

Living On A Few Acres



Will My Current Enterprises Help Me Get To Where I Want to Go?



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Objectives For This Session

- Gain an understanding of:
 - Evaluating financial health of your operation
 - Evaluating farm/ranch performance
 - Assessing whole farm risk
 - Interaction among financial statements
 - Financial interaction/impact the family has on the business
 - How different types of **risk** affect the business.



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Enterprise Risk Analyzer

Version 1.11

[Click Here to Begin](#)



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Key Producer Items/Concerns

- Adequate funds for family living
- Alternative enterprises, enterprise mix
- Debt Load and Financial Structure
- Expansion plans/capabilities
- Managing cost of production, financial info, marketing, labor (family)
- Tight profit margins
- Dependence on government programs and/or outside entities

Complete Financials Required

- Beginning and Ending Balance Sheets
- Cash Flow Statement
- Accrual Adjusted Income Statement
- Statement of Owner Equity

Just Like Balancing a Check Book

- Beginning Cash Balance
- + Inflows
- - Outflows
- = Ending Cash Balance

These are
Linked

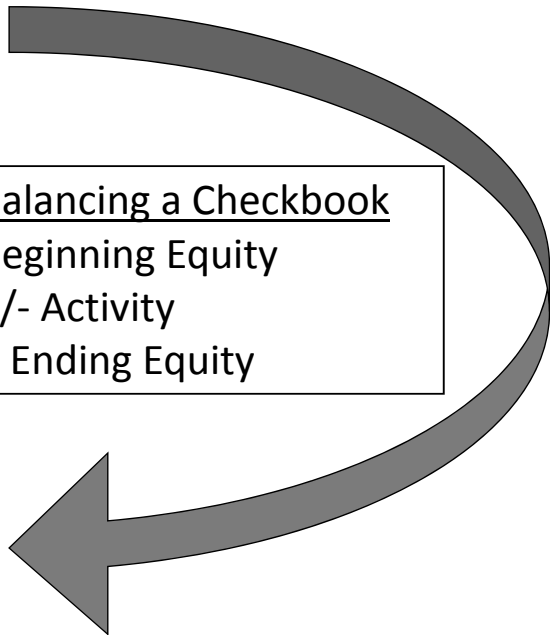


- Your **business performance** is measured the same way using a complete set of financial statements

Statement of Owner Equity

- Beginning Owner Equity
- + Net Income
- - Withdrawals
- + Contributions
- - Distributions
- +/- Change in Valuation
- = Ending Owner Equity

Balancing a Checkbook
 Beginning Equity
 +/- Activity
 = Ending Equity



Risk Navigator
 STRATEGIC RISK MANAGEMENT

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 Who We Are

Toolbox

- Financial
- Management
- Planning
- Risk Analysis
- Risk Register
- Loss From
- Word Check Pages
- Word Check Books

Applied Risk Management in Agriculture
 Dana L. Hoag, editor
 James C. Kuntz III, PhD
 Elaine Farnsworth, MSW
 James Gifford
 John P. Hoveland
 Catherine Gosses
 Jay Farnsworth
 James Koppelman
 Anne Koppelman

The SRMP Small Business Edition
 Specifically designed to help non-commercial and lifestyle operations create and customize a personal risk management plan.

Risk Navigator
 STRATEGIC RISK MANAGEMENT

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 Ag Survivor
 Who We Are
 What's New?

Strategic Risk Management 101

- Get Started
- Risk Management and the SRMP
- Your Financial Health
- Determining Your Risk Preference
- Setting Your Goals
- Prioritizing Your Risks
- Identify Risk Management Alternatives
- Risk T-Gridbook
- Choosing a Risk Management Plan
- Implementing, Monitoring, and Replanning

<http://RightRisk.org> > Products

The Strategic Risk Management Toolbox

A Selection for the Professional Agricultural Manager



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- What's New?
- Who We Are

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Tool Inventory

- Alphabetical
- By Chapter
- Chapter 3
 - [EWS Farms RD Financial](#)
- Chapter 5
 - [Balance Sheet](#)
 - [Cash Flow](#)
 - [Deferred Tax & Missing Data](#)
 - [EWS Farms RD Financial](#)
 - [Financial Statements](#)
 - [Sweet Sixteen Ratio Analyzer](#)
- Chapter 6
 - [Risk Preference Calculator](#)
- Chapter 7

EWS Farms RD Financial

Introduction		Enter Data		Financial Statements		Ratios		Credit Scoring		Click for Menu Display Options	
Balance Sheet				Liabilities				Income Statement - Accrual Adj.			
	Assets			Beginning		Ending			Income		
Cash on Hand	25,000	57,831	Accounts Payable (Exo)	0	0	Cash Income (Net of cull lvstk sales)			\$609,453		
Croos Held for Feed (Exo)	0	0	Accrued Interest (Exo)	12,540	11,889	Non-Cash Income Adjustments			0		
Croos Held for Sale (Inc)	200,000	200,000	Current Principal	11,908	12,559	Non-Cash Income (Raised Brdo Lvstk)			0		
Market Livestock (Inc)	0	0	Other Current Liability (Exo)	10,000	10,000	Capital Gain/Loss on Breeding Lvstk (Net)			0		
Other Current Assets (Inc)	15,000	15,000	Short Term Notes (Exo)	0	0	Gross Revenue			\$609,453		
Invest Growino Croos (Exo)	0	0	Def. Tax on Current Assets	0	0	Cash Expense (Excluding Interest)			444,913		
Supo. & Prepaid Exo. (Exo)	10,000	10,000	Operating Loan Carroyver	0	0	Non-Cash Feed Inventory Adjustment			0		
Total Current Assets	250,000	282,831	Total Current Liab.	34,448	34,448	Other Non-Cash Non-Interest Exoense			0		
Non-Current Assets			Non-Current Liabilities			Total Operating Expense			479,413		
Mach. & Equoiement	325,000	292,500	Prin. on T.D. & C.L.	255,399	242,840	Cash Int. Exo. - T.D. & C.L.			12,540		
Breeding Livestock	0	0	Def. Tax on Long Term Assets	0	0	Cash Int. Exo. - Operating			7,261		
Real Estate (Land, Bldos, Imor)	1,040,000	1,038,000	Total Business Liab.	289,847	277,288	Non-Cash Interest Exoense			(651)		
Total Business Assets	1,615,000	1,613,331	Business Net Worth	1,325,153	1,336,043	Total Expense			\$498,563		
Change in Equity From Beainning to End of Year				10,890		Net Business Income From Operations				110,890	
Cash Flow Statement				Inflows				OutFlows			
Crop Sales & Net Insurance Pavments	579,608		Cash Exoenses	No interest >		444,913		Statement of Owner Equity			
Mkrt & Cull Livestock Sales	0		Other Cash Business Outflows/Exoense	0		0		Beginning Net Worth (Cost/Mkrt)			1,325,153
Lvstk Secondary Product Sales	0		Cash Int. Exo. - T.D. & C.L.*	12,540		12,540		Net Income			110,890
Government Pavments	29,845		Cash Int. Exo. - Operating	7,000%		7,261		Non-Business Cash Inflows			0
Other Cash business Inflows/Income	0		Loan Prin. Pavments - T.D. & C.L.	11,908		11,908		Owner Withdrawals (Cash)			100,000
Operating Loan Proceeds	50%		Breeding Livestock Asset Purchases	0		0		Asset Valuation Change/Cont./Distrib.			\$0
Loan Proceeds Capital Assets	0		Mach & Equio & Real Estate Purchase	0		0		Calculated Endino Net Worth			1,336,043
Non-Business Inflows/Revenue	0		Owner withdrawals	100,000		100,000		Reported Endino Net Worth (Cost/Mkrt)			1,336,043
Other Nonfarm Inflows	0		Cash Taxes Paid (Income & SS)	0		0		Discrepancy			(\$0)
Other Nonfarm Inflows	0		Other Cash Outflows (Not Exoenses)	0		0					
Total Cash Inflows	\$816,910		Subtotal	\$576,622		\$207,457					
* T.D. = Term Debt. C.L. = Capital Lease				Operating Loan Prin. Pavments		\$207,457					
				Total Cash Outflows		\$784,079					
				Annual Net Cash Flow (never < zero)		57,831					

Terminology Causes Us Problems

- All cash inflows are not income
 - Loan proceeds from lenders
- All cash outflows are not expenses
 - Principal payments to lenders
 - **Expense versus Expenditure**
- You can have non-cash expenses
 - Depreciation most common
 - Also through accrual adjustments
- You can have non-cash income
 - Accrual adjustments



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Some Topics for Examination

- Withdrawals
- Non-business income
- Government Payments
- Cost of Production
- Debt Load (asset and liability structure)
- Asset revaluation
- Capital asset purchase
- Risk Protection Tools (Insurance)
- Non-cash income
- Non-cash expense (not depreciation)
- Contributed capital
- Distributed capital



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Business Performance

- Every dollar of income goes towards increasing net worth
- Every dollar of expense goes towards decreasing net worth
- If growth in Net Worth comes only from external sources, you are on shaky ground as a business
- **You must be profitable** enough to pay for:
 - Family Living , Debt Principal, Savings, Reinvestment, Retirement
- Positive Cash Flow is good but.....
 - Cash Flow \neq Profits

Accrual Adjusted Financials

- Catch problems with:
 - Inventory sell down to manage cash needs
 - Selling capital asset base, your manufacturing plant (livestock, machinery, land, etc.)
 - Capital contributions/distributions
 - Unearned equity increases
- Allows accurate business performance evaluation for each time period
- **If you can not measure it, you can not manage it!! So get started!**



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