

BARNYARDS & BACKYARDS

Getting on track:

Better management through basic financial statements

Constructing basic financial statements for a farm/ranch/agribusiness is an important key to management success, offering solutions to problems and risks before they become severe and to take advantage of potential opportunities.

The Basic Financial Statements course (as part of the three-part Getting on Track series) from RightRisk.org helps new and smaller-scale agricultural producers get a firm grip on their finances.

Consider one of the examples described in the course:

Jack and Joanie are a young couple who own a small farm, and each have off-farm income. With one small child and a baby on the way, Joanie would like to stay home and quit her job. Although both would like to pursue this strategy, they are not sure this is financially feasible. They are not able to make an informed decision on the best course of action without detailed financial information (four key financial statements).

Cash-Flow Statements

The cash flow statement is the first discussed in the course. The cash-flow statement should show the farm business sources and uses of cash income and expenses, as well as monthly cash inflows and outflows. The course outlines two types of cash-statements: historical, using actual data from past periods, and projected, which attempt to predict inflows and outflows.

Developing a projected cash-flow is important in determining when cash deficits might occur and how

FOR MORE INFORMATION

Visit RightRisk.org to view any of the three Getting on Track courses covering basic ag records, financial statements, and financial performance.

These are designed to be especially useful to young and new agricultural producers and contain numerous interactive examples showing the importance of improving financial management.

RightRisk.org is a premier risk management education site, with resources such as online tools, courses, producer profiles, and others that help any producer no matter where they are on the risk management spectrum.



they will be addressed, making it an important tool for borrowers and lenders.

The first step is to list all potential cash inflows and outflows and then allocate them monthly. Striving to be as comprehensive as possible when listing expenses is important as it will reduce potential surprises in the form of cost overruns later.

Once inflows and outflows are distributed to the appropriate month, we turn to calculating the monthly surplus or deficit, as well as the running balance for each month. The course includes a downloadable template and instructions for building a cash flow statement.

Balance Sheets

The next financial statement outlined in the course is the balance sheet. This statement shows the assets and liabilities and subsequent net worth (asset values minus liabilities) of the owner. The balance sheet is important to lenders where it describes values at a given point in time and can provide a measure of business performance over time – for instance, where net worth improves over a three-year period.

The course also discusses how to classify assets (current versus non-current) and how to value them (book value versus market value). Remaining consistent in the valuation approach selected is important, as well as following the approach the lender requires when applying for a loan or credit.

Like assets, liabilities are listed as current and non-current.

Income Statements

An accrual income statement is the only true measure of profitability where it describes the net flow of cash and non-cash into and out of a business. The course outlines a seven-step process for creating an income statement and correctly estimating net income.

The first three steps involve determining cash transactions, and the next three involve adjusting for non-cash transactions (such as asset valuations and inventory changes).

As part of this process, the importance of cash-versus accrual-basis accounting is discussed. Cash accounting records income and expenses that involve cash, ignoring inventory and other non-cash changes. Accrual-basis accounting matches revenue to the expenses associated with producing that revenue and documents all cash and non-cash changes in the business over time.

Statement of Owner Equity

The statement of owner equity is the last financial statement discussed. This statement illustrates how equity (net worth) changes over the time elapsed between two balance sheets and describes the financial events that contribute to ending net worth.

continued next page

Among the many tasks with rural living - check your well

Testing the water quality of a domestic well should be part of its regular inspection and maintenance.

Seeing why this is so important is easy, with over 90,000 rural wells across Wyoming supplying 75 percent of residents with drinking water.

While the Wyoming State Engineer's Office regulates permitting and construction requirements, homeowners are responsible for inspecting their wells regularly for damage and testing water quality.

Water Quality

The Wyoming Department of Environmental Quality (DEQ) strongly encourages homeowners to test drinking water from private wells annually, with spring the best time.

As a guideline, water quality should be tested when a new well is drilled, if there is no record of testing, or when buying a new home. Water quality should also be tested if:

- There is an unexplained illness in the home,
- Someone in the home is pregnant or nursing,
- You note a change in water color, taste, odor, or clarity,
- There is a chemical or fuel spill nearby,
- After failure of a septic system,
- After a flood,
- Before installing a treatment system,
- Or neighbors find a contaminant in their well water.

Most Common Water Quality Concerns

There are many things that can be tested, and the lab you choose to work with can help determine which tests should be run. The Wyoming DEQ has compiled a list of the most common contaminants in Wyoming.

- Bacteria: most common contaminant,
- Nitrates: from septic system and fertilizers,
- Lead: from household plumbing,
- Arsenic: occurs naturally and was once a common pesticide ingredient.

Other contaminants may include uranium, methane, iron-reducing bacteria, pH, and radium 226+228. If the well is near oil and gas development, the Wyoming DEQ has additional

Financial Statements, continued

The course outlines a six-step process to complete a statement of owner equity.

Steps one and two involve pulling information from the balance sheet (beginning net worth value) and income statement (net farm income).

Steps three and four involve accounting for any contributions to the business (gifts, ownership contributions, etc.) and any distributions (including from owner equity).

Step five accounts for any changes in asset valuation, including real estate, to reflect an accurate picture of owner equity. While this step is not often needed, it should be considered depending on individual circumstances and the intended use for the information.

guidelines to consider when testing well water. More information is at knowyourwell.org.

Other Well Maintenance Concerns

Beyond testing the water, homeowners should also perform regular inspections and maintenance. Obtain specific information on materials, depth, and more by visiting the Wyoming State Engineer's Office e-Permit system at bitly/wyoepermit. This information will help you understand proper maintenance needs. Contact a licensed well contractor if you have specific questions or concerns.

Be cautious storing or using chemicals, such as pesticides or fertilizers, too close to your well, as groundwater contamination can occur. Keep trees and shrub roots away from the well.

Do not reset the breaker, fuse, or pump if loss of power to a pump occurs. This could indicate a larger problem, as most circuit breakers or fuses trip for a reason. Have this problem inspected by a licensed professional to ensure your safety and to avoid any potential damage to well components.

Loss of pressure or no water at all are other issues you may experience. Possible causes include:

- Low water levels in the well,
- Leak in system piping,
- Clogged filter or water line,
- Faulty electrical controls,
- Waterlogged pressure tank,
- Faulty or worn well pump.

Putting It All Together

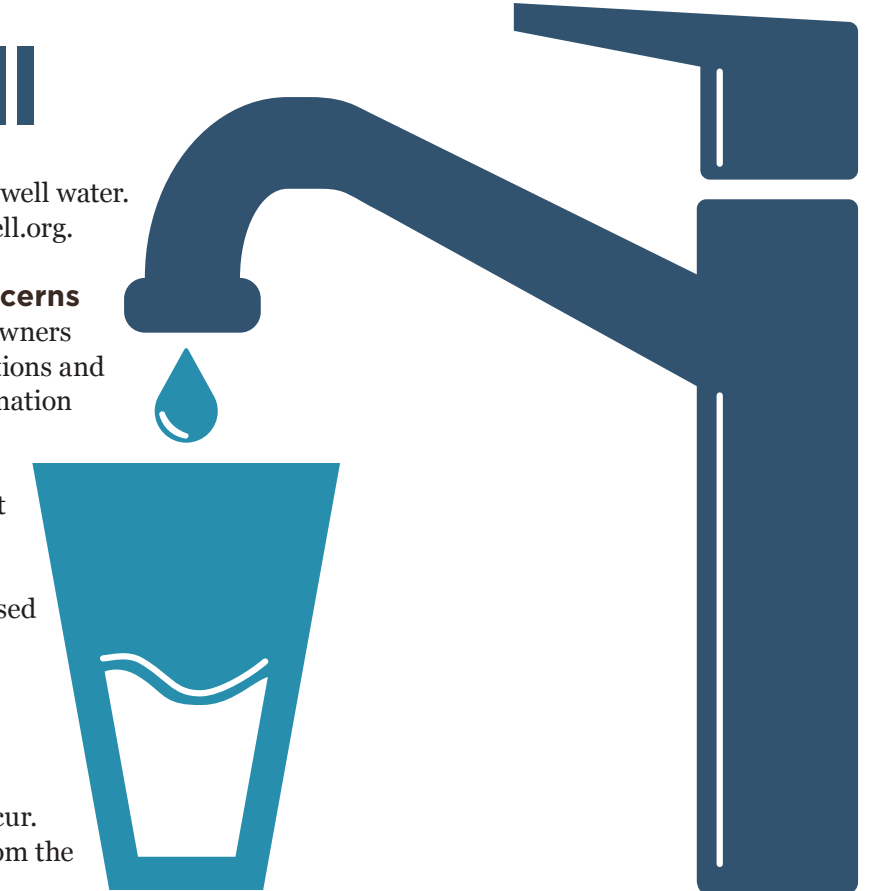
Regular maintenance and water testing can help keep your well operating efficiently and water safe. March 13 is "Know your well day" and is a good time to test your water quality.

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The Next Step to Better Management

Once the financial statements have been compiled, the sixth step leads to more in-depth analyses of the farm business, including enterprise and whole farm analysis. This provides a manager with the needed information to better analyze and examine the use of resources and better address problems that may arise. In the next installment we will look at the Getting on Track: Understanding Financial Performance course.

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FOR MORE INFORMATION ON WELL MAINTENANCE AND WATER TESTING

Wyoming Department of Environmental Quality (DEQ) - knowyourwell.org

- Information on everything to know about owning and maintaining a rural well in Wyoming.
- Includes understanding your well maintenance, common contaminants, licensed contractors, and testing labs.

Wellcare hotline - wellcarehotline.org

- Large library of information sheets on wells and water-related topics
- Help in finding licensed contractors and testing labs
- Free quarterly newsletter
- Free well owner manuals