



Financial Planning and Cash Flow Budgeting for 2006



Hands-on Applications

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Outline

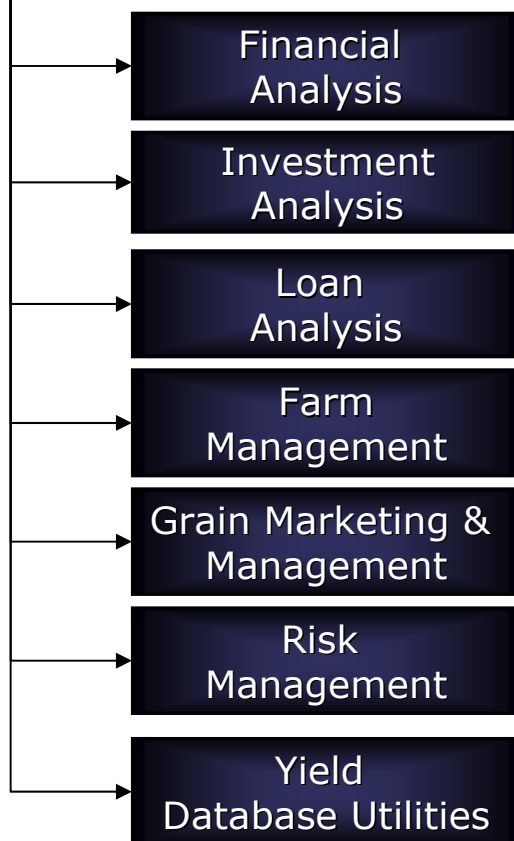
- FAST Tools overview
- Benefits of financial planning
- Components of financial plan
- Getting organized
- Hands-on applications
 - Appraisal financial condition
 - Monthly cash flow planning
 - Quick cash flow

FAST Tools

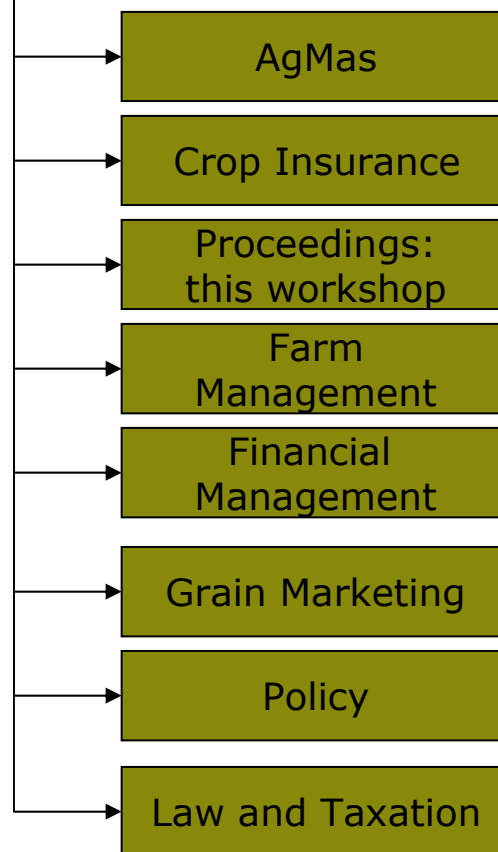
- **farmdoc** companion project initiated in 1999
- Development of spreadsheet-based tools to aid decisions for producers, lenders, consultants and investors
- Facilitate use, access, distribution of tools and resources through CD and internet distribution
 - Quarterly subscription
 - **farmdoc** download
 - via workshops
- Approximately 30,000 CDs produced and another 25,000 downloads
- Increased demand for education and training

FAST Tools - Overview

Computerized Decision Aids



farmdoc materials



Financial Analysis

Assist in preparing and interpreting financial information and measuring financial health

- ❖ Appraisal of current financial position
- ❖ Balance sheet
- ❖ Ratio calculator
- ❖ Cash flow planning
- ❖ Quick cash flow planning (*new*)
- ❖ Farm financial simulation – 4 year plan (*new in 2006*)
- ❖ Cash to accrual income approximation
- ❖ Estimates of deferred taxes
- ❖ Repayment capacity analysis
- ❖ Net worth allocation

Investment Analysis

Assist in measuring the economic returns and performance of alternative types of investments.

- ❖ Capital budgeting
- ❖ Grain bin analysis
- ❖ Land purchase analysis
- ❖ Lease versus purchase
- ❖ Machinery financing
- ❖ MACRS calculator
- ❖ Savings calculator
- ❖ Time value of money calculator

Loan Analysis

Assist in calculating loan payments and schedules; comparing alternative loans; and measuring the sensitivity of payments to changes in loan parameters

- ❖ Loan amortization
- ❖ Loan comparison
- ❖ Revolving loan calculator

Farm Management

Assist in developing enterprise budgets and breakeven levels; estimating costs of machinery operations; and comparing crop insurance and farmland leasing alternatives

- ❖ Break even analysis
- ❖ Crop budgeting tool
- ❖ Crop insurance calculator
- ❖ Crop rotation tool
- ❖ Enterprise allocation and analysis
- ❖ Farmland lease analysis
- ❖ Machinery economics

Grain Marketing and Management

Assist in tracking grain inventory and estimating the costs and returns of grain storage and delivery

- ❖ Crop storage analysis
- ❖ Grain delivery model
- ❖ Grain inventory management
- ❖ Grain pricing model

Risk Management

Assist in evaluating the impact of farmland lease types as well as marketing and crop insurance strategies on revenue and income distributions.

- ❖ Farm rent evaluator
- ❖ Marketing and crop insurance risk model
- ❖ Crop insurance payment calculator

Yield Database Utilities

Assist in analyzing county-level historical crop yields and with common computations related to soil productivity measures and yield predictions

- ❖ Illinois, Iowa, Indiana crop yield databases
- ❖ Illinois soil productivity index utilities

Why Budget?

- Decision analysis benchmarks
 - Cost control
 - Marketing
 - Identify opportunities
 - Contingency planning
 - Meet financial goals – discipline
 - Managing cash surplus/deficits profitably
- Organization
- Communication
- Monitor performance
- And ... my lender wanted one

Desired Components of a Financial Plan

- Focus on projected **profitability** of a plan – not just cash flow
 - What do we need to break even?
 - What cushion do we have to meet debt payments?
- Sensitivity analysis (stress testing)
 - Prices
 - Production
 - Costs
 - Interest rates
- Basis of comparison and validation
 - Benchmarks
 - Previous year comparison
 - Comparison to actual

Getting Organized

- Synchronize cash, loan, and inventory balances
- Total cash expenses for 2005
- Current inventories
 - Units and price
- Status of government payments
 - Due from 2005 crop – see worksheet
- Balance and payment schedules for loans
 - Interest owed at end of year
 - Scheduled payments
- Items prepaid for 2006 crop and payable for 2005 crop at the end of the year

Getting Organized, continued

- Enterprise cropping plan
 - acres
 - share of acres
 - lease type and share
 - expected production
 - government payments
 - costs per acre
- Crop insurance protection
 - Level of yield or revenue protection
- Livestock plan
 - Expected production
 - Expected sales and purchase price
 - Feed costs
 - Other livestock expenses

Getting Organized, continued

- Planned capital purchases
 - Expected level and cost of financing
- Nonfarm sources and uses of cash
 - Wages
 - Business income/expenses
 - Family withdrawals
- Before visiting lender
 - Check if lender is using suggested commodity prices
 - View Consumer Credit Report: See handout

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- Planned per-acre budget expenses for 2006
 - Northern Illinois
 - Central Illinois – Low and High Productivity
 - Southern Illinois
- County yields
 - Expected levels
 - Risk parameters
 - 25% = One in four-year low yield
 - 10% = One in ten-year low yield
 - 5% = One in twenty-year low yield

See Handouts



Cash Flow Planning

- Appraisal current financial position
 - Overview of potential operating loan needs of a farm business
- Monthly Cash Flow
 - Detailed monthly cash flow and profitability model
- Quick Cash Flow - *new*
 - Quarterly cash flow plan
 - Built-in budgets and yield risk parameters
 - Assessment of break-even yields/prices

FAST Hands-on Computer Workshops January - March

- Basic financial management
 - Preparing financial statements
 - Cash flow projections
- Extended financial management
 - Understanding your financial health
 - Ratio analysis and benchmarking your farm
 - Longer-term financial analysis
- Crop insurance and marketing

**Visit www.farmdoc.uiuc.edu
for current workshop schedule**