient land tenure—short-term leases and in some cases no written leases
- Development Pressure along Route [redacted] which is primarily zoned commercial


UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES


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.


THE UNIVERSITY OF VERMONT **AGRICULTURE & LIFE SCIENCES** **USDA**

Whole Farm Revenue Protection 




- Includes specialty or organic farms
- Up to \$8.5 million in insured revenue
- Marketing to local, regional, specialty, farm-identity preserved or direct market

Jake Jacobs
Crop Insurance Coordinator
802-377-5858
jake.jacobs@uvm.edu





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



UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

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



UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

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?)

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

- 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



UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES

- All purpose:
 - Used \$25,000
 - New \$49,000
- Offset Cultivating:
 - \$5,000 - \$7,500


UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES



- Post Harvest
 - Cooler box \$5,000
 - Refrigeration and install \$5,000

Bush Refrigeration Indoor Walk-In Cooler Box Only (F x 12' x 7'1")
This Walk-In Refrigerator Box does NOT include Refrigeration! Call our refrigeration experts for guidance...
\$5,175.00

UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES



- \$1-1.25 per lb live weight
- Breeding Stock: \$1,000 - \$1,500
- What if they die

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

Mark's Balance Sheet

Jan 1 2001			
Assets	\$	Liabilities	\$
Checking Account	\$ 500	Credit Card	\$300
Savings	\$4,000	Loans: College	\$21,000
Auto: civic	\$3,000		
Total Assets	\$7,500	Total Liabilities	\$21,300
		Equity – Net Worth	- \$ 13,800

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

Making Progress

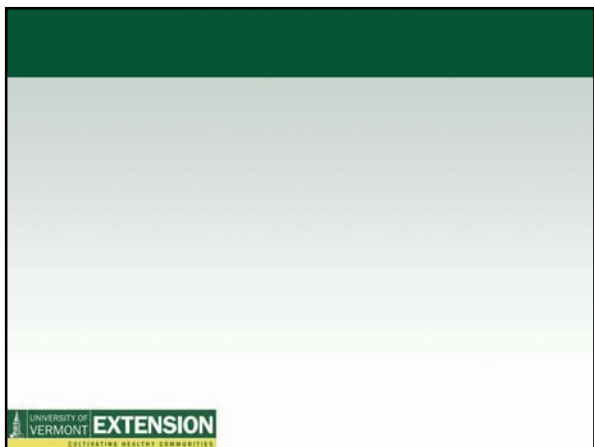
Jan 1 2006			
Assets	\$	Liabilities	\$
Checking Account	\$ 750	Credit Card	\$ 900
Savings	\$3,000	Loans: College	\$ 6,000
Auto: Tacoma	\$7,500	Loan: Auto	\$ 3,000
Total Assets	\$11,250	Total Liabilities	\$ 9,900
		Equity – Net Worth	+\$ 1,350

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

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



UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

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 (ie. used drip tape cannot)



UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

Cash Expenses
Variable Expenses:
Advertising, web site, internet expense
Bedding
Breeding
Custom hire
Distribution - trucking, shipping, etc.
Feed purchased
Fencing
Fertilizer
Fuel and oil
Greenhouse supplies
Labor hired/payroll
Market livestock purchased for resale
Packaging and labels
Processing/butchering services
Professional services & fees
Purchased products for resale
Repairs, maintenance
Seeds & plants purchased
Supplies
Veterinary & medicine expense
Other:
Other:
Other:
Other:

UNIVERSITY OF VERMONT **EXTENSION**
CELEBRATING HEALTHY COMMUNITIES

Fixed Expenses:
Auto & truck
Insurance, farm share
Property tax, farm share
Rents paid—land, buildings
Rents paid—equipment, livestock
Utilities, farm share
Other:
Other:
Other:
Other:

UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES

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


UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES

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?



UNIVERSITY OF VERMONT EXTENSION
CELEBRATING HEALTHY COMMUNITIES

 **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

Intro to Ag Fin Mgt, UVM Ext, Feb 2015 34


Loans

- Loan Schedule:
 - Interest Rate
 - Periods (# of months)
 - Borrowed Amount
- Try a loan calculator online

UNIVERSITY OF VERMONT EXTENSION CELEBRATING HEALTHY COMMUNITIES

Profiles: John

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



UNIVERSITY OF VERMONT EXTENSION CELEBRATING HEALTHY COMMUNITIES

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