



## Walk Through Financial Statements Part 2: **Balance Sheet**

**Andy Larson**

FFI/SBDC Farm Outreach Specialist

[andrew.larson@business.wisconsin.edu](mailto:andrew.larson@business.wisconsin.edu)



**Food Finance  
Institute**



# Introductions



**Food Animal Concerns Trust (FACT)** is a national nonprofit organization that works to ensure that all food-producing animals are raised in a humane & healthy manner, and that everyone will have access to safe & humanely-produced food.

## **Larissa McKenna**

Humane Farming Program Director

Email: [lmckenna@foodanimalconcerns.org](mailto:lmckenna@foodanimalconcerns.org)

Website: [foodanimalconcernstrust.org/farmer](http://foodanimalconcernstrust.org/farmer)

FACT's services for livestock and poultry farmers include:

- **Financial training – new!** (*Apply by October 31*)
- **Humane Farming Mentorship Program** (*applications available next week*)
- **Fund-a-Farmer Grants** (*applications available in mid-November*)
- **Conference scholarships** (ongoing)
- **Customized handouts** (ongoing)
- **Free webinars** (ongoing)

# Don't let your farm finances give you nightmares.

Applications for FACT's financial training program are due by the stroke of midnight on **October 31.**



[foodanimalconcernstrust.org/financial-training](https://foodanimalconcernstrust.org/financial-training)

# Who We Are

## For Food Systems:



**Sarah Larson**

FFI Interim Director

(608) 263-0398

sarah.larson@business.wisconsin.edu

## For Food Brands & CPG:



**Brad Rostowfske**

FFI Fellows/Accelerator Program Manager

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brad.rostowfske@business.wisconsin.edu

## For Farm Businesses:



**Andy Larson**

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andrew.larson@business.wisconsin.edu



# In a nutshell, the Balance Sheet:

- Is one of the big three financial statements (along with income statement and cash flow statement)
- Is sometimes called the Net Worth Statement (mainly when including personal stuff)
- Summarizes assets and liabilities
- Is a snapshot in time
- Is different for farms vs. non-farm businesses



# Big 3 Financial Statements

- **Balance Sheet** – inventory of *assets* and *liabilities*
  - Indicates *liquidity* and *solvency*
- **Cash Flow Statement** – change in cash position due to *operating, investing, and financing* activities
  - Indicates *repayment capacity*
- **Income Statement** – summary of *revenues* and *expenses* (plus non-cash *accrual adjustments*)
  - Indicates *profitability* of operations



# Essential Terminology

- *Asset* – a resource you own that has an economic value
- *Liability* – a debt you owe, often a certain amount of money
- *Liquidity* – whether there will be adequate cash to meet near-term financial obligations
- *Solvency* – whether your farm business can meet long-term debts and obligations





# Essential Terminology

- Why is it called a “balance sheet” anyway?
  - Because the bottom number on the left (asset) side should equal the bottom number on the right (liability) side of the statement

***Assets = Liabilities + Owners' Equity***

***Assets – Liabilities = Owners' Equity***



# Why do I need a Balance Sheet?

- To chart progress over time
- Your banker will certainly require a balance sheet
  - *Collateral*
  - *Working Capital*
  - *Debt-to-Asset Ratio*
  - *Net Worth*



# Example Balance Sheet

- Simple, representative template
  - Thanks to Illinois Finance Authority
  - Blank version [link](http://www.il-fa.com/sites/all/themes/ifa/docs/agriculture/agricultural_balance_sheet_template.xls) = [http://www.il-fa.com/sites/all/themes/ifa/docs/agriculture/agricultural\\_balance\\_sheet\\_template.xls](http://www.il-fa.com/sites/all/themes/ifa/docs/agriculture/agricultural_balance_sheet_template.xls)
- Thorough, complex template
  - Thanks to Compeer
  - Blank version [link](https://www.compeer.com/resources/tools/balance-sheet) = <https://www.compeer.com/resources/tools/balance-sheet>

Agricultural Balance Sheet			
Consolidated Farm Business and Personal Statement			
Name(s)	O.G. Farmer		
Name(s)	O.G. Land & Cattle		
Address	1234 Rural Route A		
	Anywhere, USA 11111		Date of Statement 12/31/20XX
Current Assets		Value	Current Liabilities
Cash & checking accounts	\$	50,000.00	Accounts payable
Savings accounts & time deposits	\$	20,000.00	Short-term notes payable
Marketable stocks & bonds			Prin. & Int. due within 12 mo. on I.T. loans
Accounts & notes receivable	\$	2,000.00	Prin. & Int. due within 12 mo. on L.T. loans
Market livestock	\$	30,000.00	Cash rent payable
Crops & feed on hand	\$	8,000.00	Other capital lease(s) payable
Investment in growing crops			Accrued income and Social Security Taxes
Prepaid expenses	\$	25,000.00	Credit card balances
Supplies on hand			Other
Hedging account equity			
Other current asset			
Total Current Assets	\$	135,000.00	Total Current Liabilities
			\$ 152,000.00
Intermediate Assets		Value	Intermediate Liabilities
Machinery, equipment, & trucks	\$	650,000.00	Principal due beyond 12 mo. on machinery
Leased machinery & equipment	\$	180,000.00	Capital lease payments due beyond 12 mo.
Breeding livestock	\$	50,000.00	Prin. due beyond 12 mo. on breeding stock
Notes receivable			Principal due beyond 12 mo. on notes
Personal vehicles	\$	15,000.00	Loans on personal vehicles
Cash value of life insurance	\$	3,000.00	Life Insurance policy loans
Retirement accounts			Other
Stocks & bonds not readily marketable	\$	1,000.00	
Household goods	\$	10,000.00	
Other			
Total Intermediate Assets	\$	909,000.00	Total Intermediate Liabilities
			\$ 292,000.00
Long Term Assets		Value	Long Term Liabilities
Farm Real Estate Owned			Farm Real Estate Mortgages
40 acres	\$	200,000.00	40 acres
80 acres	\$	400,000.00	80 acres
farmstead with improvements	\$	290,000.00	farmstead improvements - grain setup
Non-Farm Real Estate	\$	50,000.00	Non-Farm Real Estate Mortgages
Other			Other
Total Long Term Assets	\$	940,000.00	Total Long Term Liabilities
			\$ 510,000.00
			<b>Total Liabilities</b>
			\$ 954,000.00
			<b>Net Worth</b>
			\$ 1,030,000.00
<b>Total Assets</b>	\$	1,984,000.00	<b>Total Liabilities + Net Worth</b>
			\$ 1,984,000.00

# Current Assets

- Cash and cash equivalents
- A/R are invoiced, but not paid
- A/R and inventories used to make accrual adjustments on income statement

Current Assets	Value
Cash & checking accounts	\$ 50,000.00
Savings accounts & time deposits	\$ 20,000.00
Marketable stocks & bonds	
Accounts & notes receivable	\$ 2,000.00
Market livestock	\$ 30,000.00
Crops & feed on hand	\$ 8,000.00
Investment in growing crops	
Prepaid expenses	\$ 25,000.00
Supplies on hand	
Hedging account equity	
Other current asset	
<b>Total Current Assets</b>	<b>\$ 135,000.00</b>

# Intermediate Assets

- Useful life  $1 < 10$  years
- Liquid market, easily valued
- Breeding livestock also an inventory
- Intermediate personal assets have little collateral value

Intermediate Assets	Value
Machinery, equipment, & trucks	\$ 650,000.00
Leased machinery & equipment	\$ 180,000.00
Breeding livestock	\$ 50,000.00
Notes receivable	
Personal vehicles	\$ 15,000.00
Cash value of life insurance	\$ 3,000.00
Retirement accounts	
Stocks & bonds not readily marketable	\$ 1,000.00
Household goods	\$ 10,000.00
Other	
Total Intermediate Assets	\$ 909,000.00

# Long Term Assets

- Real estate, farm & non-farm
- RE tends to appreciate
- “Improvements” can depreciate

Long Term Assets	Value
Farm Real Estate Owned	
40 acres	\$ 200,000.00
80 acres	\$ 400,000.00
farmstead with improvements	\$ 290,000.00
Non-Farm Real Estate	\$ 50,000.00
Other	
Total Long Term Assets	\$ 940,000.00
<b>Total Assets</b>	<b>\$ 1,984,000.00</b>

# Current Liabilities

- Obligations paid w/in 12 months
- A/P – bills received but not paid
- Operating lines/RLOCs payable
- CPITD and CPLTD = term loan principal to be repaid this year
  - Reference amortization schedule
- Capital vs operating lease
- Entire credit card balance considered current liability

Current Liabilities	Value
Accounts payable	\$ 8,000.00
Short-term notes payable	\$ 25,000.00
Prin. & Int. due within 12 mo. on I.T. loans	\$ 43,000.00
Prin. & Int. due within 12 mo. on L.T. loans	\$ 42,000.00
Cash rent payable	\$ 16,000.00
Other capital lease(s) payable	\$ 7,000.00
Accrued income and Social Security Taxes	
Credit card balances	\$ 11,000.00
Other	
Total Current Liabilities	\$ 152,000.00

# Intermediate Liabilities

- Machinery & equipment, VIN, and breeding livestock loans
- Amortized over 1 < 10 years, depending on collateral
- Non-current portion of loan principal and capital leases

<b>Intermediate Liabilities</b>	<b>Value</b>
Principal due beyond 12 mo. on machinery	\$ 240,000.00
Capital lease payments due beyond 12 mo.	\$ 42,000.00
Prin. due beyond 12 mo. on breeding stock	
Principal due beyond 12 mo. on notes	
Loans on personal vehicles	\$ 10,000.00
Life Insurance policy loans	
Other	
<b>Total Intermediate Liabilities</b>	<b>\$ 292,000.00</b>



# Long Term Liabilities

- Real estate mortgages
- Home/farm equity lines of credit
- Loans for improvements lasting >10 years

Long Term Liabilities	Value
Farm Real Estate Mortgages	
40 acres	\$ 100,000.00
80 acres	\$ 280,000.00
farmstead improvements - grain setup	\$ 130,000.00
Non-Farm Real Estate Mortgages	\$ -
Other	
Total Long Term Liabilities	\$ 510,000.00
<b>Total Liabilities</b>	<b>\$ 954,000.00</b>
<b>Net Worth</b>	<b>\$ 1,030,000.00</b>
<b>Total Liabilities + Net Worth</b>	<b>\$ 1,984,000.00</b>

# What can we learn?

- A few basics about O.G. Farmer's operation...
  - *Working Capital = -\$17,000*
  - *Debt-to-Asset Ratio = 48%*
  - *Net Worth = \$1,030,000*
- This is just a jumping-off point for the banker...

Agricultural Balance Sheet					
Consolidated Farm Business and Personal Statement					
Name(s)	O.G. Farmer				
Name(s)	O.G. Land & Cattle				
Address	1234 Rural Route A				
	Anywhere, USA 11111		Date of Statement 12/31/20XX		
Current Assets		Value	Current Liabilities		
		Value			
Cash & checking accounts	\$	50,000.00	Accounts payable	\$	8,000.00
Savings accounts & time deposits	\$	20,000.00	Short-term notes payable	\$	25,000.00
Marketable stocks & bonds			Prin. & Int. due within 12 mo. on I.T. loans	\$	43,000.00
Accounts & notes receivable	\$	2,000.00	Prin. & Int. due within 12 mo. on L.T. loans	\$	42,000.00
Market livestock	\$	30,000.00	Cash rent payable	\$	16,000.00
Crops & feed on hand	\$	8,000.00	Other capital lease(s) payable	\$	7,000.00
Investment in growing crops			Accrued income and Social Security Taxes		
Prepaid expenses	\$	25,000.00	Credit card balances	\$	11,000.00
Supplies on hand			Other		
Hedging account equity					
Other current asset					
Total Current Assets	\$	135,000.00	Total Current Liabilities	\$	152,000.00
Intermediate Assets		Value	Intermediate Liabilities	Value	
		Value		Value	
Machinery, equipment, & trucks	\$	650,000.00	Principal due beyond 12 mo. on machinery	\$	240,000.00
Leased machinery & equipment	\$	180,000.00	Capital lease payments due beyond 12 mo.	\$	42,000.00
Breeding livestock	\$	50,000.00	Prin. due beyond 12 mo. on breeding stock		
Notes receivable			Principal due beyond 12 mo. on notes		
Personal vehicles	\$	15,000.00	Loans on personal vehicles	\$	10,000.00
Cash value of life insurance	\$	3,000.00	Life Insurance policy loans		
Retirement accounts			Other		
Stocks & bonds not readily marketable	\$	1,000.00			
Household goods	\$	10,000.00			
Other					
Total Intermediate Assets	\$	909,000.00	Total Intermediate Liabilities	\$	292,000.00
Long Term Assets		Value	Long Term Liabilities	Value	
		Value		Value	
Farm Real Estate Owned			Farm Real Estate Mortgages		
40 acres	\$	200,000.00	40 acres	\$	100,000.00
80 acres	\$	400,000.00	80 acres	\$	280,000.00
farmstead with improvements	\$	290,000.00	farmstead improvements - grain setup	\$	130,000.00
Non-Farm Real Estate	\$	50,000.00	Non-Farm Real Estate Mortgages	\$	-
Other			Other		
Total Long Term Assets	\$	940,000.00	Total Long Term Liabilities	\$	510,000.00
			<b>Total Liabilities</b>	\$	954,000.00
			<b>Net Worth</b>	\$	1,030,000.00
<b>Total Assets</b>	\$	1,984,000.00	<b>Total Liabilities + Net Worth</b>	\$	1,984,000.00

# Trends

- Small egg farm



	12/14/2015	11/20/2017	12/31/2018	11/13/2019	8/10/2020
Assets					
Current Assets:					
Cash	\$6,125	\$5,188	\$2,015	\$14,716	\$ 10,661
Crops on Hand - priced					
Crops on Hand - unpriced					
Feed on Hand		\$500	\$178		\$ 909
Market Livestock					
Accounts Receivable	\$792		\$165	\$550	\$ -
Prepays/Investment in Growing Crops					
Marketable Securities					
Other Inventory	\$2,000	\$174	\$1,406	\$1,470	\$ 1,100
Other Current Assets					
<b>Total Current Assets</b>	<b>\$8,917</b>	<b>\$5,862</b>	<b>\$3,763</b>	<b>\$16,736</b>	<b>\$12,670</b>
Intermediate Assets:					
Cash Value Life Insurance	\$6,000	\$6,085	\$6,000	\$7,310	\$ 2,594
Machinery, Equipment	\$3,000	\$5,300	\$20,000	\$20,000	\$ 35,400
Trucks					
Breeding Livestock	\$600	\$750	\$600	\$650	\$ 1,000
Automobiles	\$15,605	\$12,225	\$20,000	\$20,000	\$ 18,000
Household Furnishings					
Other - Securities Not Readily Marketable					
Other - Retirement Accts.	\$93,000	\$89,062	\$126,414	\$177,227	\$ 203,843
<b>Total Intermediate Assets</b>	<b>\$118,205</b>	<b>\$113,422</b>	<b>\$173,014</b>	<b>\$225,187</b>	<b>\$260,837</b>
Long Term or Fixed Assets:					
Real Estate	\$135,000	\$135,000	\$135,000	\$150,000	\$ 200,000
Real Estate					
<b>Total Fixed Assets</b>	<b>\$135,000</b>	<b>\$135,000</b>	<b>\$135,000</b>	<b>\$150,000</b>	<b>\$200,000</b>
<b>TOTAL ASSETS</b>	<b>\$262,122</b>	<b>\$254,284</b>	<b>\$311,777</b>	<b>\$391,923</b>	<b>\$473,508</b>

# Trends

- Small egg farm



Liabilities					
Current Liabilities:					
Notes Payable - LOC			\$3,000	\$4,000	\$0
Notes Payable					
CCC Loan					
Current Portion Intermediate Debt	\$4,620	\$4,620	\$4,440	\$10,284	\$9,760
Current Portion Long Term Debt	\$13,092	\$7,279	\$5,280	\$3,120	\$3,132
Accrued Interest				\$98	\$0
Accounts Payable	\$2,810		\$1,030	\$3,870	\$ 1,025
Other - Taxes					
Other - credit cards	\$20,839	\$17,645	\$7,800	\$11,441	\$ 10,000
<b>Total Current Liabilities</b>	<b>\$41,361</b>	<b>\$29,544</b>	<b>\$21,550</b>	<b>\$32,814</b>	<b>\$23,917</b>
Intermediate Liabilities:					
Equipment notes	\$13,268	\$9,784	\$9,198	\$5,380	\$19,312
Auto loans			\$12,800	\$4,777	\$2,358
Student loans	\$47,905	\$37,190	\$33,651	\$31,460	\$30,172
Other					
<b>Total Intermediate Liabilities</b>	<b>\$61,173</b>	<b>\$46,974</b>	<b>\$55,649</b>	<b>\$41,617</b>	<b>\$51,841</b>
Long Term Liabilities					
Mortgage	\$133,130	\$120,759	\$116,849	\$113,632	\$112,264
Mortgage					
Other Loan					
<b>Total Long Term Liabilities</b>	<b>\$133,130</b>	<b>\$120,759</b>	<b>\$116,849</b>	<b>\$113,632</b>	<b>\$112,264</b>
<b>Total Liabilities</b>	<b>\$235,664</b>	<b>\$197,277</b>	<b>\$194,048</b>	<b>\$188,063</b>	<b>\$188,023</b>
Owner Equity	\$26,458	\$57,007	\$117,729	\$203,860	\$285,485
Owner Equity Change (from previous year)	#REF!	\$30,549	\$60,722	\$86,131	\$167,756

# Consider an accounting software suite

- Essential to correctly set up Chart of Accounts
  - Income
  - Expenses
  - Assets
  - Liabilities
  - Equity



# Balance Sheet for Non-Farm Business

ASSETS		LIABILITIES	
Current Assets	Cash & equivalents	Current Liabilities	Short-term obligations
Fixed Assets	Tangible assets, >1 year	Long-Term Liabilities	Long-term obligations
Other Assets	Intangibles	Equity	Assets – liabilities
patents		invested capital	
trademarks		net income	
intellectual property		retained earnings	
goodwill		dividends paid	
<b>TOTAL ASSETS</b>	<b>=</b>	<b>TOTAL LIABILITIES &amp; EQUITY</b>	

# In a nutshell, the Balance Sheet:

- Is one of the big three financial statements (along with income statement and cash flow statement)
- Is sometimes called the Net Worth Statement (mainly when including personal stuff)
- Summarizes assets and liabilities
- Is a snapshot in time
- Is different for farms vs. non-farm businesses



# Thank you! What questions do you have?

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## Upcoming webinars

- 🐔 **October 26:** Cultivating Your Customers – The Secret to Higher Profits
- 🐔 **November 2:** Intro to Raising Heritage Breed Poultry
- 🐔 **November 16:** The Art of Email: Farm Newsletters
- 🐔 **December 2:** Farm Finances – topic tbd
- 🐔 **December 9:** Humane Farming Mentorship Info Session
- 🐔 **December 14:** Facebook Groups: *You Secret Weapon for Customer Care, Loyalty and Profits*

## Grants, Scholarships, Training, Mentorship & More!

- 🐔 **Financial training** – *Applications available – apply by October 31!*
- 🐔 **Humane Farming Mentorship Program** – *applications available next week*
- 🐔 **Fund-a-Farmer Grants** – *applications open in mid-November*
- 🐔 **Scholarships** – *ongoing*

Sign up for emails @ [foodanimalconcernstrust.org/farmer/](http://foodanimalconcernstrust.org/farmer/)

Join us on social media

