Disaster readiness - response - recovery

Planning the long-term recovery of your farm

3. Am I still solvent, and what equity do I still have in the farm?

The answer to this question is important for several reasons. The difference between the value of your assets and your existing debt is your equity or net worth. Lenders look at this information before making a new loan or restructuring existing debt. The value of your equity is the collateral you have to offer when you seek a new loan because it tells the lender whether, in a worst-case situation, you could cover your debts by selling some or all of the farm assets. If your debts exceed the value of the farm assets, the farm is considered to be bankrupt and there is no collateral to back a new loan.

A disaster may have reduced the value of your farm assets significantly, and insurance and other assistance may not provide full compensation. You should estimate your equity or net worth to see if there is sufficient collateral for any new loans or credit needed for your farm reconstruction and disaster recovery efforts. Comparing your current net worth to what it was before the disaster provides one measure of the financial damage caused by the disaster.

Equity or net worth is estimated by completing a **net worth statement**. It is sometimes called a balance sheet or financial statement. Farmers who have borrowed money are usually familiar with a net worth statement because lenders require one as part of the loan process. It lists your farm assets and their value on the one hand, and your liabilities on the other. For a family farm, it is helpful to include nonfarm assets and liabilities in a

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separate section on the balance sheet. The difference between total assets and total liabilities is your net worth or equity on the day you fill out the information.

Assets should be valued at both fair market value and cost (book value). For some purposes, including borrowing money and measuring the value of your equity, fair market value is appropriate. Both fair market value and cost are needed to estimate potential tax liability from the sale of farm assets. For other purposes, including income-tax reporting, a cost basis is needed. A worksheet is included below for your use.

Preparing a net worth statement or balance sheet should be a routine part of farm financial management. To be most useful for management purposes, a balance sheet should be prepared on the first day of every financial year—January 1 for most farmers. Over time, you can look back at trends in the market value of farm assets and the amount of farm debt and see how the farm is progressing. In a healthy farm business, asset values and net worth normally trend up and debts trend down.

RESOURCES

Additional computer tools and information on Net Worth Statements are available from the Iowa State University "Ag Decision Maker" Web site at:

http://www.extension.iastate.edu/agdm/decisionaids.html

Click on "Finance"

Scroll down to the "Financial" heading

- Click on Net Worth Statement to download a spreadsheet version of the supporting schedules and Net Worth Statement
- To learn more about calculating net worth, download the following fact sheet http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-20.pdf
- To analyze your net worth statement download this accompanying computer spreadsheet http://www.extension.iastate.edu/agdm/wholefarm/html/c3-20.html

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Net Worth Statement

Name: **Date:**

Farm Assets	**Cost Basis**	**Market Value**	**Farm Liabilities**	**Market Value**
Current Assets:	**$**	**$**	**Current Liabilities:**	**$**
Checking & savings accounts			Accounts payable	
Crops held for sale or feed			Farm taxes due	
Investment in growing crops			Current notes and credit lines	
Commercial feed on hand			Accrued interest – short term debt	
Prepaid expenses			Loan payments due within 12 months on long term debt	
Market livestock				
Supplies on hand			Payments due within 12 months on long term leases	
Accounts receivable				
Other current assets			Other current liabilities	
Total Current Assets			**Total Current Liabilities**	
Non-Current Assets:			**Non-Current Liabilities:**	
Unpaid coop. distributions			Term debt, remainder due after 12 months	
Breeding livestock				
Machinery and equipment				
Buildings and improvements			Long term leases, remainder due after 12 months	
Farm real estate				
Farm financial investments			Contingent liabilities	
Other non-current assets			Other non-current liabilities	
Total Non-Current Assets			**Total Non-Current Liabilities**	
Total Farm Assets (a)			**Total Farm Liabilities (b)**	
			Owner Net Worth (c) = (a - b)	
Personal Assets			**Personal Liabilities**	
Cash, checking, savings and money market accounts			Credit card and charge accounts	
Stocks, bonds, etc.			Taxes due	
Personal property			Personal loans	
Automobiles, boats, etc.			Automobile loans	
Household durable goods			Other loans	
Real estate			Real estate mortgage	
Total Personal Assets (d)			**Total Personal Liabilities (e)**	
			Personal Net Worth (f) = (d - e)	
			Total Net Worth (c + f)	

By convention, Net Worth or Equity is shown under the liabilities column because liabilities plus equity must equal the total value of the assets. This relationship also gives rise to “Balance Sheet” as another name for a Net Worth Statement. Net Worth may be calculated using assets valued on a cost basis or at fair market value, depending on the intended use.