

Course helps new and existing farmers navigate standard financial statements

AT A GLANCE

New hands-on UI Extension course increases knowledge of standard financial statements and prepares producers to develop balance sheets, income statements and budgets.

The Situation

As with all commercial enterprises, small farms and ranches need to be able to evaluate the financial health of their businesses. Given that many small producers begin farming with limited business experience, the process of developing farm financial statements and budgets can be intimidating. First, farmers must gather relevant financial information, much like preparing to file taxes. Second, creating farm financial statements and budgets requires knowledge of basic financial terminology. In addition, financial institutions expect farm financial statements and budgets to follow a standard format.

Financial institutions may require producers to develop these materials as part of a loan application. Even if it is not required, developing these materials will help farmers understand the strengths and weaknesses of their operation, assess their financial position, evaluate their farm performance and track their financial progress.

Our Response

Cultivating Success™ aims to provide beginning and existing farmers with planning and decision-making tools to develop a sustainable small-acreage farm. USDA Beginning Farmer/Rancher (BFR) Program funding supported expansion and development of the Cultivating Success™ program in 2016-2018. In the first year of the BFR grant, we offered courses on Starting Your Sustainable Small Farm in Idaho, which



Farmers engaging in the Farm Financial Fitness course.

included introductions to whole farm planning, raising livestock and crop production. In the second year, we offered courses for students to gain additional tools and skills, including the Farm Financial Fitness course.

This financial course consists of short lectures, examples and exercises for students. In addition, experienced growers were invited to attend to share their experiences in developing financial tools. In the first section of this course, farmers learn to produce basic financial statements, consisting of balance sheets and income statements. Once these are developed, producers can calculate their net worth and crucial ratios, such as debts/assets and equity/assets. These statements help producers figure out how they are doing financially, today and over time.

The second part of the course examines budgeting and cash flow. Participants learn how to develop enterprise budgets for different types of operations. An

enterprise budget helps producers determine profitability for a specific operation. Cash-flow budgeting helps producers determine whether a particular operation is financially feasible. It also helps them plan borrowing and selling activities, and calculate working capital needs. Finally, partial budgets were introduced as a tool for comparing two alternatives and determining breakeven values for key variables.

Program Outcomes

This course was offered in three locations: Sandpoint, Post Falls and Moscow, with a total of 21 participants. The Sandpoint course was offered in four two-hour evening sessions and the Moscow and Post Falls were full-day Saturday classes.

Post-course evaluations, completed by all participants, rated the course either Very Good (38 percent) or Good (62 percent). Participants indicated an increase in knowledge of 10 key financial topics including net worth, depreciation, opportunity costs, working capital, owner equity, non-cash expenses and various financial ratios. When asked how prepared they were to continue working on the main topics presented in the class, most ranked themselves at 4.0 out of 5.0 for all four topics: developing enterprise budgets (61 percent), developing cash-flow budgets (75 percent), creating a balance sheet (62 percent) and creating an income statement (67 percent) (Figure 1).

When asked about ideas they plan to investigate further following the Farm Financial Fitness course, many felt they received a solid introduction but wanted to dive deeper into the core concepts:

“This was a good introduction to the financial records I need to get. This is not enough detail for me to actually do the record keeping but now I can ask for help with specific records.”

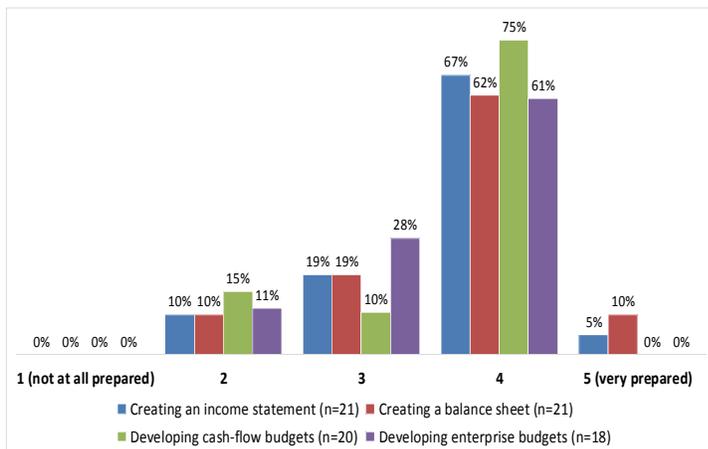


Figure 1. Percentage of participants by level of preparedness to continue working on the following tasks (1 = not at all prepared, 5 = very prepared).

“I had almost no understanding of these concepts in a practical sense before today. The information was very helpful to get my mind thinking about these items/processes.”

In terms of ideas they plan to put into practice, many replied that they will do better record keeping: “I will keep track of my expenditures and time invested using a ledger system and transactions to a PC program.”

While this course was too short to provide a solid foundation in farm finances, overall the participants appreciated a basic introductory course with examples and personal interaction with Extension faculty and experienced farmer participants.

FOR MORE INFORMATION

Kathleen Painter, Ag Extension Educator
 University of Idaho Extension, Boundary County
 6447 Kootenai Street
 Bonners Ferry, ID 83805
 Phone: 208-267-3235
 Fax: 208-267-3056
 Email: kpainter@uidaho.edu

Colette DePhelps, Area Extension Educator
 University of Idaho Extension
 875 Perimeter Dr. MS 2338
 Moscow, ID 83844-2338
 Phone: 208-885-4003
 Email: cdephelps@uidaho.edu

Iris Mayes, Extension Educator
 University of Idaho Extension, Latah County
 200 South Almon Street, Suite 201
 Moscow, ID 83843
 Phone: 208-883-2269
 Fax: 208-882-8505
 Email: imayes@uidaho.edu

Soren Newman, Senior Researcher
 College of Agricultural and Life Sciences
 Office of Grant and Project Development
 University of Idaho
 875 Perimeter Dr. MS 2331
 Moscow, ID 83844-2331
 Phone: 208-885-1536
 Email: newman@uidaho.edu