Illinois Extension | Urban Farms

Getting Started with Farm Financial Planning

Farmers, whether rural or urban, typically begin farming because they enjoy working outdoors and becoming experts in the care of plants, soil, and animals. Urban farmers, both for-profit and nonprofit, often have a social mission component to care for communities and feed those in need. Most farmers don't go into farming because they love bookkeeping and spreadsheets. Yet financial planning and management are critical for making decisions on how best to invest time, labor, and money based on a farm's unique goals. Creating financial planning systems sets beginning farmers on a path to long-term success.

Benefits of Financial Planning

Farm financial planning answers questions about business finances, such as: Where am I today? Where have I been? Where do I want to be? How do I get there? It helps to:

- Evaluate a business over time.
- Determine if a change is necessary.
- Make better decisions.
- Create plans.
- Demonstrate that the farm is a good investment.

When farm financial planning is done thoroughly, it can show how much revenue is needed to stay in business and can predict the farm's financial performance.

Goal Setting

Every farm is unique — the land, crops, values, family situation, personal finances, and mission impact a business's ability to earn income and achieve its goals. Write vision and mission statements to clarify the farm's purpose. Remember: it is better to do one thing well than to try to be all things for all people.

Next, calculate the household's unique financial needs and farm business costs to establish a clear revenue goal. How much money is needed each month to pay for food, rent/mortgage, car/school loans, credit card debt, leisure activities, health insurance, and still be able to set aside money for retirement? Does another household member earn off-farm income to help pay bills, or will the farm be the sole source of income? This exercise will provide an approximation of the revenue that must be generated from the farm business. The same principle applies to non-profit businesses. How much money is needed each month to cover a salary for an executive director, staff, supplies, programs, insurance, and utilities?

Four Basic Financial Statements

Four financial statements used by all businesses are balance sheets, income statements, enterprise budgets, and cash flow worksheets. Below are brief descriptions of each statement's purpose and a simple example.

1. Balance Sheets

Balance sheets measure the farm's current financial standing at a specific point in time. It shows how much is owed (liabilities) and how much is owned (assets) to calculate the total net worth of a business or an individual. Tools, machinery, vehicles, land, buildings, and even unsold crops are considered farm assets. Any money owed on these assets is a liability. Credit card debt, machine loans, and mortgage or operating loans are liabilities.

Assets – Liabilities = Net Worth (owner's equity)

$50,000 - $30,000 = $20,000

A best practice is to update the farm balance sheet annually on the same day. While any date can be chosen, Dec. 31 and Jan. 1 are commonly used. A small urban farmer may not have entries for all categories in a standard balance sheet template.

If the farm has not yet been started, create a personal balance sheet to assess your finances. Lenders will request this information from farmers without a farm loan track record.

2. Income Statements

Income statements measure the farm business's profitability over the past year.

Total Revenue – Total Expenses = Net Income

$60,000 - $40,000 = $20,000

Net income is the amount of money the business gets to keep at the end of the year. All sources of revenue, including crop/livestock sales, government payments, custom work for other farms, and any other revenue generated by the farm business, must be accounted for. The expense list includes seed/feed, soil amendments, fuel, repair, utilities, property taxes, insurance, and more.

3. Enterprise Budgets

Enterprise budgets show how the farm will generate revenue from a specific crop, product, or sales outlet, like a farmers market or CSA. It assists farmers in making better-informed decisions because it shows if a specific product or sales outlet is positively contributing to overall farm income.

The budget predicts expected net return, or how much money farmers get to keep, based on what might be earned (expected revenue) after all costs have been calculated.

Expected Revenue – Total Costs = Expected Net Return

A tricky part of an enterprise budget is determining how to allocate items across various enterprises. It's simple to track how much gas was spent on farm work each week, but how much of that gas was used on the collard crop? Small, diversified farms may find it easier to use enterprise budgets by sales outlet.

Enterprise Budget for Annual Farmers Market Sales

Expected Revenue (Income)

Avg. Sales/wk	# of Weeks	Total Revenue
$500	16	$8,000

Item	Cost/Time Period	Total Cost/item
Seeds	1x	$150
Compost	1x	$250
Supplies	1x	$100
Gas	$50/wk for 16 wks	$800
Utilities	$25/wk for 24 wks	$600
Labor	$100/wk for 24 wks	$2,400
Insurance	$50/mo for 12 mos	$600
Rent	$250/mo for 12 mos	$3,000
	Total Costs	**$7,900**
	Expected Net Return	**$100**

*The numbers provided are to demonstrate how you might go about creating an enterprise budget and how quickly costs can add up. They are not meant to reflect the reality of all farms.

4. Cash Flow Worksheets

Cash flow worksheets show how much money is coming into a business, leaving a business, and how much remains each month. It indicates when available cash might be unable to meet the needs of the business. When built out across several years, cash flow worksheets predict the future financial viability of a farm, and can provide guidance about when to make expensive infrastructure or labor investments. When used for forecasting, they may be referred to as a proforma.

The example worksheet on the next page shows how a farm may end up with a negative balance before any income is earned. This new urban farmer starts off with $5,000, invests in a small high tunnel in January, some simple irrigation in February, and a more expensive seeder in March, which results in a $1,000 negative balance, despite not paying for any insurance or utilities. The farmer may want to reconsider the $600 seeder purchase, consider how to generate income before April, or be comfortable with carrying $1,000 in debt until income is earned.

Cash Flow Example Worksheet

	January	February	March
BEGINNING CASH	$5,000.00	$2,250.00	$400.00
CASH IN-FLOW	N/A	N/A	N/A
Restaurant Sales	0	0	0
Farmers Market Sales	0	0	0
TOTAL CASH IN	$0.00	$0.00	$0.00
CASH OUT-FLOW	N/A	N/A	N/A
Vehicle Expenses	0	0	$50.00
Soil Amendments	0	$1,000.00	0
Insurance	0	0	0
Land Rent	$250.00	$250.00	$250.00
Repairs & Maintenance	0	0	0
Seeds & Plants	0	$500.00	$300.00
Misc Supplies	0	0	$200.00
Utilities	0	0	0
Market & Advertising Fees	0	0	0
OPERATING OUT-FLOW	$250.00	$1,750.00	$800.00
Capital Purchases	$2,500.00	$100.00	$600.00
Family Living Draw	0	0	0
TOTAL CASH OUT	$2,750.00	$1,850.00	$1,400.00
ENDING CASH	$2,250.00	$400.00	($1,000.00)

Additional Resources

Urban Agriculture Resources: Writing a Business Plan and Creating Vision and Mission Statements, Univeristy of Illinois Extension

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