

RIGHT RISK™

RIGHT RISK NEWS

Getting on Track: Financial Risk Management

DATES TO REMEMBER

LIP/LFP Application for Payment Deadline for 2015 Losses

- January 30, 2016

Crop Insurance Sign Up (Most Spring Planted Crops)

- March 15, 2015

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

Today's agricultural businesses are operating in a time of increasing financial uncertainty. Credit problems may not have hit many rural businesses at the time of this writing, but increasing challenges are being reported across the country, particularly credit availability.

Getting on Track: Better Management Through Basic Ag Records

Keeping accurate, up-to-date financial statements, production records, and knowing the overall financial health of the business has never been more important. Operating credit is the lifeblood of many businesses, and keeping complete records will be critical to expanding or maintaining credit availability.

Managers that know their financial situation can more quickly evaluate and adapt to changing market and financial conditions. This can mean being better suited to recognizing and dealing with financial problems when they arise. Managers who keep good records and statements can also work more effectively with lenders and creditors because they are prepared to do so. In the current environment, this might mean the difference between being able to adjust finances to changing economic conditions or being left to accept whatever restrictions creditors demand.

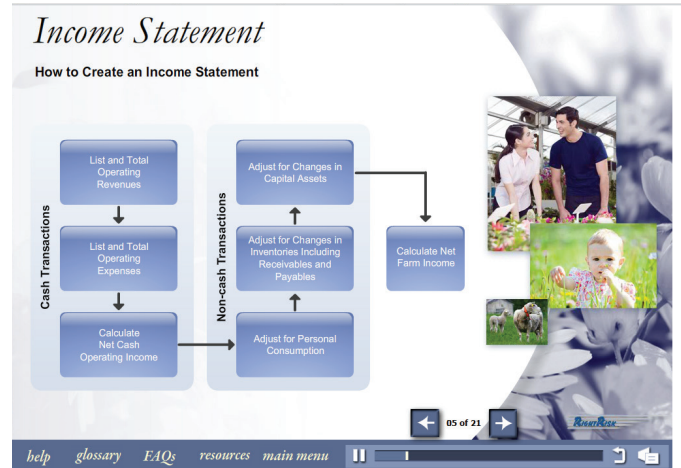
Getting on Track: Better Management Through Basic Ag Records can help improve and build recordkeeping skills. Several course sections address the many recordkeeping issues. Main topics include: 1) why keep records, 2) five easy steps for basic records, 3) keeping production records, 4) keeping financial records, 5) records needed for filing Internal Revenue Service form Schedule F for tax purposes, and several other important issues.

Getting on Track: Better Management Through Basic Financial Statements Along with keeping accurate, up-to-date financial and production records, knowing the overall financial health of the business and its financial status has never been more important. Maintaining accurate and up-to-date financial statements are critical to managing in uncertain times.

Getting on Track: Better Management Through Basic Financial Statements

Getting on Track: Better Management Through Basic Financial Statements was developed to help managers build upon their abilities to develop complete financial statements. The course is divided into several sections covering topics on all four financial statements. One section covers cash flow statements. Cash flow statements provide information about the business's ability to generate enough cash to meet financial obligations, identify the sources and uses of cash in the business, but does not provide an estimate of business profitability. Other information about how to organize cash flow information, as well as the opportunity to practice creating a cash flow statement are presented.

Another section covers balance sheets. A balance sheet is usually required by lenders to determine credit worthiness. The case study demonstrates how to list items that are owned and what is currently owed for any items. In addition, it takes a hard look at separating the business and personal assets and liabilities on the list. A third course component explains that an accrual income statement is the only accurate method for evaluating business profitability. Accrual accounting matches the revenues from a period of production with the actual expenses associated with generating the revenues.



How Much Risk is Right for You?

Measures of Profitability

Profitability Ratio Benchmarks

Profitability Benchmarks	Low	Moderate	High
Rate of Return on Assets	> 0.05	0.01 - 0.05	< 0.01
Rate of Return on Equity	> 0.1	0.05 - 0.1	< 0.05

Possible Actions for Improvement: Increase the value of production, reduce production costs where prudent, control or reduce family living withdrawals, improve marketing practices, properly structure debt for revenue generation.

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enue. This may or may not match the inflows and outflows of cash. A seven-step process is presented for creating an income statement and properly estimating net income.

The last financial statement covered is the statement of owner equity. This financial statement helps business owners better understand changes in their business net worth due to monies earned, expenses incurred, taxes paid, inheriting or receiving gifts, giving gifts, debts forgiven, and possible changes in asset values. The final section of the course outlines other types of analysis including: whole farm analysis, enterprise analysis, investment analysis, and marketing analysis.

Getting on Track: Understanding Financial Performance

A complete system of financial management starts with financial records. To gain further insights the manager must also prepare accurate and timely financial statements. While detailed financial statements are needed, those same details can make the financial position of the rural business unclear. To provide a clearer picture of the financial standing of the business, managers can also calculate financial ratios or indices.

Getting on Track: Understanding Financial Performance is designed to help enterprise managers improve and build upon their abilities to properly evaluate business financial health. The course covers all five aspects of financial performance. One section covers the basic concepts of financial analysis and five key areas of financial health. Physical indicators of health are used to assess an individual person's state of well-being. Financial indicators are used to evaluate the well-being of a business.

The measures of financial performance include: liquidity, profitability, solvency, financial efficiency, and repayment capacity. It is important to evaluate each area of performance to get an accurate understanding of the overall health of the business. Other sections of the course cover each of the five key areas of financial performance in detail. Specific information is presented on how each measure of financial performance is calculated, where the particular numbers for calculation may be found, and how to interpret the resulting values.

Financial ratios are most valuable when compared to a value calculated for a previous year or an industry benchmark. A green-yellow-red or Stop Light approach to interpreting the measures is offered in the course to help students understand when a measure represents: GREEN: area of financial strength or low risk; YELLOW: where caution should be exercised; or RED: an area of financial weakness or high risk. The Stop Light approach provides information to the manager about the overall health of the business in a particular area and where additional financial analysis or investigation may be warranted. The final section of the course discusses trend analysis and interpreting measures of financial performance collected over several years.

For more information or to access the free, online Getting On Track course materials, visit RightRisk.org. Click on Courses and select one of the three Getting on Track courses available.



LIP/LFP APPLICATION FOR PAYMENT DEADLINE FOR 2015 LOSSES: JANUARY 30, 2016

The Livestock Indemnity Program (LIP) and Livestock Forage Program (LFP) provide financial compensation to livestock producers for eligible death losses in excess of normal mortality and grazing losses when pasture or rangeland is classified in a county under a qualifying drought, respectively. Important recordkeeping information and details on how both of these programs are designed were provided in the May edition of RightRisk News.

The deadline for producers to file an Application for Payment for eligible 2015 losses under either LIP or LFP is January 30, 2016.

Producers should file a notice of loss and application of payment for eligible LIP losses on Form CCC-852. To apply for payment under the LFP, producers must complete and submit Form CCC-853 to their Farm Service Agency (FSA) County Office. Producers eligible for payment under either of these programs should contact their local FSA County Office early in January to ensure timely completion of the application process.

More information is available on LIP and LFP from the FSA website (www.fsa.usda.gov) under Disaster Assistance Programs.



RightRisk helps decision-makers discover innovative and effective risk management solutions.

- Education
- Coaching
- Research

RightRisk News is brought to you by the RightRisk Team

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How much risk is right for you and your operation?

