

Vermont Housing and Conservation Board  
**Vermont Farm Viability Enhancement Program**

**2007 GUIDELINES FOR CASH FLOW OR ENTERPRISE ANALYSES ON FARMS**

**RATIONALE**

Farm business planning assistance is the primary service provided by the Vermont Farm Viability Enhancement Program. However, some farmers may have an immediate need for a business analysis that projects results from one or more specific management changes, or that analyzes the feasibility of one or more distinct enterprises within the larger farm business. In such cases, a less intensive, less comprehensive, and faster process may be substituted for a business plan, if specifications contained in these Guidelines are met.

**ANALYSIS PROCESSES**

There are two kinds of processes that, when completed by the submission of satisfactory written materials, could fulfill the specifications described in these Guidelines.

- 1. Cash Flow Analysis:** To assess the advisability of making a business change, an estimate of cash flows before and after the change is usually necessary. To understand the effect of the change, and to plan accordingly, inflows and outflows of cash may be projected on a monthly, quarterly, or yearly basis. The projections are shown on a chart or spreadsheet, with revenues at the top, expenses at the bottom, and time intervals running left to right. A cash flow analysis can also be conducted when no business changes are contemplated. In such cases, the projections show the ability of the business to respond to external factors, such as rising costs of production.

The quality of cash flow projections varies widely. There are many levels of effort that can be expended in making projections, and the numbers can easily be manipulated if the person preparing the projections is so inclined. It is the intent of the Farm Viability Enhancement Program to fund only careful and realistic cash flow projections.

The process must involve one or more visits to the farm by the grantee or contractor. The advisor must see the farm operation first hand and thoroughly understand the ramifications of the business change and the external business factors, and dialog with the farmer about the assumptions underlying each revenue or expense item. The grantee or contractor is responsible for helping the farmer to research, evaluate, and if necessary, to adjust each entry. At the end of the process, it is the responsibility of the grantee or contractor to make sure the client understands the results and conclusions of the analysis.

The analysis report should be clear and readable. Business information that is irrelevant to the purpose of the analysis should not be included. The cash flow projection charts must be preceded by a written narrative summarizing the farm, the purpose of the analysis, and the conclusions drawn from the projections. Also, to demonstrate the validity of the estimated numbers, both for the farmer client and Program administration, the projections must be

annotated with explanations of the assumptions for each of the most important revenue and expense line items.

- 2. Enterprise Analysis:** An enterprise analysis differs from a cash flow projection in that revenue and expenses are budgeted only in relation to one specific enterprise, and usually only for one time period, such as one growing season. This is often referred to as an enterprise budget. The analysis can be expressed as a grid or spreadsheet with revenues at the top, variable and fixed expenses below, and per unit measures running left to right. Once total expenses are calculated, a break even point may be calculated at different price or yield levels.

A more extensive exercise compares multiple enterprises—such as various crops on a diversified vegetable farm. This can be accomplished on individual grids, or combined in one. The cost and market return information may be retrospective, giving the farmer a picture of what has already occurred. Alternatively, the information may be prospective, or both retrospective and prospective, allowing the farmer to gauge the profitability of continuing or terminating various crops.

As with cash flow plans, it is the role of contractors and grantees to ensure the accuracy of the data used in the analysis. This can only be accomplished by one or more farm visits in which the grantee or contractor becomes familiar with the farm's potential, the business history, and the unique cost factors associated with each enterprise. Because costs and prices received vary greatly from farm to farm, the advisor and farmer must together check the accuracy of historical data, and they must also question all future assumptions. It is not sufficient to rely on an industry benchmark in enterprise analysis, although benchmarks may be useful for comparison.

Enterprise analysis grids developed under the Viability Program must be preceded by a written narrative summarizing the farm, the purpose of the analysis, and its conclusions. Footnotes or a separate narrative should describe the basis for all major assumptions. It is the responsibility of the grantee or contractor to wrap up the process by reviewing the report with the farmer so that he or she fully understands the results or conclusions.

## COMPONENTS OF REPORTS

Cash flow or enterprise analyses to be developed using funding from the Vermont Farm Viability Enhancement Program should be described in a manner that enables easy reference for the farmer client. The information should also be self-explanatory to the extent that an outside reviewer can readily understand the purpose, the assumptions, the methodology, and the conclusions. Underlined items listed below are mandatory.

### 1. Cover sheet

- Title: "Cash Flow Analysis" or "Enterprise Analysis", etc.
- Name of farm and farmers'/owners' names
- List of specialists who contributed writing or provided analysis
- Date of analysis

- Statement: “Cash flow analysis/enterprise analysis conducted with funding from the Vermont Farm Viability Enhancement Program”

## 2. Summary page

- One paragraph describing the farm operation, including production units, acreage, labor force, etc.
- One paragraph describing the purpose of the analysis
- One paragraph describing the general results of the analysis
- Most recent farm balance sheet
- Most recent farm income and expense statement

## 3. One or more charts, grids, or computer generated spreadsheets

- A chart title, such as “Jones Farm—Yearly Cash Flow Projection 2005 to 2008,” or “Smith Farm—Enterprise Budget for 1 Acre of Strawberries”
- A format roughly equivalent to the simplified samples depicted in these Guidelines, with all columns and rows clearly labeled
- Spreadsheets must be printed in readable form, not e-mailed

## 4. Footnotes or separate page of assumptions

- In footnotes or on a separate page or pages a list of assumptions, at a minimum, for each of the major revenue and expense line items that are not self-explanatory on the chart itself. Example for cash flow: “All Milk Sold projections are based on 2005 average price of \$15.05 per hundredweight, an 18,000 pound rolling herd average in 2005, 17,000 in 2006, 18,000 in 2007, and 19,000 in 2008,” and “Hired labor costs increased 5 percent annually for wage and benefit inflation and employee incentives.” Example for enterprise analysis: “Assume a yield of 1,500 quarts per acre,” and “Annual interest expense on new retail building is \$500; strawberry enterprise was allocated 10 percent of total.”
- For cash flow analyses, major management changes, new investments, or new enterprises should be noted on the assumptions page as to date of occurrence, such as “Begin receiving organic milk price, June 2007.”

## 5. Appendices

- Summary of any technical assistance in addition to actual cash flow or enterprise analysis
- Field maps, pictures, building plans, etc., related to the cash flow or enterprise analysis

## INTEGRATION WITH OTHER FARM VIABILITY PROGRAM SERVICES

1. **Implementation funding:** A farm that has developed a cash flow plan or enterprise budget does not qualify for business plan implementation funding, should that be available through the Farm Viability Enhancement Program. However, a farmer who has completed a cash flow or enterprise analysis under the Program may apply at any time for business planning assistance. Cash flow or enterprise reports may become components of business plans, but they will not substitute for the required elements of business plans, to the extent that these differ from the requirements of cash flow or enterprise analysis.

2. **Application:** A farmer who wants assistance in analyzing cash flow or farm enterprises without developing a full business plan must fill out a standard application for the Farm Viability Enhancement Program.

## CONFIDENTIALITY

Cash flow or enterprise reports may contain confidential financial information. Farm business advisers and technical assistance providers must agree to keep the reports confidential to protect farmers' interests, but must agree to furnish copies of completed work to Vermont Housing and Conservation Board (VHCB) staff.

VHCB staff will require copies of completed cash flow and enterprise reports for several reasons: (1) to monitor quality of work conducted by those receiving VHCB funds, (2) to collect data on the success of various farm management and farm enterprise choices, so that the information can be used in a general sense to demonstrate the viability of Vermont agriculture.

VHCB, as a public instrumentality, is subject to the Vermont Open Records Law, 1 VSA § 317. The statute contains specific exemptions for tax-related information of persons, personal financial information of an individual, and trade secrets. Therefore the information submitted by service providers to VHCB will be held in confidential files at VHCB and will not be available for public inspection under the Open Records Law.

## SAMPLE CHARTS

The samples shown here should be regarded as suggestions for possible format. In most cases they will be more detailed than the ones shown. They may also be supplemented with additional charts showing differential results for various management scenarios.

### Sample Cash Flow Projection

**Jones Farm—Yearly Cash Flow Projection, 2005 to 2008**

| <b>Operating Receipts</b> | <b>2005 Actual</b> | <b>2006 Projected</b> | <b>2007 Projected</b> | <b>2008 Projected</b> |
|---------------------------|--------------------|-----------------------|-----------------------|-----------------------|
| Milk Sold                 | \$440,000          | \$450,000             | \$480,000             | \$500,000             |
| Livestock Sold            | \$40,000           | \$50,000              | \$50,000              | \$55,000              |
| <b>Total</b>              | <b>\$480,000</b>   | <b>\$500,000</b>      | <b>\$530,000</b>      | <b>\$555,000</b>      |
| <b>Operating Expenses</b> |                    |                       |                       |                       |
| Purchased Feed            | \$280,000          | \$280,000             | \$285,000             | \$285,000             |
| Hired Labor               | \$90,000           | \$95,000              | \$100,000             | \$105,000             |
| Repairs                   | \$30,000           | \$30,000              | \$35,000              | \$35,000              |
| Crop Expense              | \$60,000           | \$60,000              | \$65,000              | \$65,000              |
| <b>Total</b>              | <b>\$460,000</b>   | <b>\$465,000</b>      | <b>\$485,000</b>      | <b>\$490,000</b>      |
| <b>Net Cash Flow</b>      | <b>\$20,000</b>    | <b>\$35,000</b>       | <b>\$45,000</b>       | <b>\$65,000</b>       |

- The above chart may also list deductions for non-operating expenses in order to show net cash available for future investment or cash reserves. Non-operating expenses may

include debt retirement (interest and principal), capital purchases from cash reserves, family living expenses, self-employment and income taxes, and depreciation.

- The above chart may also list non-operating income in a separate section. Non-operating income may include off-farm income and sale of capital assets.
- Additional charts or columns may be added to show projections on a per unit basis, and/or to compare to an industry benchmark.

### Sample Enterprise Budget

#### Smith Farm—Enterprise Budget for 1 Acre of Strawberries

| Item                        | Unit                  | Price   | Quantity | Amount  |
|-----------------------------|-----------------------|---------|----------|---------|
| <b>Receipts</b>             |                       |         |          |         |
| Strawberries                | Quarts, retail        | \$3.75  | 600      | \$2,250 |
| Strawberries                | Quarts, pick your own | \$2.00  | 800      | \$1,600 |
| Strawberries                | Quarts, wholesale     | \$3.00  | 100      | \$300   |
| <b>Total Receipts</b>       |                       |         |          | \$4,150 |
| <b>Variable Costs</b>       |                       |         |          |         |
| New plants                  | plant                 | \$1.00  | 275      | \$275   |
| Fertilizer                  | pound                 | \$.50   | 200      | \$100   |
| Mulch                       | bale                  | \$1.50  | 50       | \$75    |
| Labor                       | hour                  | \$10.00 | 150      | \$1,500 |
| <b>Total Variable Costs</b> |                       |         |          | \$1,950 |
| <b>Fixed Costs</b>          |                       |         |          |         |
| Property tax share          | Acre                  | \$25.00 | 1        | \$25    |
| Interest expense share      | Retail building       | \$50.00 | 1        | \$50    |
| <b>Total Fixed Costs</b>    |                       |         |          | \$75    |
| <b>Total Costs</b>          |                       |         |          | \$2,025 |
| <b>Net Profit or Loss</b>   |                       |         |          | \$2,125 |

- There are many variations on the above chart. For instance, an industry benchmark column may be added, or multiple enterprises may be combined on the same sheet.
- A break even point may be calculated at various levels of per acre yield, or at various prices received.