

METHODOLOGY FOR FINANCIAL DATA COLLECTION

Goal: To collect and collate financial data from farmers in a way that allows us to compare data from year to year and from farmer to farmer.

Data Collection Tools:

1. Pre-TA Survey
2. Post – TA Survey
3. Financial Template

Surveys

The goal of the survey was to get qualitative and quantitative information from the farms on their business management skills and business goals. The pre-survey sets the baseline for where the farmers were at the beginning of the program. The post-survey asks similar questions to measure the farmers' perceived change in business management skills.

The survey information was enhanced by winter check-ins by the program coordinators.

The Financial Template:

In creating a template, we had a standardized mechanism to track financial data from the farmers coming through this program.

Process of Creating the Financial Template

1. We started with the financial projections template created as part of the Carrot Project loan process.
2. We determined what measures we might be looking for (such as current ratio and profit margins) and how we would collect the data in a standardized way.
3. We modified the financial statement templates to capture the information as accurately as possible and as close as possible to proper accounting.
4. We wanted a template that was useful to the farmer, in addition to using it as a tool for this study.
5. Created line-items in the I/S and Bal/S based on the Schedule F tax return form and the account names typically used by farmers.
6. Took standard ratios and then modified them slightly to reflect the data we collect.
7. We detailed instructions on data entry. This clarified for PC's what information we were seeking and also insured that the data could be entered consistently should there be a change in who entered numbers into the template.

Key Decisions & Limitations

1. We decided to collect data and create financial statements on a cash-basis (as opposed to accrual).
2. We recognized that we would not be able to create technically correct Income Statement (I/S), Cash Flow Statement (CF) and Balance Sheet (Bal/S) given the limitation of recording keeping inherent with farmers. We did not track depreciation (though we did leave a space for it on the income statement)
3. We included space for farm numbers and household numbers. We recognize that some farmers blended the numbers, but some do not. We wanted to preserve the integrity of the numbers while capturing all details provided by the farmers.
4. We tried to quantify owners' salary/compensation (line 46). Some farmers take a salary, other take a draw.
5. We defined COGS as items purchased for resale, such as T-Shirts and products sold in a farm store.
6. We are not necessarily tracking non-farm (living) expenses, though we did want to know: what they needed to pull from their business in order to support family living expenses. In some cases we worked on a family living expense budget to determine what was needed to pull from the business.

Process for Data Collection and Entry

Three years of financials were collected; historical financials (the year before entering the program or projections if business is a startup) financials after year one and year two of program participation.

1. Primary data collected is survey information on farm business, operations, and participant skill/knowledge of farm business management along with farm financials. Financial data was collected from the farmers by their project coordinators.
2. Financials were forwarded to Chris Lindgren to enter into the financial template. This ensured that the numbers were entered consistently year to year, and farm to farm. Chris made decisions on account consolidation, if necessary, and forwarded notification to PCs to check data for errors and omissions. Chris followed up with PCs as needed to ensure all data was collected and questions were answered; with the ultimate goal that the financial data accurately reflects of financial position of farm business.

General Instructions for Data Entry into Financial Template

This financial template is meant to provide a standardized form to collect and sort through financial data received from farmers. By compiling all farmer data into the same format, we can more easily compare, analyze and evaluate information in a meaningful way.

Please **be careful not to add or delete rows and/or columns**, as the spreadsheets that comprise this tool (Cash Based P&L, Balance Sheet, Cash Flow and Debt Service) are linked by formulas. Adding rows and/or columns or changing formulas may result in unintended errors.

In general, shaded **BLUE CELLS** are for entering raw numbers. **GREEN CELLS** have formulas but sometimes it may be necessary to manually enter in a number instead. **WHITE CELLS** should **not** be edited as they have formulas that flow throughout the spreadsheet.

At the bottom of the worksheet, you will see seven tabs:

- Cash Based P&L
- Capital Expenses
- Balance Sheet
- Cash Flow
- Non-Farm Debt Service
- Farm Debt Service
- (Revenue Streams)
- Ratios

These worksheets will be used to track financial data/performance of farmers over the course of 2-3 years. This tool was initially created to help create financial projections for pro-forma statements and loan applications, but not necessary for this study. There is space to create projections. Feel free to use it, but it's not a requirement. We don't necessarily need projections for this study.

“Historical Year” is the last year that the farmers/enterprise completed before entering in the program. “Year 1” refers to the first year (Jan-Dec) within the program. For example, if the farmer enters the program in March 2012: the “historical year” will be 2011, and Year 1 will be January – December 2012. Year 2 will be 2013, and Year 3 will be 2014.

Please work through the sheets in the following order:

1. The **Cash Based P&L** is a hybrid, income statement and cash flow statement. The top section (Rows 5 -14) should be used to enter in annual revenues from the different sources... it can be distinguished by sales channel (such as farmers' markets, CSA's, or wholesale) or by crop (vegetables, pigs, or chickens). Expenses are entered in the bottom half (Rows 17 and Rows 24 – 83). Depreciation is the one expense that is not cash that should also be included (Row 26). Depreciation that is recorded on tax returns should be included in this portion of the template.

You can specify the revenue streams that make the most sense for the business. This may be general farm-stand sales or more specific wholesale accounts. We suggest that you either

specify revenue stream by sales channel (wholesale, CSA or Farmers' Markets) or by product type (vegetables, meat, dairy, eggs)

Cost of Goods Sold (COGS) should be used for purchases that are resold in at the farm stand or CSA. For example, if the farmer sells T-shirts, and they are a revenue stream, the cost of purchasing the t-shirt should be listed under COGS. Similarly, if they resell ice cream, honey or milk purchased from other vendors, the cost of purchasing these items should be noted under COGS. Some farmers include direct operating expenses such as seeds and soil amendments in COGS. However, to keep tracking consistent across farms, this is considered a direct operating expense. Only items that are purchased and then resold should be categorized as COGS.

The other operating Expenses are divided into 5 basic categories

- Direct Operating
- Payroll and Benefits
- Occupancy
- Repairs and Maintenance
- General and Administrative.

You may not need to use all the line items listed, and you may choose to rename some of them to better fit the business. If you opt to rename items, or coopt a row for another expense category, be sure it's listed under the appropriate broader category.

2. Capital Expenses

Enter in capital purchases on this tab. Information here will pull into the balance sheet tab – adding previous years' balances to purchases to come up with current year balance of assets. Capital expenses refer to money spent on purchasing physical assets such as equipment, buildings or vehicles. Capital Expenditures differ from operating expenses in that they are costs that produce a benefit that will last substantially beyond the end of the taxable year. For the purposes of this study, capital expenditures will only include those items that cost more than \$500 *and* have a useful life of more than one year.

The Balance Sheet

The Balance Sheet has three sections – Assets, Liabilities and Owners' Equity. The farmers may have assets and liabilities unrelated to the operation of the farm (retirement accounts,

personal vehicles) and should be included in the non-farm assets and liabilities sections of the balance sheet.

Column B/Beginning of the Program should include the balance information for the end of the “Historical Year”

Please enter in the current (**book**) value of your current and intermediate assets. This is what they are worth today (as opposed to the purchase price). Fixed (long-term) Assets should be listed at their **purchase** price¹.

For Years 1 – 3, the Balance Sheet will update the assets and liabilities section based on the capital expenses and debt-service worksheets. However, if the farmer sells assets, or takes on a new loan after entering into the study, or pays off a loan early, then this information will be incorrect, and will need to be manually entered.

This Balance Sheet does not have a section for accumulated depreciation. Most farmers are not tracking depreciation in their financial record keeping (though their accountant may include depreciation on tax filings). As such, we are just entering in the book value of the assets.

3. **Cash Flow**

The Cash Flow tab will automatically pull information from the previous worksheets, with the exception of the Cash Flow from Financing Section (Rows 16 – 20). You will need to enter in what the farmers receive from other grants and loans besides those that have already been listed in the debt service tab.

Also enter in any cash the owner draws from the business.

4. **Debt Service**

There are two tabs for Debt Service – one for farm debt, the other for non-farm (household) debt.

¹ Book value is based on the original cost of the asset less any depreciation, amortization or Impairment costs made against the asset.

Each tab has 5 calculators to figure out your loan and debt service information. For each loan enter in the following information:

- The current amount that's owed on the loan at the end of the "Historical Year"
- The Original Amount on the loan (this information will be used to calculate monthly payments. If you know the monthly payments, you can enter it in directly, and you do not need to fill out this item)
- Annual interest rate (given as a percentage)
- The original term of the loan. (This information will be used to calculate your monthly payments. If you know the monthly payments, you can enter it in directly, and you do not need to fill out this item)
- Number of payments per year. If it's monthly payments, the number should be 12, if it's quarterly payments, the number should be 4.

Information from this worksheet will pull into the other sections of the template.

5. **Revenue Streams**

We would like to track how many different markets farmers sell to and how it increases through the timeframe of the study. In "Column A" list the different channels that a farmer sells through.

For example, a farmer sells at 4 farmers markets, then just list "Farmers' Markets" once in column A. Do not list each individual market. In Column B, type in "YES". In Column C (Customers/Markets), put in 4. For subsequent years, if the number of farmers markets attended increases, that change will be reflected in the "Customer/Markets" Column. Should the farmer decide to no longer sell at farmers' markets, then write "NO" in column D and/or F.

Writing "YES" in columns B, D and F will trigger the item to be counted for the summary information in columns H – J.

6. **Ratios**

The information entered in the previous worksheets will pull into this tab to create ratios that we can use to compare year over year information as well as data from one farm to another.