



**readiness - response - recovery**

## ■ Planning the long-term recovery of your farm

### *4. Will I be able to generate the cash flow I need?*

Every farm must have cash available to pay bills and meet other financial obligations when they come due. This is particularly important after a disaster, when additional expenses may be incurred to replace or rebuild damaged or lost property and when income from crop or livestock sales may have been lost. However, there are different sources of cash, and it matters where the money comes from and how it is used.

Preparing a historic cash flow summary for one or more years before the disaster struck will give you a start to answering this question. The cash flow summary will let you see where the money came from and where it went under more normal circumstances. If your records have been lost, you may be able to get copies of your tax returns from your tax preparer. This would be a good place to begin. Information for a single year may not present a true picture because farming is risky and income and expenses can change considerably from year to year. Two or three



years' worth of information is more reliable.

Your farm history can be modified to project future cash flows after taking account of the effect of the disaster on farm production and expenses, expected changes in loan payments, farm-price changes, etc., as you move forward with your disaster recovery efforts. These projections will be helpful in establishing if cash will be available when needed and in identifying potential cash flow problems.

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A cash flow summary, whether historic or projected, summarizes cash flow over time, usually one financial year. This summary should categorize cash flow under four headings and should report gross inflows, gross outflows, and net cash flow for each category:

- Farm operations—Cash income and expenses associated with running the farm on a day-to-day basis.
- Investing—Purchases and sales of farm assets, such as machinery and equipment, breeding livestock, buildings, land, and real estate improvements.

- Financing—New farm borrowing or credit and debt repayments; new equity you invested in the farm or equity you withdrew.

- Nonfarm—Income from nonfarm sources such as wages, cash withdrawn from the farming operation, nonfarm uses of cash for such costs as family living expenses, personal savings and investment activities.

These are illustrated in Figure 1.

In a healthy farm business and in a normal or typical year, your farm operations, the first category on the list, should generate a surplus of cash, that is, your farm income should be greater than your farm expenses. All the other categories usually will show a net outflow of cash (a negative number) because from time to time you must invest in equipment or facilities to replace items that wear out, you will normally try to pay down your farm debt, and the farm should be

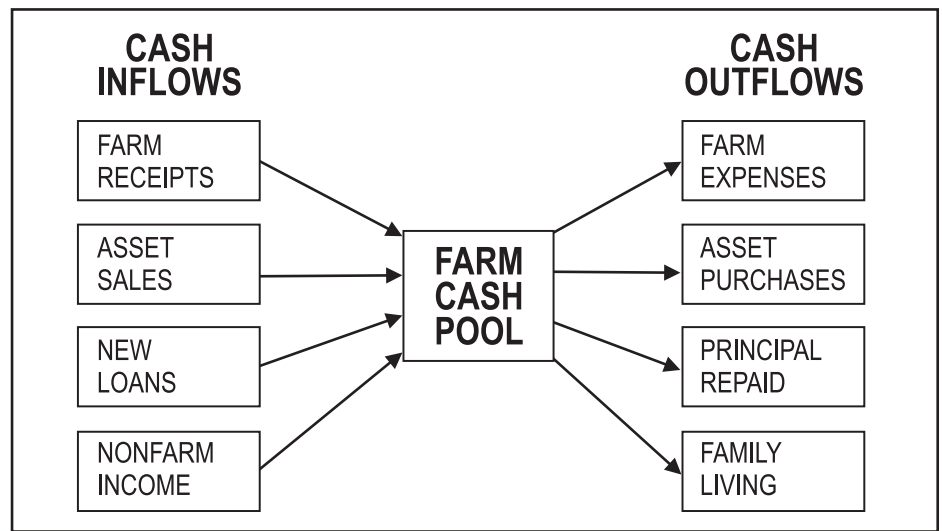


Figure 1. Farm and family cash flows

contributing to family living needs. In other words, on a healthy farm, the surplus from the farm operations should be large enough to allow you to replace worn-out equipment, to pay down debt, and to meet family living needs. If that was not the case, there were problems before the disaster struck. However, because of the year-to-year variability in yields, prices, farm operating costs, and the timing of major new farm investments, it is useful to summarize your farm cash flows for more than a single year. This is true for both historical summaries and projections.

The worksheet below may be helpful. Pay particular attention to the numbers on line 13, “Cash position before financing,” because in a historical summary, a negative number means the farm and family did not have enough cash to operate; for projections, a negative number means there will not be

enough cash to operate. If this is the case, consult a financial adviser and lender to discuss what can be done to solve the problem.

The following four articles in this series discuss additional aspects of evaluating farm financial performance and health, problem solving, and planning.

## 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 and click on “Cash Flow Statement (short form)” to download a simple, unformatted spreadsheet for summarizing or projecting cash flows.

## CASH FLOW SUMMARY

This worksheet is designed for farms and other small family businesses and incorporates business and family cash flows. It can accommodate up to 5 years' worth of annual data and average values. Leave missing years blank.

Start date for this statement: \_\_\_\_\_ Statement prepared for (name): \_\_\_\_\_

Date prepared: \_\_\_\_\_ Address: \_\_\_\_\_

ITEM	Year 1	Year 2	Year 3	Year 4	Year 5	Average
	\$	\$	\$	\$	\$	\$
1 <b>Beginning cash on hand (cash + checking)</b>						
2 Operating Receipts: including sale of crops, market livestock, livestock products, government payments, and other						
3 Operating Expenses: including chemicals, fertilizer, seed, purchased feed, fuel, insurance, hired labor, rent, repairs, supplies, taxes, utilities, vet and medicines, office, general farm, and other.						
4 <b>Net Operating Cash Flow (2-3)</b>						
5 Sales of Farm Assets: including breeding stock, machinery and equipment, land, buildings and real estate improvements						
6 Purchases of Farm Assets: including breeding livestock, machinery and equipment, land, buildings and real estate improvements						
7 <b>Net Flows from Investing (5-6)</b>						
8 Non-farm Cash Inflows: including farm wages paid to family members, off-farm wages, farm equity withdrawn, investment income or asset sales, non-farm business income						
9 Non-farm Cash Uses: including family living, income and self employment taxes, savings, new farm equity invested and new non-farm investments						
10 <b>Net Non-farm Cash Flows (8-9)</b>						
11 <b>Total Cash Inflows before financing, including beginning Cash (1+2+5+8)</b>						
12 <b>Total Cash Outflows before financing (3+6+9)</b>						
13 <b>Cash position before financing (11-12)</b>						
<b>Financing:</b>						
A. Equity Capital						
14 New Personal Equity Capital invested						
15 Personal Equity Capital withdrawn						
16 <b>Net Flows of Equity Capital</b>						
B. Loans & Credit						
17 New loans and credit: including operating loans and term debt						
18 Payments on debt: including principal and interest on operating loans, credit and term debt						
19 <b>Net Flows from debt financing (17-18)</b>						
20 <b>Net Flows from equity and debt financing (16+19)</b>						
21 <b>Ending cash on hand (cash + checking)</b>						
<b>Consistency Check for each year</b>						
22 <b>Total inflow INcluding beginning cash (11+14+17)</b>						
23 <b>Total outflow EXcluding ending cash (12+15+18)</b>						
24 <b>Budget error = Net flow - Ending cash (22-23-21)</b>						