

Vermont Housing and Conservation Board
Vermont Farm Viability Enhancement Program

GUIDELINES FOR YEAR TWO SERVICES & REPORTS – 2008

RATIONALE

A Farm Business Plan, as any business plan, should be reviewed and updated on a regular basis in order to be a useful working document. Some items in the plan may be implemented as planned, while others may be delayed or not carried through as a result of unforeseen circumstances at the time the plan was written. Reviewing the plan at least annually will help the farmer(s) change their implementation strategies while keeping future plans in keeping with their overall mission and business planning goals.

While some farmers choose to update their business plan on their own after receiving assistance to complete their initial plan, others may not have the resources or the focus to do this the year following the completion of their Farm Viability business plan. Most farmers are appreciative of any assistance they have in reviewing and revising their financial statements and their business plan, and a third party can help the farmer(s) look at their plan critically and without bias.

Updated business plans and accompanying financial statements also provide critical data with which to compare actual business results. This is essential information both for the farmer(s) – helping inform good business decisions and support a successful farm business – and for the Vermont Farm Viability Enhancement Program in order to demonstrate Program impact on participating farm businesses.

While the Program does not help farmers update their business plan every year, assisting the farmer(s) with an update to their business plan in year two will ideally demonstrate how important it is to do regular reviews and updates, help further develop their business planning and financial recordkeeping skills, and encourage the farmer to continue this practice on their own in the future.

PROCESS: SERVICES TO BE DELIVERED

On-Farm Visits and Planning Assistance

At least one on-farm visit is suggested, as a way to reconnect with the farmer(s), assess changes and progression of plan implementation, and help revise financial statements. In some cases additional planning assistance may be provided to assist in some aspect of the plan implementation. It is suggested that these visits and assistance be provided by the original service provider or consultant that worked with the farmer(s) on their business plan, where possible.

Technical Assistance

As needed and as funding allows, farmers should be offered some technical assistance in areas particular to the implementation of their business plan as they were offered in year one during the development of the plan. TA reports should be attached to the Year Two Reports, especially

where Program funding has been utilized for this purpose. For farmers working on transferring the farm, this might include legal or accounting assistance.

Revision of Financial Statements

In every case a farmer should have a complete, revised set of financial statements at the conclusion of the year two process. This should be completed roughly one year after the business plan was completed so that the financials in year two can be compared to the financials from the year prior. At the very least this should include a new balance sheet and a new income statement for the prior year. Where possible, cash flow statements or other projections should be completed to help the farmer analyze their abilities to project income and expenses and assess the impact of any planned changes to the farm business.

This is an opportunity for the farmer and service provider to compare current financial information with the previous year(s), as well as financial record-keeping practices, addressing successes, questions, needed changes in assumptions, and areas for improvement.

DELIVERABLES: YEAR TWO REPORT OR REVISED BUSINESS PLAN

Farm Business Plan Year Two Reports developed using funding from the Vermont Farm Viability Enhancement Program must provide: **1) an update (supplement) to the business plan** presenting changes to the business plan, business plan implementation to date, a narrative financial summary, and impacts of the business planning process on the farm family and farm business; **2) updated farm financial statements;** and **3) TA reports.** A revised business plan can provide all of these items in one document, except the “Changes to Farm Business” section below, which must be provided separately if a business plan is submitted in lieu of a Year Two Report.

The outline below should be treated as a checklist of topics that Year Two Reports developed with Vermont Farm Viability Program funds should address. A report that follows the checklist will be easier for Viability Program staff to review and compare. *Grantees and contractors who submit reports that eliminate, reorder, or rename categories may be asked to rework these documents before final approval by the Program. Underlined items are required!*

I. Cover Sheet for Year Two Report (or Business Plan Update)

A Cover Sheet that addresses the following is required:

- Name of farm and farmers’/owners’ names
- List of specialists who contributed writing or provided input
- Date of Year Two Report or Business Plan Update
- Statement: “Year two report produced with funding from the Vermont Farm Viability Enhancement Program” or “Business plan update produced with funding from the Vermont Farm Viability Enhancement Program”

II. Changes to the Farm Business

A narrative description of changes to the farm business since business plan completion is required. The following are items to cover in this section as they apply to the individual farm business. Where possible, please identify whether these changes were made as a result of the business plan.

- **Changes to overall business goals;** mission statement; overall direction of business.
- **Changes in production;** new enterprises.
- **Behavioral and management changes** due to skills learned during the business planning process, such as new bookkeeping practices, decision-making processes, human resources management, etc.
- **Quality of life changes.** To ascertain quality of life issues, the provider should first determine if any quality of life problems or goals were identified in the business plan and determine whether the farmer(s) have made progress towards these goals.
- **Other weaknesses or needs** addressed as a result of the business plan or identified since completion of the plan, and other internal or external factors or conditions that have affected the business' direction and plans.

III. Plan Implementation to Date

Where possible, the list or table of implementation strategies and timeline from the original business plan should be used to list planned implementation and identify what has and hasn't been accomplished to date. Add new items, timeframes and strategies to update the plan. Discussion of why plans have or haven't been accomplished might best occur in the following section.

IV. Financial Scorecard and Summary

A narrative description of financial indicators and a description of what they mean and how they have changed over time is required. Financial indicators should be listed and compared to the previous year(s) results, including at the least NFIFO, ROA and ROE (see below). These indicators can be calculated by the provider, or a Farm Financial Scorecard can be printed, based on the most recent balance sheet and income statement.

The narrative summary of the financial indicators and statements might outline the most important indicators to the individual farm business, how they have changed over time and why, and discuss any prior projections or future projections and how the farm has done at projecting income and expenses. This section might also address any changes necessary to improve the financial health and outlook of the business and meet business plan goals.

- (1) Net Farm Income From Operations (NFIFO)
- (2) Rate of Return on Farm Assets (ROA)

- For a farm that is mostly owned, a ROA of greater than 5% indicates good profitability; between 1% and 5% indicates only fair profitability, below 1% indicates poor profitability. The ROA should be compared to the previous year's ROA.
- For a farm that is mostly leased, a ROA above 12% is good, between 3% and 12% is fair, and below 3% is poor.

(3) Rate of Return on Farm Equity (ROE)

- Look at trends and compare to other farm and nonfarm investments. In general, greater than 10% is good, 0% to 10% is fair, less than 0% is poor. Compare to previous year.

V. Updated Farm Financial Statements

An updated Balance Sheet and an updated Income Statement are required; updated cash flow projections or enterprise analyses are encouraged where useful for the farmer. *(NOTE: Statements should be prepared as consistent with those in the original business plan as possible, unless there is a reason to take a different approach to preparing the statements. If this is the case, this should be noted so that the Program Director can take this into account when comparing financial data from financial statements.)*

VI. TA Reports and Other Appendices

- Technical Assistance Reports are required where TA is provided. (The summary may be written by the TA provider or the business planning consultant, and should be provided to the farmer as well as attached to the Year Two Report.)
- Revised Business Plan (Financial statements might be placed in the Appendices)
- Other attachments that support the report (photos, plans for new barn or facilities, etc.)