Financial Health for Tribal Producers

Making Goals Happen For Your Operation

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Project Team:
• Ruby Ward, Professor, Utah State University
• Trent Teegerstrom, Associate Director of Tribal Extension, University of Arizona
• Vicki Hebb, University of Nevada Reno
• Juan Arias, University of Arizona

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

*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
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

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

Water level

Money flows out
One Interpretation of Agricultural Markets

Profitability

Profit

Size of Operation

$0

Niche Markets

Death Valley

Low-cost Producers
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.)

Source: Farm Credit
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.)

Source: Farm Credit
## A Five-Line Income Statement

<table>
<thead>
<tr>
<th>Historical</th>
<th>Dollars</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$27,600</td>
<td>100%</td>
</tr>
<tr>
<td>- Variable Costs</td>
<td>$16,610</td>
<td>60%</td>
</tr>
<tr>
<td>= Gross Margin:</td>
<td>$10,990</td>
<td>40%</td>
</tr>
<tr>
<td>- Fixed Costs/Overhead</td>
<td>$7,200</td>
<td>26%</td>
</tr>
<tr>
<td>= Profit</td>
<td>$3,790</td>
<td>14%</td>
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Source: Farm Credit

http://farmbiztrainer.com/resources/groups/one-page-planning-suite/
## A Five-Line Income Statement Expanded

<table>
<thead>
<tr>
<th>Historical</th>
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<tbody>
<tr>
<td>Sales</td>
<td>$27,600</td>
<td>100%</td>
</tr>
<tr>
<td>- Feed</td>
<td>$4,787</td>
<td>17%</td>
</tr>
<tr>
<td>- Inputs</td>
<td>$8,843</td>
<td>32%</td>
</tr>
<tr>
<td>- Labor</td>
<td>$2,980</td>
<td>11%</td>
</tr>
<tr>
<td>- Marketing</td>
<td>$0</td>
<td>0%</td>
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Source: Farm Credit
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.

Source: Farm Credit
Develop A Budget To Ensure You Are Valued

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).

Source: Farm Credit
## A Five-Line Income Statement

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Source: Farm Credit

http://farmbiztrainer.com/resources/groups/one-page-planning-suite/
## What Level of Funding Will You Need?

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

Source: Farm Credit
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.
Resources

• Previous Webinars
  • Recordings  https://tinyurl.com/AZFRTEPFFacebook  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
Questions?
Thank You!