

# Financial Health for Tribal Producers

## Making Goals Happen For Your Operation



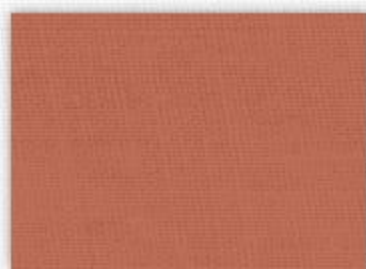
WESTERN  
EXTENSION  
RISK  
MANAGEMENT  
EDUCATION



United States  
Department of  
Agriculture

National Institute  
of Food and  
Agriculture

This webinar is based upon work supported by  
USDA/NIFA under Award Number 2018-70027-28587





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THE UNIVERSITY OF ARIZONA  
COLLEGE OF AGRICULTURE & LIFE SCIENCES

**Cooperative Extension**

Tribal Extension Programs

Acknowledgments: Karli Salisbury, Kynda Curtis, Staci Emm and Carol Bishop.



University of Nevada  
Cooperative Extension

*Each university is an affirmative action/equal opportunity institutions*



# Previous Webinars



- **Managing Your Money Part 1: Building a Strong Foundation**
    - Financial Plan Basics
  - **Managing Your Money Part 2: Using MyFI Assist App**
    - Available for free on IOS and Google Play
    - Interest, loan payments and credit cards
  - **Building Your Business Foundation Part 1: Ten Basic Questions that Every Livestock Operation Should Consider**
    - This is the foundation of your plan
    - Help for anyone wanting to start a livestock operation or thinking about making changes
  - **Building Your Business Foundation Part 2: Financial Analysis**
    - Use budgets and financial statements to analyze business profit and sensitivity
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# Previous Webinars



- **Moving Forward With Your Business Part 1: Putting Your Plan to Work**
  - Will your plan actually work for you?
    - Enterprise Budget
    - Break-even
    - Sensitivity
- **Moving Forward With Your Business Part 2: Putting it All Together**
  - How to put your plan together
  - How to continue to think about and update the plan
  - MyFi Assist APP for financial decisions

Recordings will be available on <https://tinyurl.com/AZFRTEPFacebook> or

<https://extension.arizona.edu/tribal-extension>



# What is profit?

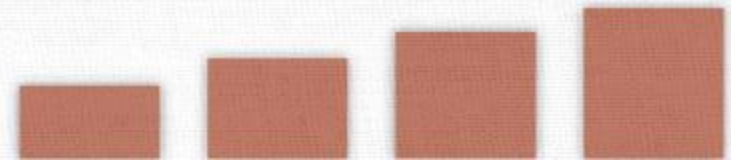


Profit = (price – Variable Cost) quantity – fixed cost

**Margin Per Unit**



Funds left to cover  
fixed cost & profit



# How can the water level go up?

Money  
flows in

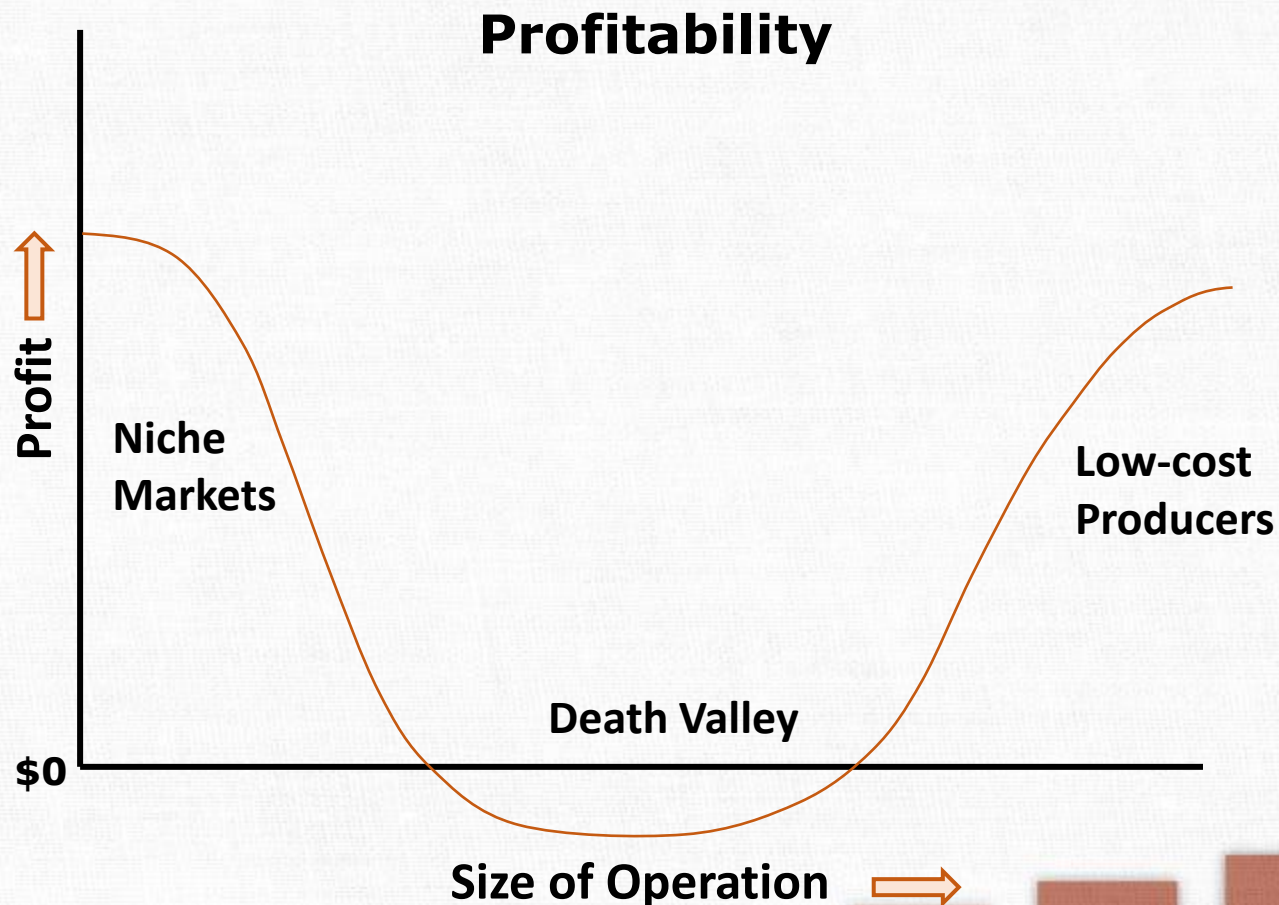
Water  
level



- More flow in
- Less flow out
- Change with more flow in than flows out

Money  
flows out

# One Interpretation of Agricultural Markets



# ***Develop A Budget To Ensure You Are Valued***

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**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/>

Diverseag.org

<https://extension.arizona.edu/tribal-extension>

<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.)**



# ***Develop A Budget To Ensure You Are Valued***

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## **2) Calculate your five-line income statement**

**Variable Costs** = 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


**Fixed Costs / 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 but 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.)**

# A Five-Line Income Statement



Historical	Dollars	% of Sales
Sales	\$27,600	100%
- Variable Costs	<b>\$16,610</b>	<b>60%</b>
= Gross Margin:	\$10,990	40%
- Fixed Costs/Overhead	<b>\$7,200</b>	<b>26%</b>
= Profit	\$3,790	14%

<http://farmbiztrainer.com/resources/groups/one-page-planning-suite/>

# A Five-Line Income Statement Expanded

Historical	Dollars	% of Sales
Sales	\$27,600	100%
- Feed	\$4,787	17%
- Inputs	\$8,843	32%
- Labor	\$2,980	11%
- Marketing	\$0	0%
= Gross Margin:	\$10,990	40%
- Fixed Costs/Overhead	\$7,200	26%
= Profit	\$3,790	14%

<http://farmbiztrainer.com/resources/groups/one-page-planning-suite/>

# ***Develop A Budget To Ensure You Are Valued***

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**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 2020 to get the total profit needed from the operation.**

**5) Add your fixed costs 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.**

# ***Develop A Budget To Ensure You Are Valued***

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**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).

# A Five-Line Income Statement



Historical	Dollars	% of Sales
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= Gross Margin:	\$10,990	40%
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Four orange arrows point to the values in the Dollars and % of Sales columns for the rows: - Variable Costs, = Gross Margin, - Fixed Costs/Overhead, and = Profit.

<http://farmbiztrainer.com/resources/groups/one-page-planning-suite/>

# What Level of Funding Will You Need?

	BUDGET	Current	Sales for \$5k income	Sales for \$10k income
A	Owner Draw Desired (include income taxes):	\$3,790	\$5,000	\$10,000
B	Bank Principal payments required:	\$0	\$0	\$0
C	<b>Total Profit Required: (A + B)</b>	<b>\$3,790</b>	<b>\$5,000</b>	<b>\$10,000</b>
D	Overhead Expenses:	\$7,200	\$7,200	\$7,200
E	<b>Gross Margin Required: (C + D)</b>	<b>\$10,990</b>	<b>\$12,200</b>	<b>\$17,200</b>
F	Divide by Gross Margin Percentage	40%	40%	40%
G	<b>Sales Volume Required: (E/F)</b>	<b>\$27,475</b>	<b>\$30,500</b>	<b>\$43,000</b>

# ***Develop A Budget To Ensure You Are Valued***

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## **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)?

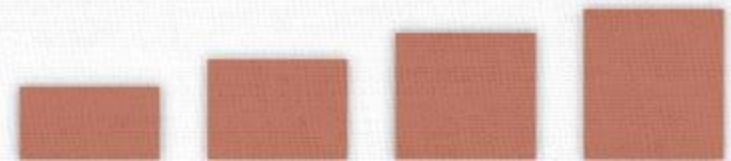
Address these questions early in the year to ensure you have a complete plan.



# How Do You Become Successful?

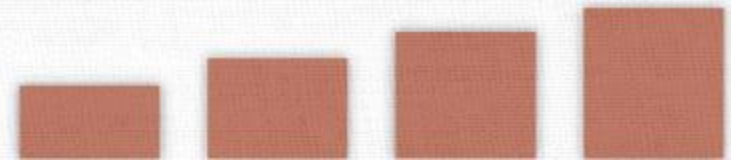


- You do not need to be a financial expert
- Understand how changes affect bottom line so you know what to work on
- Use the tool to find out how much you need to change to make it profitable
  - Then think of what you can do physically on the farm or ranch



# Conclusion



- Possibilities exist.
  - Not always easy.
  - You do not have to know everything up front. Keep refining plan as you gather information and find out more details.
  - Need to be creative, may need to modify idea and/or plan.
  - Remember you need to make a profit.
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# Resources



- **Previous Webinars**


- **Recordings** <https://tinyurl.com/AZFRTEPFacebook> or
- **Slides**

- **Excel tools**

<https://extension.arizona.edu/tribal-extension>

- **Sensitivity**
- **Sales Dollars Needed**
- **5 line Income Statement**
- **5 line Income Statement Expanded**
- **Budget Template**

- **MyFi Assist APP**

- MyFi Assist APP for financial decisions
  - Available for free on Google Play, and IOS
    - <https://tinyurl.com/MyFi-Apple>
    - <https://tinyurl.com/MyFi-Android>
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# Questions?





**Thank You!**

