

Financial Management Resources and Education

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Young, Beginning, Small Farmer Programs

The Farm Credit Council, Washington, DC



Where we are headed...

- 1. financial skills training resources**
- 2. basic concepts and best practices**
- 3. an example of a tool to integrate**
- 4. expectations for obtaining credit**
- 5. secret recipes and insider information**

Trainers Resource Guide

TRAINERS'
RESOURCE
GUIDE

Resources ▾ Community of Practice ▾ About ▾ How to Use Contact

Adding financial skills to your farmer training.

To truly prosper in a thriving, sustainable venture, a farmer needs to plan the enterprise and pay attention to its finances. That's where this guide and you—as a trainer of beginning farmers and ranchers—can help build financial skills necessary for success.

About the Guide

The Trainers' Resource Guide was created for those who train beginning farmers and ranchers (BFRs). The typical training program usually has a good foundation in farm production skills, but overlooks financial literacy and business planning skills. This guide will help you add these vital skills to your training program, leading to sustainable success for your trainees' ventures.

The guide is a compliment to a [Community of Practice](#) established with the [project partners](#) to network BFR trainers for sharing experiences and successes, learning from each other, and together strengthening financial and business training.

Financial and business skills are critically important to new farm enterprises and the expected farm management and land ownership transition nationwide that will happen over the next several years in our rural communities. While intended for trainers, the guide may also be of value to enterprising beginning farmers and ranchers searching for specific educational tools for self-improvement. We also encourage beginning farmers and ranchers to visit the [Start2Farm](#) website, which is geared specifically for them.

Explore Resources

- [How to Train](#)
- [Identifying Trainees](#)
- [Curricula](#)
- [Mentoring](#)
- [Evaluation](#)
- [Funding for Trainers](#)
- [Funding for Trainees](#)

Suggest a Resource

If you know of a training resource we should include, please [let us know](#).

Trainers Resource Guide – Resources

Resources

This section is the heart of the guide. It's where you can find material for use in beginning farmer and rancher finance skills and business training.

Training is most effective when it meets the needs of the trainee and is taught in an engaging way. The Trainers' Resource Guide will help you do just that. This guide is a curated collection of financial literacy and business planning resources for trainers of beginning farmers and ranchers. The EIEIO project compiled these resources from the [Community of Practice](#) and other sources. (Learn [more](#).)

This guide provides a solid starting point for trainers interested in leveraging existing resources for the benefit and success of their BFR trainees. You'll find resources on the following topics:

- [How to Train](#)
- [Identifying Trainees](#)
- [Curricula](#)
- [Mentoring](#)
- [Evaluation](#)
- [Funding for Trainers](#)
- [Funding for Trainees](#)

Search Resources

Resource Topic

Knowledge Level of Trainee

Trainee Audience

Farm Type

Resource Format

Search

[About the Search tool](#)

Suggest a Resource

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Trainers' Resource Guide

www.farmbiztrainer.com

basic concepts

**setting expectations for
operating a farm business**

set farm business record-keeping expectations

- **Record keeping is required (for taxes)**
- **Ultimate goal is to manage from records**
- **Need up-to-date and accurate records**
- **Create budget with expectations and measurable results**

set farm business planning expectations

- **Define success, plan to be happy**
- **Tell farm story in a business plan**
- **A budget is a plan in numbers**
- **Plan for contingencies**

set farm business management skills expectations

Three basic business management skills:

- 1. Financial**
- 2. Production**
- 3. Marketing**

tools for business planning:

resource strategies

- Stuff you already know
- The challenge of new curricula
- “Subcontract” teaching to partners
- Hope for the best



Develop a budget to ensure you are valued.



- 1) Use last year's records as a starting point for your five-line income statement. If you're starting a new operation, plenty of information is available!
For example:

- <http://agalternatives.aers.psu.edu/>
- <http://cdp.wisc.edu/Budgets,%20Spad%20&%20Programs.htm>
- <http://www.ces.uga.edu/Agriculture/agecon/printedbudgets.htm>

Make sure you take regional cost differences into account (land rent is a good example of this.)

- 2) Calculate your five-line income statement.
COGS = any expense that helps produce one more unit of output.
Production labor and associated payroll expenses, including workman's compensation, unemployment taxes, FICA, Medicare, health insurance
Crop or livestock inputs – seed, fertilizer, soils, chemicals, feed

Overhead = any expense that you incur no matter how much production you actually have.

The main ones are the **"DIRTI"** Five:

Depreciation, Interest, Repairs, Taxes, Insurance

Don't forget to include Managers' and Bookkeepers' wages/salaries, marketing, and utilities.

- 3) Calculate the percent of sales for each line.
(Divide the dollars for each line by the total sales.)

Historical	Dollars	% of Sales
Sales:	\$134,400	100%
- Cost of Goods Sold:	\$80,096	60%
= Gross Margin:	\$54,304	40%
- Overhead	\$10,472	8%
= Profit (Net Income)	\$43,832	33%

- 4) Create your budget—from the bottom up. Start with your desired draw (the amount you and your family need to take from the operation to live on, plus income taxes). Add the principal portion of any loan payments you need to make in 2011 to get the total profit needed from the operation.
- 5) Add your overhead expenses to the required profit to figure the gross margin the operation will need to yield. Your overhead expenses shouldn't change much from the previous year, unless you've undergone a significant expansion or other major change.
- 6) Determine the breakeven sales needed in your operation to support the overhead obligations and profit required. Do this by dividing the gross margin (E) by the gross margin as a percent of sales (taken from your records, calculated in step 3).
- 7) Step back and see if this budget makes sense. Is this sales volume reasonable for this year, especially if it's your first year in business? Is it possible for the acreage you raise and the market prices of your products? If it is, great! Develop a marketing plan (action plan) to achieve that level of sales. If not, that's okay. Rework until you have a plan that is sound. If this is a building year, how will you achieve your goal (and finance the operation in the meantime)? Address these questions early in the year to ensure you have a complete plan.

BUDGET	
Owner Draw Desired (include income taxes):	\$30,000 (A)
Bank principal payments required:	\$20,000 (B)
TOTAL PROFIT REQUIRED: (A+B)	\$50,000 (C)
Overhead expenses	\$10,472 (D)
GROSS MARGIN REQUIRED: (C+D)	\$60,472 (E)
Divide by Gross Margin percentage	1—0.6=0.4 (40%) (F)
SALES VOLUME REQUIRED: (E/F as % of sales—from historical)	\$151,180 (G)

Showing Annual Business Results

The 5-Line Income Statement

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$134,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$80,096	60%
= Gross Margin:	\$54,304	40%
- Overhead <i>(fixed costs)</i>	\$10,472	8%
= Profit (Net Margin)	\$43,832	33%

Showing Annual Business Results

This 5-Line
Income Statement



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Becomes the basis
of this Cash Flow
Analysis
Spreadsheet



	Budget	
	Annually	% of Sales
Total Income(TI) or Total Sales	134,400	100%
COGS or Total Variable Costs (VC)	80,096	60%
GROSS MARGIN (TI-VC)	54,304	40%
Total Fixed Costs (FC) or Overhead	10,472	8%
NET MARGIN (TI-VC-FC)	43,832	33%

The Concept of Cash Flow Budgeting

JANUARY	FEBRUARY	MARCH
INCOME STREAMS	INCOME STREAMS	INCOME STREAMS
COST OF GOODS SOLD	COST OF GOODS SOLD	COST OF GOODS SOLD
GROSS MARGIN	GROSS MARGIN	GROSS MARGIN
OVERHEAD EXPENSES	OVERHEAD EXPENSES	OVERHEAD EXPENSES
NET PROFIT	NET PROFIT	NET PROFIT
STARTING CASH	STARTING CASH	STARTING CASH
CHANGE IN CASH	CHANGE IN CASH	CHANGE IN CASH
ENDING CASH	ENDING CASH	ENDING CASH

The diagram illustrates the flow of cash through a budgeting process over three months (January, February, and March). It features a table with rows for various financial metrics. The rows are color-coded: green for income and profit-related items, yellow for cash-related items, and orange for cost and expense items. Red arrows indicate the flow of cash from the 'INCOME STREAMS' row down to the 'ENDING CASH' row, passing through the 'CHANGE IN CASH' row. The 'STARTING CASH' row is also highlighted in yellow. The 'ENDING CASH' row is highlighted in orange.

Cash Flow Analysis

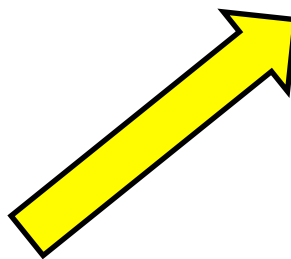
Monthly Results Spreadsheet



Simply Fresh Farm
Budget Cash Flow Spreadsheet for Year 2014

	Budget Jan	Budget Feb	Budget Mar	Budget Apr	Budget May	Budget Jun	Budget Jul	Budget Aug	Budget Sep	Budget Oct	Budget Nov	Budget Dec	Budget	
													Annually	% of Sales
Total Income(TI) or Total Sales	10,200	10,200	10,200	5,100	5,100	18,300	16,800	14,400	16,800	14,700	6,300	6,300	134,400	100%
COGS or Total Variable Costs (VC)	-	-	4,038	11,258	7,158	10,506	10,506	10,506	10,506	8,832	6,790	-	80,096	60%
GROSS MARGIN (TI-VC)	10,200	10,200	6,163	(6,158)	(2,058)	7,795	6,295	3,895	6,295	5,869	(490)	6,300	54,304	40%
Total Fixed Costs (FC) or Overhead	1,193	1,832	4,805	29	28	96	2,175	94	92	91	20	18	10,472	8%
NET MARGIN (TI-VC-FC)	9,007	8,368	1,357	(6,186)	(2,085)	7,698	4,120	3,801	6,202	5,778	(510)	6,282	43,832	33%
Monthly Cash Flow	5,695	4,766	(2,246)	(9,861)	(5,761)	4,021	441	121	2,521	2,095	(4,193)	2,597	197	
Beginning Cash/Checking Balance	21,500	27,195	31,961	29,715	19,854	14,094	18,115	18,556	18,677	21,199	23,294	19,101		
Ending Cash/Checking Balance	27,195	31,961	29,715	19,854	14,094	18,115	18,556	18,677	21,199	23,294	19,101	21,697		

Cash flows are
highlighted in
yellow



H35 fx 0

FarmStart CSA Cash Flow Budget 2014 handout print [Compatibility Mode]



Simply Fresh Farm

Budget Cash Flow Spreadsheet for Year 2014

	Budget Jan	Budget Feb	Budget Mar	Budget Apr	Budget May	Budget Jun	Budget Jul	Budget Aug	Budget Sep	Budget Oct	Budget Nov	Budget Dec	Budget Annually	Budget % of Sales
16 FARM INCOME														
17 CSA	10,200	10,200	10,200	5,100	5,100	1,500	-	-	-	6,300	6,300	6,300	61,200	
18 Farmers Market						14,400	14,400	14,400	14,400	7,200			64,800	
19 Fruit sales	-	-	-	-	-	2,400	2,400	2,400	2,400	1,200	-	-	8,400	
20 Government Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
21 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	
22 Total Income(TI) or Total Sales	10,200	10,200	10,200	5,100	5,100	18,300	16,800	14,400	16,800	14,700	6,300	6,300	134,400	100%
23														
24 Cost of Goods Sold (COGS) or Variable Costs														
32 Total Labor	-	-	-	6,720	6,720	9,408	9,408	9,408	9,408	8,064	3,200	-	62,336	
33														
34 Purchases For Resale				500							3,240		3,740	
35 Seed	-	-	3,600	3,600	-	-	-	-	-	-	350	-	7,550	
36 Fuel	-	-	438	438	438	438	438	438	438	438	-	-	3,500	
37 Total Crop	-	-	4,038	4,538	438	438	438	438	438	438	3,590	-	14,790	
38														
39 Transportation						660	660	660	660	330			2,970	
40 Total Farmers Market						660	660	660	660	330			2,970	
41 COGS or Total Variable Costs (VC)	-	-	4,038	11,258	7,158	10,506	10,506	10,506	10,506	8,832	6,790	-	80,096	60%
42														
43 GROSS MARGIN (TI-VC)	10,200	10,200	6,163	(6,158)	(2,058)	7,795	6,295	3,895	6,295	5,869	(490)	6,300	54,304	
44 GROSS MARGIN %	100%	100%	60%	-121%	-40%	43%	37%	27%	37%	40%	-8%	100%	40%	40%
45														
46														
47	Budget Jan	Budget Feb	Budget Mar	Budget Apr	Budget May	Budget Jun	Budget Jul	Budget Aug	Budget Sep	Budget Oct	Budget Nov	Budget Dec	Budget TOTAL	Budget Per Share
48 Overhead - Fixed Expenses														
49 Vendor Fees			2,775										2,775	
50 Insurance		1,800											1,800	
51 Repairs	-	-	2,000				2,080				-	-	4,080	
52 Utilities														
53 Marketing	200					70	70	70	70	70			550	
54 Total Fixed Costs (FC) or Overhead	1,193	1,832	4,805	29	28	96	2,175	94	92	91	20	18	10,472	8%
55														
56														
62 NET MARGIN (TI-VC-FC)	9,007	8,368	1,357	(6,186)	(2,085)	7,698	4,120	3,801	6,202	5,778	(510)	6,282	43,832	
63 NET MARGIN %	88.3%	82.0%	13.3%	-121.3%	-40.9%	42.1%	24.5%	26.4%	36.9%	39.3%	-8.1%	99.7%	32.6%	33%
64														
65														
95 Monthly Cash Flow	5,695	4,766	(2,246)	(9,861)	(5,761)	4,021	441	121	2,521	2,095	(4,193)	2,597	197	
96														
97 Beginning Cash/Checking Balance	21,500	27,195	31,961	29,715	19,854	14,094	18,115	18,556	18,677	21,199	23,294	19,101		
98 Ending Cash/Checking Balance	27,195	31,961	29,715	19,854	14,094	18,115	18,556	18,677	21,199	23,294	19,101	21,697		
99														

Download the live spreadsheet:

(this is all one long website address)

www.farmbiztrainer.com/

resources/

groups/

one-page-planning-suite/

best practices for business planning: *teaching strategies*

- Incremental, repeated, cumulative
- Direct relation to hands-on skills
- Build a culture of business success
- Peer/team accountability
- Mentoring

Project Cost Analysis for Improvement or Equipment

Figure out the Annual Depreciation Cost of the Improvement or Equipment

total cost of equipment ÷ how many years it will last = Annual Depreciation Cost		Line
Total cost of equipment	\$5,000	A
Expected Economic Life (<i>how long it will last</i>)	5 years	B
Annual Depreciation Cost		
total cost of equipment ÷ how many years it will last Line A ÷ B = C	\$1,000 /per year	C

Annual Budget for Improvement or Equipment	Increase (decrease)	
		Line
		1
Additional Revenue (<i>how much more crop production in \$\$</i>)	\$ 8,000	2
Multiply by Gross Margin (<i>same as on the One Page Plan</i>)	40 %	3
Additional Gross Margin (<i>Line 1 X Line 2</i>)	\$ 3,200	4
Annual Depreciation Cost (<i>subtract Line C, cost per year</i>)	\$ (1,000)	5
Interest Expense (<i>subtract cost of borrowing money for project</i>)	\$ (100)	
Operating Costs:		
(<i>subtract all other operating costs</i>) Utilities	\$ (150)	6
Labor	\$ (250)	7
Other costs	\$ ()	8
	\$ ()	9
	\$ ()	10
Net Income (<i>subtract lines 4-10 from Line 3</i>)	\$ 1,700	11
Calculate Return On Investment		
Net income ÷ cost of equipment X 100 = % return on investment Line 11 ÷ Line A X 100 = ROI%	34 %	12

issue messaging for business planning:

- Business planning is the core of preparation
- Financial and planning skills are measurable
- Financial and planning skills are transferable
- Financial and planning skills are the basis of informed participation and long term success

**awareness and expectations
for obtaining credit**



Constructive Credit is an:

Appropriately structured loan...

To achieve realizable goals...

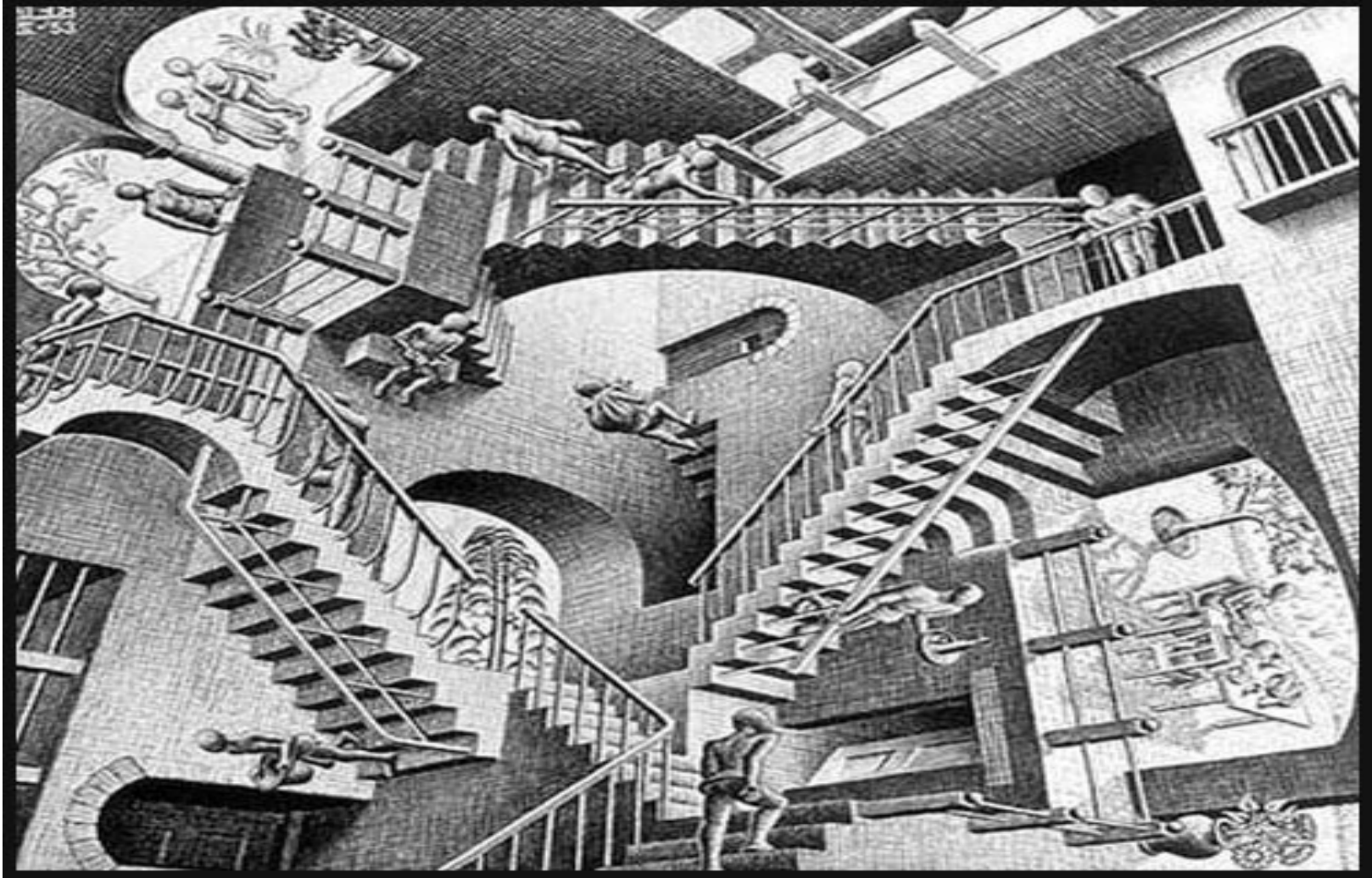
**That are within the capacity of the
borrower to manage and achieve...**

In order to accomplish repayment.

Constructive Credit is NOT:

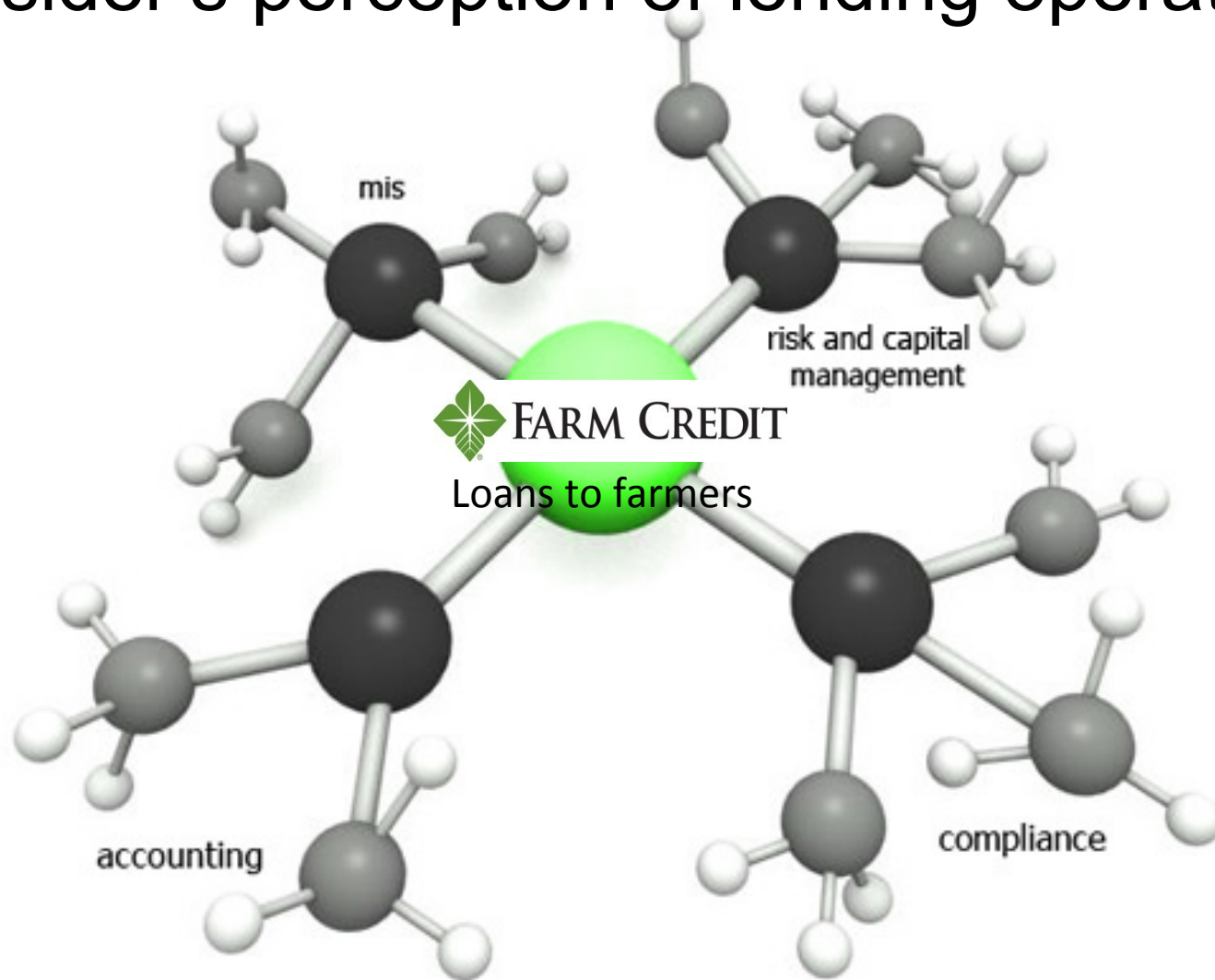
- A loan for more than you need...
- For a farm enterprise purpose neither you nor the lender understand...
- Without adequate assessment of risk...
- Without likelihood of repayment.

Outsider's perception of a lending operation



Goal: Show me how to get what I want

Insider's perception of lending operation



Goal: Single version of the truth



Lender's View of the World

- **Understand business risks of borrowers**
- **Make loans to people who intend to repay**
- **Share risks with borrowers via their own investment (equity) and collateral**
- **Properly rate the risk of loss for each loan**
- **Budget for 1.5% net profit**
- **Build capital reserves to cover losses**

A topographic map with green contour lines, orange lines, and blue water bodies. A large green circle is centered on the map.

Obtaining Constructive Credit

**Business Plan-Your design for the
world you wish to inhabit**

Evaluating farm business performance versus comparing farm production practices



An aerial photograph showing a large bend in a river. The riverbank is lined with a dense strip of green trees. Behind the trees are several large, rectangular agricultural fields. Some fields are a vibrant green, while others are a light tan or brown color, suggesting different crops or stages of cultivation. In the upper right corner, a small farmstead is visible, featuring several white buildings with dark roofs and a few smaller outbuildings. A dirt road or path leads to the farm. The overall scene depicts a rural landscape where land use is clearly defined and measurable.

**What you can measure,
You can manage**

**secret recipes and
insider information**

What goes into a benchmark?

- 
- **Good financial records**
 - **Operational information**
 - **May include production measures, safety ratings, human resources**
 - **Input from member businesses**

What can we track?

Percent of Sales

Revenue Growth

Gross Markup

Gross Margin

Overhead

Net Margin

Net Worth

Safety

Environmental Compliance

Labor Hours

Labor Efficiency

Allocation of Duties

Comp/Benefits of Key Labor
Positions

Trends (with the business)

Per Share

Transaction

Per Acre



CSA Benchmarks

	% of Sales	Per Acre
Net Profit	13% - 15%	\$2,400 - \$2,600
Interest (overhead)	1% - 2%	\$300 - \$350
Rent (overhead)	2% - 3%	\$325 - \$375
Repairs (overhead)	5% - 6%	\$850 - \$1,000
Insurance (overhead)	1% - 2%	\$300 - \$350
Total Overhead	24% - 26%	\$3,900 - \$4,300
Gross Margin (after COGS)	40% - 42%	\$6,600 - \$6,900
Total Cost of Goods (COGS)	58% - 60%	\$9,500 - \$10,000
Hired Labor Expense (hybrid)	33% - 35%	\$6,200 - \$6,500
Crop Inputs (COGS)	15% - 17%	\$2,500 - \$2,700
Purchases for Resale (COGS)	7% - 9%	\$1,200 - \$1,600
Sales		\$18,000 - \$20,000



define success

The point...

- **Agriculture is always changing**
- **New farm business opportunities in the marketplace, particularly local food**
- **Lenders need to see:**
 - **Business plans and strategies**
 - **Demonstrated experience, projections of future earnings and performance**
 - **Solid financial skills**
 - **Creative individuals with passion and vision**

Monitor your credit score
www.AnnualCreditReport.com



The 5 C's of Credit:

1. Character

2. Capital at risk

3. Capacity to repay

4. Collateral pledged

5. Conditions that
mitigate risk

Expected financial performance of Retail Agriculture business models*

	Wholesale Vegetable	Retail Farm Market	CSA
Acreage owned	100	100	100
Acreage in Production	80	40	25
Typical Number of Customers	Fewer than 10 brokers	10,000 retail customers	750 shares
How products are sold	Wholesale, large quantities, by the box	Retail, small amounts, by the pound or piece	"share" entitling a certain amount of product per week for the season
Sales per transaction	Several thousand \$\$\$	\$20-30	\$300-600
Sales	100%	100%	100%
<u>Cost of Goods Sold (w/ labor)</u>	<u>76%</u>	<u>60%</u>	<u>65%</u>
Gross Margin	24%	40%	35%
<u>Overhead</u>	<u>20%</u>	<u>30%</u>	<u>15%</u>
Net Margin	4%	10%	15%
Number of crops grown	15-20	20-30	75-100
Working Capital borrowed	50% of crop	15% of crop	Less than 5% of crop
Gross Sales	\$640,000 (\$8,000/ac gross X 80 acres)	\$1,000,000 (10,000 customers average sale \$25, 4 times a year)	\$450,000 (750 shares at \$600)
Net Profit	\$26,000	\$100,000	\$67,500
Working Capital Cost	Interest from planting through harvest, (at least half a season)	Interest through part of season; steadier cash flow, not one big chunk	None, as shares are pre-paid
Inventory	None	Must maintain inventory of related products and sell seasonally	None

***Illustration of synthetic archetypes based on case studies**