FINANCIAL RISK MANAGEMENT FOR SPECIALTY CROP FARMERS

THE LAND CONNECTION

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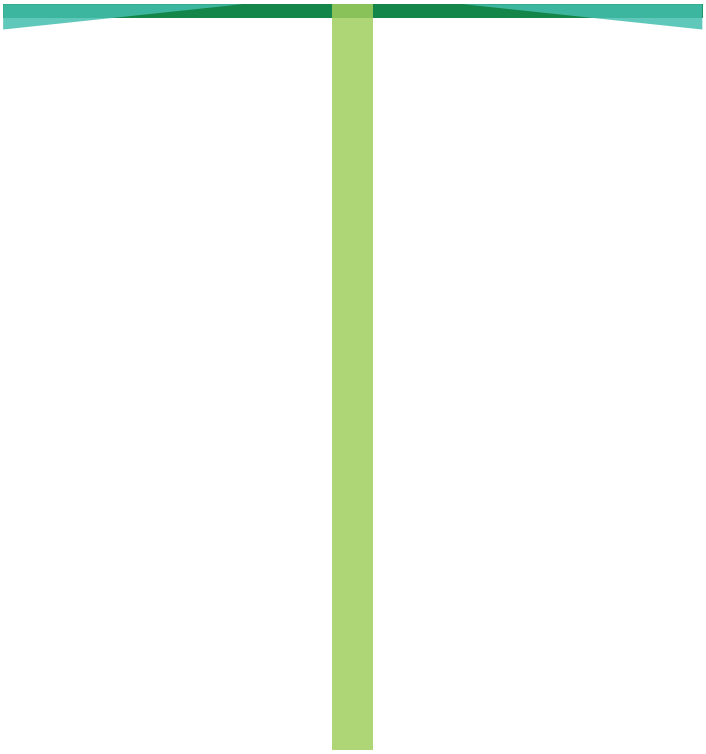
A Guide Written by Farmers for Farmers



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INTRODUCTION

The Land Connection has been providing training and support to beginning farmers for more than a decade. Our beginning farmer training programs have been generally oriented toward those interested in starting up a small specialty crop operation, providing them with the basic tools and guidance to start their small farm business. The training program has continued to grow over the years and has developed into a comprehensive program meeting the needs of a growing interest in small, sustainably run, specialty crop operations.

This text in conjunction with an online course is designed to take that training process to the next level with a more in-depth exploration of maintaining, refining, and growing your business. It is specifically written for those who have a few years of experience farming and running a farm business under their belt.

Each chapter was written by different authors with expertise in the specific subject area. The six chapters cover the following and include relevant examples of forms and calculations.

- **Chapter 1:** The basics of financial reporting with a look into some of the tools used to measure performance.
  Authors: Paul Dietmann, *Compeer Financial*; Maggie Taylor, *Delight Flower Farm*; and Larry Wood

- **Chapter 2:** The planning process needed and the rules to follow to access capital for maintaining and growing a business.
  Authors: Hans Bishop, *PrairiErth Farm, Inc.*; Paul Dietmann, *Compeer Financial*; and Larry Wood

- **Chapter 3:** Guidance on techniques for acquiring farmland and investment decision making.
  Authors: Amy Bacigalupo, *The Land Stewardship Project*; Cree Bradley, *Chelsea Morning Farm and Never Summer Sugarbush*; Brian DeVore, *The Land Stewardship Project*; Robin Moore, *The Land Stewardship Project*; and Karen Stettler, *The Land Stewardship Projec*t

- **Chapter 4:** Risk management and what benefits are available with revenue crop insurance.
  Authors: Harriet Behar, *Sweet Springs Farm*; Leslie Cooperband, *Prairie Fruits Farm & Creamery*; and Wes Jarell, *Prairie Fruits Farm & Creamery*

- **Chapter 5:** Fine tuning your business management practices such as tracking and managing data, metrics, leveraging opportunities, customer engagement and human resources
  Author: Katie Bishop, *PrairiErth Farm, Inc.*

- **Chapter 6:** Thinking long term-strategic planning, succession planning and estate planning.
  Author: Larry Wood

The self-directed online course contains a series of modules for each chapter including examples of problems, quizzes, and a risk management plan assignment. The intent of the course is to improve your decision-making skills in all areas of your operation. Anything that can be done to avoid failure is a good thing.

In general, there are many reasons why businesses succeed or fail. I would suggest the primary reason, disregarding any acts of god, depends primarily on the skill level and the diligence exercised by the farmer. There are many different skills required to be a successful farmer and many new farmers may not have or even realize all the skills needed to succeed. The key point here is to learn as much as possible about each aspect of the job and this text

is designed to help fill in some of those potential gaps. This will allow you to both recognize the aspects that are important to your business and ensure that someone is taking care of each aspect of your business.

You have to be the ultimate problem solver and decision maker for everything. With respect to operating and growing your business, detailed documentation of both operational activities and financial transactions are critical for making informed decisions. This planning process helps to clarify the decision-making process with a thorough analysis of available alternatives. This will help you to establish clear and concrete goals.

We hope the material presented here as well as the online course exercises help you along the way and please feel free to provide any feedback to improve this project.

Good luck and happy farming!

Larry Wood

—Larry Wood

ACKNOWLEDGMENTS

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Mallory Kreiger led the inception of this project, directing creation of content and organization of the authors. Mallory is the National Program Director of the Organic Agronomy Training Service. Cassidy Dellorto-Blackwell oversaw the editing and assembly of the final text. Cassidy is the Farmer Training Program Manager at The Land Connection. Hyde Taidghin O'Brien, Marketing and Communications Manager at The Land Connection, managed the layout and design of the book. Nicole Philyaw, Office Manager at The Land Connection, provided proofreading and organizational support. Jacquelyn Evers, The Land Connection's Executive Director, provided ongoing support and guidance for this project. Philip Pierick handled initial copyediting.

We are very grateful to each of the contributing authors for sharing their knowledge and expertise as well as contributing their time and energy to this effort.

Thank you to this project's advisory council for providing guidance on the structure and content of the text.

Hans & Katie Bishop, *PrairiErth Farm, Inc.*

Paul Dietmann, *Compeer Financia*l

Thomas Harrison, *Crooked Row Farm*

Maggie Taylor, *Delight Flower Farm*

Larry Wood

A special extended thanks to Larry Wood for providing editing, organization, clarifying, and moral support. This text would not be possible without his contributions.

ABOUT THE AUTHORS

Amy Bacigalupo is the co-managing director for Land Stewardship Project and co-directs Farm Beginnings, a farmer-led and community based beginning farmer training program. She has worked directly with farmer-to-farmer training for 20 years helping to launch over 850 new farmers. LSP is a member of the Farm Beginnings Collaborative, a national alliance of 13 independent regional groups of farmers, farmer networks, and organizations, who are working together to get more farmers on the land. Amy is also an organic apple grower and co-owns Kalliroe Orchard with her husband Paul and their two children in Montevideo, Minnesota. Prior to joining the Land Stewardship Project staff, Amy studied agroforestry, sustainable agriculture and international development. She received her Masters of Science in Forestry from the U of MN and served as a Peace Corps volunteer in Paraguay.

Harriet Behar has been an organic educator (UW Madison, MOSES) and an organic inspector, visiting thousands of organic operations, for almost 40 years. She was the chair of the National Organic Standards Board in 2019. Organic inspectors, farmers, ranchers, bankers, USDA personnel, crop insurance agents, retail stores, veterinarians, extension agents and more have benefited from her deep knowledge of organic methods and regulations through written materials, webinars and in-person workshops. She and her husband have managed a Certified Organic farm since 1989, growing bedding plants, vegetables, herbs and small grains, as well as a small scale commercial operation selling eggs and honey.

Hans Bishop and his wife **Katie Bishop** grow 35 acres of Certified Organic vegetables and 200 acres of Certified Organic grains at PrairiErth Farm, Inc. Crops are marketed through diverse channels at farmers markets, a 175 member CSA, restaurants, direct to stores, and wholesale distributors. A big part of the operation is season and "market" extension through cold storage. Vegetable crops are marketed year round to retain employees.

Cree Bradley has been working with farm organizations and directly with farmers and ranchers through trainings and workshops, publications, and one-on-one support for 18 years. She is a practitioner of Holistic Management, a values-based decision-making process for managing natural resources that generates financial strength and improves quality of life while enhancing the environment that sustains us. Utilizing her formal education in Holistic Management, as well as personal experience of applying its principles and practices to her operation, Chelsea Morning Farm and Never Summer Sugarbush, she works to help individuals and families start managing agricultural pursuits holistically through her Worksong Services.

Leslie Cooperband and her husband **Wes Jarrell** are the proud owners of Prairie Fruits Farm & Creamery in Champaign, Illinois. Both soil scientists and academics by trade, they moved to central Illinois in 2003, bought seven acres of corn and soybean land and converted it to organic fruit orchards, pastures and hay fields in 2004. In 2005, their farm became the first licensed farmstead goat dairy in Illinois. In 2008, they acquired an additional 15 acres and added a commercial kitchen to the farm. From four goats in 2004 to current milking herd of 130 goats, they have transformed their landscape into a diverse and sustainable farm and farmstead processing enterprise. They produce 14,000 pounds of artisan goat milk cheeses annually, which they sell at farmers' markets, retail stores and restaurants throughout central Illinois and the greater Chicago area. They also produce goat milk gelato with seasonally surplus milk. In addition to dairy products, Prairie Fruits Farm & Creamery hosts seasonal, local-food meals, tours, classes and other farm-to-table events.

Brian DeVore grew up on a crop and livestock farm in southwestern Iowa and, as a Peace Corps volunteer, operated a dairy cooperative in Lesotho. He currently edits the Land Stewardship Letter and produces the Ear to the Ground podcast for the Land Stewardship Project. DeVore is the author of the 2018 book, "Wildly Successful

Farming: Sustainability and the New Agricultural Land Ethic," which has recently been reissued in paperback by the University of Wisconsin Press.

Paul Dietmann is a Senior Lending Officer in the Diversified Markets group at Compeer Financial, a member-owned rural lending cooperative and Farm Credit System institution serving Illinois, Minnesota, and Wisconsin. Paul and his colleague, Sai Thao, are responsible for Compeer's Emerging Markets Loan Program, which provides loans and technical assistance to farmers who market their products through local food systems. He is co-author of the book Fearless Farm Finances: Farm Financial Management Demystified and the newly released publication Turning Grain Into Dough: Farm Financial Management for Organic Grain and Crop Rotation.

Robin Moore moved to western MN to farm in 2000 and since has actively participated in small direct market garden farming, large scale commodity farming, annual and perennial crops, and livestock. Robin has been working with the Land Stewardship Project for 6 years, first directly with farmers and agencies focused on landscape change in a watershed region, and now with a focus on non-operating landowners. She has both professional and personal relationships in agriculture as well as a deep investment in developing community awareness and agency for change.

Karen Stettler co-directs Land Stewardship Project's Farm Beginnings Program and has worked directly with beginning and retiring farmers for over 20 years. Karen has built foundational educational programs for beginning farmers getting started and for retiring farmers planning for farm transitions. She and her husband and two sons are currently in a land transition with her parents. Karen has a masters degree in Experiential Education and she served as a Peace Corps volunteer in Thailand.

Maggie Taylor owns Delight Flower Farm, a sustainable cut-flower farm in central Illinois. What began in 2011 as a humble experiment in a backyard garden, has grown into a thriving small farm that provides an alternative to the status quo of the global flower industry. Maggie also teaches yoga and leads workshops on farming, running a small scale business, art-making, and other topics.

Larry Wood worked for The Andersons for 34 years in all phases of grain business—covering operations, logistics, project management, system design for computer programming, financial modeling, commodity trading and supervising employees. After retiring in 2009, Larry did some part time work for the Farm Bureau Foundation as their executive director for 3 years and also taught marketing and farm business management at Parkland College for 3 years.

ABOUT THE LAND CONNECTION

At The Land Connection (TLC), we believe in building strong community-based food systems in which every farmer has the opportunity to grow food sustainably and every person has access to healthy, locally grown and produced foods. TLC was founded in 2001 with the goal of protecting farmland from development and supporting farmers in growing viable farm businesses. While protecting and enhancing farmland remains a core component of our organization, the majority of our work now focuses on training and supporting farmers to realize their goals in establishing successful, environmentally responsible enterprises.

In 2004, TLC began expanding our work in farmer training and support with the creation of Central Illinois Farm Beginnings, a year-long training and mentorship program for beginning farmers. Five years later, we helped found the national Farm Beginnings Collaborative®, which supports farmer training programs in ten states. Our reputation as a trusted source of farmer training and support in our region is built on our commitment to listening and responding to the needs of our farming community. This has led to a robust range of programmatic offerings for farmers of all backgrounds and experience levels. These include education on risk assessment and mitigation, exploring marketing challenges and opportunities, as well as regenerative agricultural methods and integration of conservation practices into large-scale operations.

In addition to our work training farmers, TLC relies on strong partnerships to create collective impact around the regenerative agriculture movement in our region. We are a member of ReGenerate Illinois, a collaborative that develops strategies to enhance and promote the work of its partner organizations around regenerative agriculture. TLC also sits on the leadership council of the IDEA Farm Network (IFN), which provides space for farmers, scientists, advocates, food entrepreneurs, and consumers to share diverse experiences, information, and views that advance regenerative agriculture.

To find out more about The Land Connection and what we're up to, visit us at www.thelandconnection.org.

CHAPTER 1
FINANCIAL ANALYSIS: PLANNING AHEAD

Authors: Paul Dietmann, *Compeer Financial;* Maggie Taylor, *Delight Flower Farm;* and Larry Wood

People choose to farm for a variety of good reasons, most of which have nothing at all to do with profitability or cash flow. Few people start farming because of a love of financial projections and balance sheets. That is okay! You should follow your passion for the farming enterprise(s) you want to steward. However, financial sustainability will allow you to keep doing what you love to do for many years into the future. This chapter covers four important elements of a strong financial plan for your farm:

- Enterprise budgets;
- Month-by-month cash flow projections;
- A recordkeeping system that allows for an accurate Schedule F (i.e. profit or loss from farming) as part of the farm's federal income tax return;
- A balance sheet prepared at least once per year.

These elements provide everything you need for a comprehensive analysis of the financial strengths and vulnerabilities of your farm. The strengths and vulnerabilities are measured using 21 ratios that fall into five broad categories: (a) liquidity; (b) solvency; (c) profitability; (d) cash flow; and (e) financial efficiency.

Do not let the mention of 21 ratios discourage you from reading any further. Some ratios are more important than others and several tell the same financial story in different ways. Only a handful of these ratios require close monitoring on an annual basis, or more often during tough times.

21 RATIOS: So, who dreamed up the 21 ratios and why do they feel these are important? The ratios are the work of an organization called the Farm Financial Standards Council (FFSC). The FFSC emerged from the ashes of the Farm Crisis of the 1980s as one effort to avoid a repeat of that financial catastrophe. It is composed of farm accountants, ag lenders, ag economists, and other farm financial professionals from across the US. The Council developed a set of guidelines for calculating each of the farm financial ratios, and established benchmarks for each of them as well. The FFSC guidelines and benchmarks are reviewed and updated every year. They are the generally accepted standards currently in use across the country. Learn more at https://ffsc.org/

Of the four elements of a strong financial plan, enterprise budgets and cash flow are both forward-looking documents. They are farm financial planning documents that should be prepared well before the growing season starts.

The next element, a good recordkeeping system, needs to be used on a daily or weekly basis whenever economic activity occurs on the farm. You should track all revenues and expenses, family living draws taken from the farm business, capital purchases, loan payments, and any other financial transactions.

The fourth element, a balance sheet, needs to be updated annually at the end of each fiscal year. You can update it more often, though it is important to always update annually on the same date. This allows you to account for seasonal variations and provides a more accurate financial comparison from one year to the next.

ENTERPRISE BUDGETS

An enterprise budget is a method of estimating all revenue and expenses associated with a given farm enterprise prior to beginning production. An enterprise budget is like a mini feasibility study, providing a rough estimate of the profit potential of an enterprise. An enterprise budget for basil, for example, should reveal whether there is any potential to make money growing and selling basil.

An enterprise budget—or a set of budgets for a multifaceted farm operation—is a great first step in the annual farm financial planning process. However, no big decisions should be made solely on the basis of enterprise budgets. Your enterprise budget should feed into a more comprehensive month-by-month cash flow projection for the farm.

If you have been farming for a few years, enterprise budgeting should be a fairly easy endeavor for you. You can start with your actual revenues and expenses from prior years. If you are considering adding a new enterprise, there are several resources available for guidance. The first place I would look is the USDA. Other good sources of information are land grant colleges/extension services and ag associations for specific crops.

The enterprise budget typically begins with expected gross revenue, which can be estimated in any way that makes sense for your enterprise. A conventional corn and soybean farmer typically projects revenue on a per-acre basis, whereas a livestock producer will calculate revenue on a per-head basis. A small-scale vegetable grower may project the revenue expected from a bed of lettuce that is four feet wide by 100 feet long. A CSA grower may calculate enterprise budgets according to market outlets rather than individually for each of the fifty crops grown (e.g. expected revenue from 100 shares x $600/share = $60,000).

Expenses in an enterprise budget are separated into two categories: variable costs and overhead costs. Your variable costs would be zero if you were not growing anything and include seed, feed, soil amendments, fuel, hired labor, and similar costs. These expenses tend to be paid periodically throughout the year rather than all at once.

Overhead costs are expenses that have to be covered even if the farm is producing nothing. These costs include property taxes, interest on a farm mortgage, property and casualty insurance, building repairs, and depreciation of equipment, buildings, and other capital items that rust, rot, or wear out.

You may sometimes hear overhead costs referred to as fixed costs. This is a bit of a misnomer, as these costs are not really fixed. There are some ways to lower overhead costs. For example, you could sell a piece of equipment that you do not use very much, which would both lower your insurance bill and reduce depreciation costs.

Once revenues and expenses are listed on the enterprise budget, your net profit can be estimated. It is important to remember that this is only an estimate of the profit potential of the enterprise—it does not reveal anything about the potential cash flow. To see the impact on the farm's cash flow throughout the year, an enterprise budget needs to be expanded into a month-by-month cash flow projection.

For an example of a Small Crop Enterprise Budget, see Figure 1, page 11.

Figure 1: Example of an Enterprise Budget

Enterprise Budget	Crop	Cantalope		
Production Dimensions	Length	200	Ft	
	Width	6	Ft	
Production Area		0.0275	Acres	
Unit of Crop Measurement		Carton	Boxes, quarts, bags, etc.	
Weight/unit		40 lbs		

Sales	No. of Units	Unit Price		Revenue	
Retail	500.00	3.75		1875.00	Expand to itemize by sales type, location, etc.
Wholesale				0.00	Transfer to value-added enterprise at Market price
				0.00	
				0.00	
		Avg Unit Price			
Total Revenues	500.00	3.75		1875.00	

	Labor	Machinery	Resources	
Total Cost	418.00	138.00	231.00	787.00
Cost / Unit	0.84	0.28	0.46	1.57

	Avg NP/Unit	Avg NP/Acre	Total
Net Profit	2.18	39494.40	1088.00

Cost

Marketing Costs	Labor	Machinery	Input		
	24.00				Expand the sections below for the desired level of detail tracking.
Total	24.00	0.00	0.00	24.00	

Preplanting					
Tillage		16.00		Itemize by:	Breakdown by machine type,
Fertilizer		42.00			fertilizer (input) type, and labor type.
Labor 3 hrs @ $12.00	36.00				Prorate machinery costs over multiple crops.
Total	36.00	58.00	0.00	94.00	

Planting					
Seed			12.00	Itemize by:	Seeds, plants, labor, and machinery costs.
Labor 4 hrs @ 12.00	48.00				Applications.
					Prorate machinery costs over multiple crops.
Total	48.00	0.00	12.00	60.00	

Crop Development					
Weeding 10 hrs @ 10.00	100.00			Itemize by:	Crop cultivation, mulching, applications, labor,
Mulch			24.00		irrigation, and any other specific items required
Labor Spraying	10.00				leading up to harvest.
Chemicals			15.00		Prorate machine costs over multiple crops.
Total	110.00	0.00	39.00	149.00	

Harvest					
Cartons			180.00		Expand to itemize by field or farm, by market
Labor 15 hrs @ 10.00	150.00				location, by storage, packaging type, transportation.
Total	150.00	0.00	180.00	330.00	

Post Harvest					
Fall tillage		15.00			Itemize by tillage, cover crop, fall additives, etc.
Fertilizers		65.00			
Labor	50.00				
Total	50.00	80.00	0.00	130.00	

CASH FLOW PROJECTIONS

Unlike in an enterprise budget, actual revenues and expenses are spread out across an entire production year in the real world of an operating farm. Many expenses must be paid early in the year, whereas revenues only come in at the end of the growing season.

A cash flow projection is simply a way of looking forward over the next year to estimate the amount of cash available to the farm operation each month and how much of that cash will be flowing out. Cash will likely be needed for operating expenses, loan payments, family living costs, and the purchase of big-ticket capital items such as machinery or breeding livestock.

A month-by-month cash flow projection typically starts on January 1 using the balance available in the farm's checking account. Next, all sources and dollar amounts of cash inflow during the month of January are tallied. Cash can come from the sale of farm products or capital assets (e.g. machinery, breeding livestock, etc.), custom work income, government program payments, new loan proceeds, or even from a non-farm job. Once all sources and amounts of cash inflow are listed, do the same for cash outflow. First, list all of the operating expenses that need to be paid in January. Next, list the total of all loan payments due—both principal and interest—along with any capital items that will be purchased during the month. Finally, subtract any cash from the farm used to cover family living expenses for the month.

Add the January cash inflow to the beginning checking account balance, and subtract the cash that will flow out during the month. The result is the remaining balance at the end of January, which becomes the beginning balance for February. Repeat this process for each month of the year. Month-by-month cash flow projections for the year allow you to see which months are projected to have a negative ending balance. Knowing ahead of time when cash is likely to be short allows you to develop strategies to deal with the shortfalls ahead of time. For instance, you might sell farm products earlier than planned or shift some expenses to a different month. You may decide to take out an operating loan or refinance a current loan to carry the farm through months of poor cash flow.

Failing to complete a month-by-month cash flow projection can lead to serious and sudden money issues. Open accounts can build up, credit card balances may climb, or family living budgets may need to be cut to unsustainable amounts. If your credit score drops, your much-needed access to credit could also be lost.

For an example of a Cash Flow Statement, see Figure 2, page 13.

FINANCIAL RECORDKEEPING SYSTEMS

From stuffing receipts into a manila folder to hiring an accounting firm, there are many ways to keep accurate financial records for your farm. At a minimum, you need a system that allows you to prepare an accurate Schedule F tax form at the end of the year. If that is your only need, a paper-and-pencil recordkeeping system logged in a notebook will suffice.

The **IRS Schedule F** is used to report taxable income from farming or agricultural activities. This must be included on a form 1040 tax return regardless of the type of farm income and whether it's a primary business activity or not. A schedule F form can be accessed through the IRS website, www.irs.gov.

However, if you plan to run periodic financial reports, monitor working capital, conduct enterprise analysis, etc., an

electronic system—possibly in tandem with an accounting professional who prepares the farm's annual tax return and provides advice on accounting matters—is advised. It is crucial to adopt a system that you feel confident you will be able to update at least once a week even during the busiest season of the year.

For example, do not plan to use QuickBooks® if you know that in June—when you return home most evenings at 9 p.m.—you are unlikely to open QuickBooks® and start entering invoices. The worst case scenario is using a system that allows you to fall months behind, as it will mean spending dozens of hours haphazardly bringing your records current at the end of the year.

If you are comfortable with an electronic recordkeeping system and are confident that you will keep it current, numerous options are available. QuickBooks® is the most popular and most widely used. It is useful for tracking revenues and expenses and allows for the preparation of your Schedule F with relative ease. Unfortunately, the reports generated in QuickBooks® are not ag-friendly without a significant amount of modification. Because of this,

Figure 2: Example of a Cash Flow Statement

Cash Flow Statement													
Beginning Balance	43250	35305	4860	-3085	6270	825	-810	4885	-1660	49895	73670	78645	
	January	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**Totals**
Operating Receipts													
Livestock sales				17300			5400		34200				56900
Crop Sales					2500	6310	8240	7400	25300	32400	13600		95750
													0
													0
													0
Government payments													0
Other Farm Income													0
Total Cash Receipts	0	0	0	17300	2500	6310	13640	7400	59500	32400	13600	0	152650
Capital Sales													
non-real estate property													0
land, buildings, etc.													0
Other Income													
wages and salaries-part time job	680	680	680	680	680	680	680	680	680				6120
other contributed capital													0
Total Cap & Other Cash	680	680	680	680	680	680	680	680	680	0	0	0	6120
Total Cash	43930	35985	5540	14895	9450	7815	13510	12965	58520	82295	87270	78645	158770
Operating Expenses													
custom hire													0
feed purchased	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
fertilizer, lime, chemicals		15000											15000
seed		7500											7500
fuel, lubricants	450	450	450	450	450	450	450	450	450	450	450	450	5400
hired trucking													0
insurance	210	210	210	210	210	210	210	210	210	210	210	210	2520
labor	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200	14400
cash rent payments													0
repairs and maintenance	100	100	100	100	100	100	100	100	100	100	100	100	1200
storage													0
supplies	100	100	100	100	100	100	100	100	100	100	100	100	1200
property tax								6000					6000
utilities	325	325	325	325	325	325	325	325	325	325	325	325	3900
vet costs and animal health	200	200	200	200	200	200	200	200	200	200	200	200	2400
miscellaneous													0
livestock purchases													0
Total Cash Expenses	4085	26585	4085	4085	4085	4085	4085	10085	4085	4085	4085	4085	77520
Capital and other Expenses													
real estate loan payments	540	540	540	540	540	540	540	540	540	540	540	540	6480
non-real estate loan payments													0
family living	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	36000
income tax and FICA													0
investments and retirement	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000
Total Capital and other Expenses	4540	4540	4540	4540	4540	4540	4540	4540	4540	4540	4540	4540	54480
Total Cash Expenses	8625	31125	8625	8625	8625	8625	8625	14625	8625	8625	8625	8625	132000
Monthly Net Cash Position	35305	4860	-3085	6270	825	-810	4885	-1660	49895	73670	78645	70020	26770

it may actually be easier to keep a separate balance sheet outside of QuickBooks® for running reports. One advantage to using QuickBooks® is that its widespread use makes it easy to troubleshoot any issues you encounter.

Numerous software alternatives to QuickBooks® are available for purchase. You can also find good web-based packages available for free online. One of the best free accounting software packages is Wave (https://www.waveapps.com/accounting/). Wave has most of the features of paid programs—it connects securely to your bank accounts, credit cards, and online payment systems such as PayPal®, allows you to scan receipts, and more. Whichever recordkeeping system you choose to use, the end result needs to be an accurate Schedule F to file with your federal tax return. With an accurate Schedule F and two balance sheets, you are able to complete a comprehensive analysis of your farm's financial performance.

BALANCE SHEETS

If you have ever applied for a loan of any type, you have probably completed a balance sheet. For a personal loan, the balance sheet might have been called a personal financial statement. A balance sheet provides a snapshot of your financial position at a particular point in time. It lists everything you own—your **assets**—and everything you owe to others—your **liabilities**. When liabilities are subtracted from assets, the result is the owner's **equity** in the farm. An annually updated balance sheet is a critical document for your farm for several reasons. First, a balance sheet

Figure 3: Example of a Balance Sheet

Fiscal Year Ending	**2019**	**2020**	**Variance**
Assets			
Cash	$ 450,785.00	$ 368,695.00	$ (82,090.00)
Inventory	$ 128,790.00	$ 110,568.00	$ (18,222.00)
Prepaid Seed	$ 15,378.00	$ 17,564.00	$ 2,186.00
Prepaid Inputs	$ 32,907.00	$ 37,563.00	$ 4,656.00
Accts Receivable	$ 14,236.00	$ 17,678.00	$ 3,442.00
Current Assets	$ 57,689.00	$ 62,896.00	$ 5,207.00
Long Term Assets	$ 1,567,496.00	$ 1,645,780.00	$ 78,284.00
Total Assets	**$ 2,267,281.00**	**$ 2,260,744.00**	**$ (6,537.00)**
Liabilities			
Accrued Expenses	$ 4,538.00	$ 5,678.00	$ (1,140.00)
Accrued Interest	$ 20,754.00	$ 17,569.00	$ 3,185.00
Accts Payable	$ 1,796.00	$ 564.00	$ 1,232.00
Current Liabilities	$ 25,745.00	$ 18,675.00	$ 7,070.00
Equipment Loans	$ 326,432.00	$ 298,706.00	$ 27,726.00
Building Loans	$ 45,732.00	$ 35,467.00	$ 10,265.00
Land Loans	$ 267,498.00	$ 236,740.00	$ 30,758.00
Total Liabilities	**$ 692,495.00**	**$ 613,399.00**	**$ 79,096.00**
Owners Equity	**$ 1,574,786.00**	**$ 1,647,345.00**	**$ 72,559.00**

documents assets, liabilities, and equity at a given point in time. If the balance sheet is updated on the same date each year—ideally January 1—you can easily track changes in your financial position from year to year. In a year of tight cash flow, your balance sheet might reveal that your financial position actually improved if you have paid down debts, resulting in increased equity.

NOTE: A benefit to updating your balance sheet on January 1 is that the date will line up with your annual Schedule F. Comparing two consecutive annual balance sheets dated January 1 reveals how certain asset and liability categories changed during the year. *See Figure 3: Example of a Balance Sheet on Page 14.* These include accounts receivable, inventories, prepaid supplies and expenses, accounts payable, and accrued interest. The net changes in those categories either add to or subtract from the farm's annual net income. These consecutive balance sheets along with the Schedule F for that year allow you to fully analyze the farm's financial performance for the year.

A farm balance sheet differs slightly from a non-farm balance sheet. First, assets are often listed on a farm balance sheet at their market value rather than their cost minus accrued depreciation. If you bought a tractor for $50,000, fully depreciated it, and it is still worth $50,000, it will appear on your balance sheet at its $50,000 market value. A non-farm balance sheet would show the tractor as having zero value.

Second, the intermediate assets and intermediate liabilities categories only appear on a farm balance sheet. Intermediate assets are items with a useful life of more than one year but less than ten years, including machinery, equipment, breeding livestock, and titled vehicles. Intermediate liabilities are loans tied to intermediate assets.

Finally, while difficult, it is necessary to separate farm assets from personal assets. The largest of these is probably the farmhouse. The farmer's home is considered a personal asset, not a farm asset. If the value of the house is not removed from the farm balance sheet, net farm income will be divided by all of the farm's assets plus the house. This will cause the farm's profitability to appear artificially low.

The asset side of a farm balance sheet is broken into three pieces:

- **Current assets** include cash and cash equivalents such as checking account balances. Items that will be converted to cash within a year are also current assets, including accounts receivable, market livestock, and crops in storage that will be sold for cash. Anything that will be used up on the farm within a year, such as prepaid supplies and feed inventories, are also current assets.

- **Intermediate assets** are objects with a useful life of more than one year but less than ten years. Farm machinery and equipment, breeding livestock, and titled vehicles all fall into this category. Other examples include irrigation pipe, produce bins, or a hoop house.

- **Long-term assets** have a life of more than ten years and include items such as land, buildings, and improvements. Most farm balance sheets list land on a separate line from buildings and improvements because it is not a depreciable asset. Buildings and improvements do depreciate, meaning they need to be tracked separately from land.

The liability side of the balance sheet is broken down into three corresponding categories:

- **Current liabilities** are obligations that are due within one year, including open accounts with vendors, unpaid tax liabilities, operating loan balances, accrued loan interest, and all credit card debt. Any principal

that must be paid within a year on a machinery loan, mortgage, or other term debt is also considered a current liability.

- **Intermediate liabilities** are loans against intermediate assets (e.g. a tractor loan). The amount listed under intermediate liabilities is the principal due beyond the next year on the loan—the principal due within the next year is a current liability and must be listed as such.

- **Long-term liabilities** are mortgages or other loans against long-term assets such as land or buildings. Again, remember that the principal due within the next year on a mortgage is actually a current liability and needs to be listed in the current liabilities section of the balance sheet.

- Some farm balance sheets add a fourth category of called **contingent liabilities**. This includes payments that would have to be made if the farm were sold. Examples include commission paid to a real estate agent, capital gains taxes, and closing costs.

Subtracting all liabilities from all assets will yield the owner's equity or the net worth of the farm. This is your ownership interest in your farm. Another way to think of it: if you sold all of the farm assets and paid off all of the farm's liabilities, this equals the amount of your profit from the sale.

CALCULATING LIQUIDITY AND SOLVENCY

Now that you have a reliable Schedule F and two balance sheets to bookend the year, you have what you need to analyze your farm's strengths and vulnerabilities.

First, look at the year-end balance sheet. There are two categories of financial ratios that can be calculated solely from the balance sheet, Liquidity and Solvency. Liquidity examines only the current assets and current liabilities. Solvency looks at the entire balance sheet.

To determine liquidity, first calculate the current ratio—current assets divided by current liabilities. This ratio should be at least 1.0, meaning the farm has at least enough current assets to cover current liabilities. A strong balance sheet will have a current ratio greater than 2.0, though above 3.0 is preferable. Second, calculate your net working capital—current assets minus current liabilities. This is a dollar figure rather than a ratio. If the current ratio is greater than 1.0, net working capital will be a positive number. Next, divide your net working capital by the farm's annual gross income. The resulting ratio should be .15 or higher. In other words, the farm's net working capital should be at least 15% of its annual gross farm income. This working capital-to-gross income ratio is a measure of the farm's resilience. The higher that number, the greater the odds are that the farm will be able to survive an unexpected setback or take advantage of an unexpected opportunity.

One more thing to consider regarding liquidity is the percentage of current assets being held in cash or "near cash" assets (e.g. vegetables or grain held in storage with the intention of being sold to generate income). Cash or near cash assets should make up 10-15% of the farm's current assets. This allows relatively quick access to cash without requiring you to keep a lot of cash on hand that could otherwise be making the farm money. To determine solvency, calculate the debt-to-asset ratio—total farm liabilities divided by total farm assets. A ratio of .50 or less is considered strong. In other words, the total farm liabilities should be less than half of total farm assets. On the flip side, the equity-to-asset ratio should be more than .50. Your owner's equity in the farm should be greater than 50% of the assets. Your numbers might be far from the strong range if you have been farming for only a short time or if you have just undertaken a significant expansion financed with loans. A short-term goal might be to achieve an equity-to-asset percentage equal to your age (i.e. if you are 25 years old, your equity should be 25% of total farm assets).

A few final thoughts about the farm balance sheet. While it is crucial to update your balance sheet yearly on January 1, more regular updates can be helpful. Some find it beneficial to update on a monthly or quarterly basis. During tough times, it is better to at least update current assets and current liabilities on a monthly basis and to closely monitor your working capital. It is much better to know right away when working capital is slipping rather than waiting a whole year to find out.

PROFITABILITY OR CASH FLOW?

People will sometimes talk about a farm as being profitable when they actually mean that it has a positive cash flow, but profitability and cash flow are two different things. Profitability refers to the ability of the farm to generate an adequate rate of return on the investment of the farmer's time, labor, and money. It tells a farmer whether or not the farm is a good investment.

Cash flow, on the other hand, measures whether there is enough cash coming into the farm enterprise to cover all of the farm's cash demands. Demands on cash include operating expenses, loan payments, income tax and Social Security obligations, family living needs, cash needed to purchase machinery or other capital items, and any cash needed to build up the farm's net working capital. If the farm can meet all of these demands and still have money left over, it is achieving positive cash flow.

A farm can have positive cash flow and still be unprofitable. Many well-established farms are in this situation. All debts are paid off, the farmer is not buying any new equipment, and children are no longer the farm's responsibility. The cash flow for a farm with zero debt, no capital purchases, and low family living expenses can be very high. However, the value of assets such as land may have increased exponentially over the years. In such a case, profitability measures like the rate of return on assets (ROROA) and rate of return on equity (ROROE) are often very low, meaning the farm is unprofitable.

A farm can be profitable and still have negative cash flow. Beginning farmers may find themselves in this situation. They are building up inventories of breeding livestock or marketable produce, investing significant cash into their farms, and may also have significant loan payments. There is little cash coming in at a time when there are many demands for cash. The farm's cash flow may be very negative, with family living and other costs being covered exclusively by off-farm income. However, in calculating profitability, increases in inventories count as income even though they are not cash income. Therefore, while the farm is profitable, cash flow is actually negative.

Profitability and positive cash flow are two different measures, though both are important for a viable, economically sustainable farm business.

PROFITABILITY RATIOS

As stated above, profitability is the ability of the farm to generate an adequate rate of return on the investment of the farmer's time, labor and money. It answers the question of whether or not the farm is a good investment.

To calculate the two most important profitability ratios, ROROA and ROROE, you will need to create an income statement for the farm. An income statement can be developed using the farm's annual Schedule F in combination with the beginning and ending balance sheets for that year.

The income portion of a farm income statement includes cash sales of farm products, custom work income, and government payments. These numbers all come from the Schedule F.

However, some "accrual adjustments" need to be made to the farm's income that will alter the final number. These accrual adjustments are made by looking for changes between the beginning and ending balance sheets in the following eight categories: (a) prepaid supplies and expenses; (b) value of growing crops; (c) accounts receivable; (d) crop and feed inventories; (e) market livestock inventories; (f) breeding livestock inventories; (g) accounts payable (including credit card debt); and (h) accrued interest.

The net change in each of these categories from the beginning of the year to the end either needs to be added to or subtracted from income. How do you know whether to add or subtract? Think of what the impact on the farm's financial performance would be if you did not account for the change. If it would make the farm's performance appear worse than it actually is, the net change should be added to income. If it would make the farm's performance appear better than it should, it needs to be subtracted. The following two examples illustrate this concept.

The expense side of the income statement includes all cash expenses from the Schedule F, including interest paid on farm loans. Schedule F depreciation—a non-cash expense—is zeroed out and replaced with economic depreciation. Economic depreciation is a better approximation of the value of machinery, vehicles, and buildings that is depleted each year that these items are used. Machinery and titled vehicles depreciate 15% each year, whereas buildings and improvements depreciate 5% each year. Subtracting cash operating expenses and economic depreciation from accrual adjusted income yields the net farm income. Net farm income will be used to calculate ROROA and ROROE.

RATE OF RETURN ON ASSETS (ROROA)

ROROA is the percentage return that the farm and its lenders are earning on all of the assets being used on the farm. The goal is to achieve a ROROA higher than the interest rate being paid on farm loans. It makes no sense to borrow money at 6% interest to invest in a farm generating a 3% ROROA.

$$\text{ROROA} = (\text{NFI} + \text{Interest} - \text{Unpaid Labor} - \text{Mgmt})/((\text{Beg Assets} + \text{End Assets})/2)$$

To calculate ROROA, start with the net farm income (NFI) from the income statement. Next, add back the interest paid on farm loans to the NFI. The interest represents the lenders' earnings. If it is not added back, the lenders will get double earnings.

Finally, subtract the value of the farmer's unpaid labor and management. It is up to you—the farmer—to decide how much your labor is worth each year, but it is a lot more than zero. Think of it this way—the value of unpaid labor and management represents your opportunity cost of farming. You could choose to work in town and perhaps earn $40,000 per year, but you have passed up that opportunity and instead chosen to devote your time and labor to your farm. You might be willing to accept less than $40,000 per year to be a farmer, but you should not accept zero.

The number that results from NFI plus interest paid on farm loans minus the value of unpaid labor and management is the return on farm assets. Divide this number by the average farm assets during the year to find the ROROA. To calculate the average farm assets, add total farm assets at the beginning of the year to total farm assets at the end of the year and divide by two. Return on farm assets divided by average farm assets equals ROROA. Is your calculated ROROA higher than the interest rate you are paying on farm loans? If so, it makes sense to carry some debt. If not, pay off farm debt as soon as possible.

RORE = (NFI – Unpaid Labor – Mgmt)/((Beg Owners Equity + End Owners Equity)/2)

NOTE: Rate of Return on Equity (ROROE) is the percentage return you receive for the equity you have tied up in the farm. The goal is to achieve a ROROE higher than the ROROA—you should earn more on your investment in the farm than you and your lenders earn on your joint investment in the farm's total assets.

To calculate ROROE, start again with NFI from the income statement. Do not add back the interest paid on farm loans; for this calculation, interest is your farm's expense. However, you do need to subtract the value of unpaid labor and management—NFI minus the value of the farmer's labor and management equals the return on farm equity.

The return on farm equity needs to be divided by the average owner's equity to find the ROROE. To calculate average farm equity, add owner's equity on the beginning balance sheet to owner's equity on the ending balance sheet and divide by two. Return on farm equity divided by average farm equity equals ROROE.

Is the ROROE higher than the ROROA? Is the ROROE higher than the rate of return you could get if you pulled your equity out of the farm and invested it in something else?

ONE USEFUL CASH FLOW RATIO: REPLACEMENT MARGIN COVERAGE RATIO (RMCR)

Cash flow looks at all of the cash flowing into and out of the farm operation throughout the year. At a minimum, net cash flow should cover all operating expenses, family living costs, income tax liabilities, and loan payments. Ideally, the cash flow should also be enough to pay for replacement of capital assets that are wearing out on the farm—the economic depreciation calculated for the income statement. There should also be enough cash flow to build up any working capital shortage that was uncovered while you were examining liquidity on the farm's balance sheet.

The Replacement Margin Coverage Ratio (RMCR) is used to determine whether the farm generated sufficient net cash flow during the year. It considers all available cash in relation to all of the demands on the farm's cash. Ideally, there should be enough cash to cover all of the demands plus an additional cushion of 15%.

Replacement Margin Coverage Ratio = Capital Debt Repayment Capacity/ (Scheduled Principal & Interest on term loans and leases + cash used to purchase replacement of capital assets or its replacement allowance + Working Capital Deficiency)

Capital Debt Repayment Capacity = Net Income + Depreciation Expense + Non-Farm Business Income + Interest Expense on Term Loans – Family Living Expenses & Income Taxes

To calculate RMCR, start by tallying the amount of cash the farm has available. Begin with the net farm profit from the bottom of the farm's Schedule F. Add back the Schedule F depreciation—because this is not a cash expense. Add back interest to be paid on farm loans because that cash is still available, though the loan payments will become a demand on cash later.

Next, add any off-farm income and subtract family living costs. These two items may offset each other, but there will be some net cash available to the farm if the off-farm income exceeds living costs. Subtract income tax and Social Security payments made during the year as these represent a drain of cash that is no longer available to the farm.

Now that you have determined how much cash the farm has available, it is time to turn to the demands on cash. The primary demands are annual principal and interest payments on farm loans.

The next two categories may not really feel like demands on cash. The first is economic depreciation. The farm should have enough cash available to cover the replacement of equipment or structures that are wearing out—even for items that are not actually replaced each year. The deduction for economic depreciation can be lessened by the amount of principal that was paid during the year on loans for equipment, vehicles, or buildings. If you are making principal payments for depreciating assets, you are actually paying cash to replace these items as they wear out.

The final demand is the cash needed to reduce any working capital shortage discovered when calculating the working capital-to-gross income ratio on the farm's balance sheet. The net working capital should be at least 15% of the farm's annual gross income. In the event that your net working capital does not meet this threshold, the shortage should be made up over the course of four years. Divide the amount of the shortage by four to calculate the amount of the shortage to include as a demand on available cash for each of the next four years.

To calculate the total demands on available cash, combine principal and interest payments, economic depreciation (minus principal payments made on loans for depreciating assets), and one year's allocation of the farm's working capital deficiency if applicable.

Cash available to the farm divided by the total demands on available cash yields the farm's RMCR. The RMCR should be greater than 1.15 or 115%. If it is below that level, either more cash has to become available or demands on cash need to be reduced. More cash can be made available by increasing net cash farm income, increasing off-farm income, reducing family living costs, or reducing income tax liabilities. Demands can be reduced by re-amortizing farm loans, getting rid of depreciating assets, or refinancing current liabilities (e.g. credit card debt) into a term loan with scheduled principal and interest payment.

CHAPTER 2
ACCESSING CAPITAL

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Capital is, of course, the lifeblood of every business organization. Understanding the rules of accessing capital and the tools available to facilitate this process are critical to maintaining and growing your business.

There are two basic types of capital needs for most businesses—fixed capital and working capital. Fixed capital is the investment capital needed to acquire long-term fixed assets (e.g. land, machinery, buildings, office equipment, etc.) that maintain the long-term viability of the business. Working capital, on the other hand, is needed to provide short-term operational capital on an as-needed basis to maintain liquidity, allowing you to cover periodic bills as cash receipts ebb and flow on a seasonal basis.

The first key ingredient to accessing capital outside of your own personal resources is the business planning process. Developing a business plan is a comprehensive process that can be broken down into several components. For our purposes, we will focus primarily on the development of financial projections. Below are the two key processes needed to justify accessing capital from outside sources.

WORKING CAPITAL

Generally, a farming operation is comprised of multiple enterprises. An enterprise may be a basic crop production, a value-added process for a crop, or an auxiliary business such as trucking. All enterprises may be structured under one entity or each may be run as a separate entity depending on risk management preferences. Regardless, each enterprise should be treated independently for the purpose of measuring its performance. The development of financial projections provides the information needed to demonstrate cash flow available on a periodic—monthly or quarterly—basis, which will determine varying cash flow levels over the full production cycle. Integrating seasonal cash flows from a variety of enterprises will inform you as to when you need working capital and when you can pay it back down with the end goal of minimizing the interest cost of accessing working capital.

A cash flow projection or statement is made up of three general components—cash receipts from sales, disbursements for cost of sales, and disbursements for expenses. Disbursements for cost of sales are for inputs directly related to the production process, such as seed. Expenses are for both variable and fixed costs that are generally allocated over multiple enterprises, such as labor, machinery, depreciation, office supplies, and property taxes. However, while depreciation is an expense, it is not included in a cash flow statement.

When developing multiple enterprise budgets, it is generally helpful to use common units of performance (e.g. sales/acre, costs/ton, labor/hundredweight) across all enterprises whenever possible, which allows for a comparative advantage review to maximize profitability. Once the quantitative process is complete, it is also important to impact your decision-making process with a qualitative review of best sustainability practices (e.g. crop rotation, soil conditioning, utilization of limited resources, etc.) to make a final determination. Working capital needs are generally analyzed on a short-term or seasonal basis. Integrating all of your enterprises together provides an overall cash flow picture, which is important as many seasonal enterprises do not share the same seasonality. In other words, cash receipts from one enterprise may offset shortfalls in another at any particular point in the year. This integration yields a net cash flow and reveals when cash flow for the whole farm business is negative. This helps determine the range of working capital needs.

In the example below you can see the different cash flows generated by each crop and the whole farm cash flow before and after overhead and living expenses. This tells you when you will need access to short term working capital to pay monthly bills.

Figure 4: Example of Multiple Crop Cash Flow Summaries

	Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Crop														
Sweet Corn	Revenue	0	0	0	0	0	8000	15000	5000	0	0	0	0	28000
	Expenses	50	3000	2000	300	100	400	400	200	300				6750
	Cash Flow	-50	-3000	-2000	-300	-100	7600	14600	4800	-300	0	0	0	21250
Broccoli	Revenue	0	0	0	0	4500	0	0	3000	2000	0	0	0	9500
	Expenses	30	150	50	50	200	200	300	300	200	100			1580
	Cash Flow	-30	-150	-50	-50	4300	-200	-300	2700	1800	-100	0	0	7920
Lettuce	Revenue	0	0	650	0	500	0	400	0	600	0	0	0	2150
	Expenses	200	200	150	50	50	60	50	40	50	60			910
	Cash Flow	-200	-200	500	-50	450	-60	350	-40	550	-60	0	0	1240
Apples	Revenue	4000	6000	4000	2500	0	0	0	0	9000	7500	3000	0	36000
	Expenses	600	600	500	1500	800	600	400	600	600	600	600	600	8000
	Cash Flow	3400	5400	3500	1000	-800	-600	-400	-600	8400	6900	2400	-600	28000
Grapes	Revenue	0	0	0	0	0	0	4000	6000	0	0	0	0	10000
	Expenses	100	100			200		500	500	250				1650
	Cash Flow	-100	-100	0	0	-200	0	3500	5500	-250	0	0	0	8350
Total	Revenue	4000	6000	4650	2500	5000	8000	19400	14000	11600	7500	3000	0	85650
	Expenses	980	4050	2700	1900	1350	1260	1650	1640	1400	760	600	600	18890
	Cash Flow	3020	1950	1950	600	3650	6740	17750	12360	10200	6740	2400	-600	66760
Overhead Expenses		750	750	750	750	750	750	750	750	750	750	750	750	9000
Living Expenses		4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	48000
Net Cash Flow		-1730	-2800	-2800	-4150	-1100	1990	13000	7610	5450	1990	-2350	-5350	9760
Accumulated Cash Flow		-1730	-4530	-7330	-11480	-12580	-10590	2410	10020	15470	17460	15110	9760	

FIXED CAPITAL

Fixed capital is typically needed in two scenarios—first as investments in assets for startup and later as investments for the development of growth strategies. Since our focus is on ongoing businesses, we will concentrate on the development of growth strategies.

The first step in this process is the development of a capital plan which includes the following:

- The addition of any newly purchased land;
- The addition, replacement, or expansion of facilities;
- The addition, replacement, or upgrade of machinery;
- IT upgrades;
- Anything considered a medium- to long-term asset that is required for the project.

The next step is to establish a cash flow over a 5- or 10-year period—look at both—with the initial capital expenses at the beginning and the resulting change in revenues and expenses annually for a number of years. This sets up a series of cash flows from which you can derive an internal rate of return (IRR). This is easy to determine using Microsoft® Excel, as one of the many financial formulas it contains is an IRR (Internal Rate of Return) formula. The results of this exercise should give you a preliminary go/no go signal assuming you did a good job doing your due diligence in establishing your estimated values for both the initial capital investment and the anticipated revenue and expenses. An IRR of 10-12% or higher would generally be a good indication to move forward with the project.

In Figure 5 below, you can see a simplified model of an IRR calculation. This should be used to determine an estimate as to whether the IRR is positive or negative and to what extent. The result is only as good as the numbers you provide. The formula for IRR is relatively complex and beyond the scope of this text. The important takeaway here is that this is simply another tool used to help ensure you are making a good decision.

Once this is completed and you have decided to move forward, you can incorporate these changes into the appropriate enterprise budgets for the whole farm operation. Do not forget to update an analysis of needs for working capital as this may change with the addition of the capital project expenses in your whole farm budget.

Figure 5: Example of an Internal Rate of Return

Year	0	1	2	3	4	5	6	7	8	9	10
	Initial Inv.										
Cap Investment											
Startup	400										
Bus Purchase		50									
Total Investment	400	50	0	0	0	0	0	0	0	0	0
Revenue		125	150	135	155	100	130	150	125	100	130
Total Revenue		125	150	135	155	100	130	150	125	100	130
Expenses		65	60	70	67	71	75	72	68	74	71
Less Depreciation											
Total Expenses		65	60	70	67	71	75	72	68	74	71
Cash Flow	-400	10	90	65	88	29	55	78	57	26	59
IRR	7%										

INFORMATION AND DATA MANAGEMENT

The previous material presents an overview of the process used to generate the information needed to access capital. There is a great deal of research and detailed work that needs to go into developing these financials. That research begins with your own historical records that demonstrate how your farm or enterprise has performed to date. Keeping well documented records of all activities—both financial and physical—is critical. Such records allow you to make sound decisions based on good information. Current platforms such as QuickBooks® make it easy to maintain such documentation for financial transactions. There are several different platforms that are specifically designed for ag related businesses and more are being developed all of the time.

Considerations for selecting accounting software:

- **Usability** - is it easy for you to use?
- **Online vs. installed** - is it important to you to be able to access your accounts from anywhere? Or would you prefer to keep that all at your desk?
  (Note: installed software is quickly disappearing as an option)
- **Integration** - think about the software and data management systems you already use on your farm. Can you find accounting software that will easily integrate with your existing systems?
- **Customer support** - getting started with new software can be rocky, can the company provide you with adequate support to get up and running?

Utilizing available technology will greatly help you to maintain and grow your business as this data is always at your fingertips. Beyond your own documentation, successful growth of your enterprise requires close attention to the ever-changing market around you. Good market surveillance will uncover new market opportunities that you must then analyze and emerging capabilities that can be incorporated into your operation. Determining the best way to knit these together and leveraging your capabilities are key when faced with new opportunities.

Assuming you are a few years into running your business, you now have a much more comprehensive vision of how you would like to grow your business. To do that, however, you need money. First, you need to establish a relationship with a loan officer. The bank with which you currently do business is often the best place to start, though there are also a number of alternate sources you can and should explore. The first goal here is to find out what the lender wants. Developing a relationship with an individual loan officer and planning together will make the process a lot less intimidating. Developing this relationship adds to your credibility in their eyes. Developing a detailed plan will demonstrate to the banker your level of understanding. If your local bank doesn't work out, there are other sources of Ag loans such as the USDA's Farm Service Agency (FSA), the Small Business Administration (SBA), or Farm Credit.

THE BUSINESS PLAN

Below are the main components that you should include in your business plan. Depending on the size and complexity of your plan, this could range from just a few pages to a ream of paper. For most purposes, it is best to keep your plan simple, straightforward, and concise. Be conservative on the financials—all bankers regularly review a variety of requests and have tools at their disposal to evaluate the reasonableness of your request.

The nine elements of a business plan are generally organized in the following order:

1. Executive Summary
2. General Company Description
3. Products and Services
4. Marketing Plan
5. Operational Plan
6. Management and Organization
7. Personal Financial Statement
8. Expenses and Capitalization
9. Financial Plan

There are many sources that provide detailed descriptions and guidelines for developing each of the above categories. Additional sources include:

- USDA New Farmers resource portal contains a wealth of information for new farmers including support for developing a business plan. https://newfarmers.usda.gov/
- SCORE, part of the US Small Business Administration, has a dedicated partnership with USDA to offer resources and support for farmers and ranchers. https://www.score.org/usda

In developing a plan for presentation to a lending institution, the executive summary is the last piece to put together and should be a brief overview (i.e. 2-3 pages) of your overall plan. All other sections may be developed together as you will find there is overlap among many of them. Relatively small or modest plans may not require all of these components.

Basic considerations for legal business structure.

Most family farming operations in the United States are set up as sole proprietorships or family partnerships. The key difference that separates these two designations from all other forms of legal business entities is that they have unlimited liability risk. Legal entities such as corporations, S corporations, Limited Liability Companies (LLCs), and various state-specific forms of these all limit one's personal liability risk. Only the assets of the entity are fully at risk. As an ongoing business which may be considering growth, it is advisable to review your current legal status as a business and whether a change is desirable given the potential growth in mind. As a business grows, separating personal assets from business activity is wise. Regardless of which legal entity you choose, always keep all business financial transactions separate from personal financial transactions.To help with decisions regarding growth and structural change, it is important to have advisors on board. The first group I would suggest is a group of community advisors made up of family and friends, key customers, suppliers, and others with an interest in your type of business. The second group is made up of personal business advisors, such as your accountant, attorney, insurance agent, banker, the board of directors if you are a corporate entity, and any other business counselors. Each of these individuals can play an important role in the development and decision-making process as you plan to implement a growth strategy.

WHAT BANKERS WANT

It's important to be prepared when speaking to your banker. Before anyone signs off on giving a loan to your farm business, the bank will assess a variety of characteristics (below) to determine your loan worthiness.

Creditworthiness
The first thing a banker will do is run a personal credit check on you. Issues regarding payment history, bankruptcy, credit card debt, late payments, etc., can dramatically affect your credit score. Know what your credit score is and do your best to address any known issues to bolster your score. A clean report and a score above 650—higher is better—improve your chances of receiving a loan. Credit scores range from 300 (very poor) to 850 (Excellent).

The three primary credit reporting agencies are:

- Experian® - https://www.experian.com
- Equifax® - http://www.equifax.com
- TransUnion® - http://www.transunion.com

It is relatively easy to access your credit score online through platforms such as Credit Karma, however scores may differ between the 3 agencies listed above. If there is a significant discrepancy between one agency and the others, it is important to get it resolved. You can communicate directly with the agency to determine what is causing the discrepancy and needs to be done to fix it. Also if your credit score is low overall, there may be some things that can be done to clean it up and improve your score. There are organizations that will—for a fee—help you clean up any issues. Credit Karma will provide some guidance on where to look and how to get it done.

Collateral
The potential lender will review your personal balance sheet and both the capital and personal assets available to pledge as collateral. Realize that most small business loans will require a personal guarantee. The personal guarantee allows only the lender to pierce the corporate veil in order to access personal assets in the event of losses. In addition,

available business assets over and above current liabilities will also be considered to support a change in structure and growth.

Capacity to Repay
This is assessed based on the new debt structure and the projected income that will be available to meet all debt obligations.

Condition
The potential lender will review the economic climate specific to your business, the intended market, the competition, and the condition and capacity of your business assets to meet the new business needs.

Character
This is an assessment of your level of confidence, years of experience, degree of past success, and your willingness and flexibility to adapt or adjust to changing market conditions.

SOURCES OF CREDIT

One source of credit is family and friends. If this source is available to you, it is important that you treat it as professionally as you would any other loan, including agreeing to a formal contract that describes the terms of the loan. This ensures that your close personal relationships remain healthy.

Beyond these connections, there are a variety of other conventional resources available. The previous discussion centered on your banker, though the rules for accessing credit are largely the same regardless of who the creditor is. All creditors will use the same basic rules and tools for assessing your business plan as discussed above.

For farming operations, the two largest sources of credit are the Farm Credit System (FCS) and commercial banks. In terms of types of farm loans, FCS provides over half of all real estate loans and roughly one third of all non-real estate loans, whereas commercial banks provide about half of all non-real estate loans and one third of all real estate loans. Non-real estate loans generally encompass shorter-term loans for machinery, buildings, and short-term operating loans (i.e. working capital). The remaining one sixth is shared among life insurance companies, the United States Department of Agriculture's (USDA) Farm Service Agency, and private investors. These averages are available from the USDA Economic Research Service and vary regionally.

For beginning small farmers who are planning a growth strategy, local commercial banks are probably the best bet due to their general investment in local rural communities and a desire to foster personal relationships with their customers. Remember that banks are principally in business to lend money. As a small farmer, you must understand how to meet their initial expectations and how to maintain that relationship responsibly and with complete transparency.

LEASING—AN ALTERNATIVE TO CAPITAL PURCHASES

As an alternative to purchasing, leasing has both advantages and disadvantages. There are two basic lease categories to consider—land leases (more information in Chapter 3) and machinery leases. Of these two, there are multiple variations of each to consider.

Let's look first at leasing farm ground. Perhaps the first consideration is whether you wish to meet USDA certified organic standards or not and whether the land you are considering is already USDA certified organic or not. The

hurdle to be crossed is meeting the three-year requirement to achieve organic certification. There is a cost to getting over that hurdle. Leasing farm ground is very common, with nearly half of all farm ground in the United States currently being leased. For a small farmer growing local food crops, it is particularly important to develop your relationship with the landowner in order to negotiate a long-term lease if you plan to invest in USDA organic certification. Whether you plan to seek certification or not, you would not want to lose the ground at the end of a short-term lease.

There are a variety of lease types which may contain one or more of the following components: base cash rent, variable cash rent, income sharing, cost sharing, and crop sharing. Negotiating a fair value for the lease requires an understanding of the stakes for both the landowner and the tenant farmer and how much risk each party assumes. For the farmer, fair value is based on the cost of production, including labor plus a reasonable margin. If relevant, that baseline must integrate the multiple crops to arrive at a weighted average cost per acre.

Whole farm enterprise budgeting is the foundation for making any decisions regarding growth. A budget needs to be as detailed as possible to ensure nothing is overlooked. Each crop budget should be broken down into several stages such as pre-planting field prep, planting, crop development, harvesting, postharvest field activities, and marketing costs. With multiple crops, you should use a tracking system to allocate labor and machinery costs in addition to seed, input, and crop development costs. The largest variables to estimate are yield and market value. It is best to be conservative with these estimates and base them on personal historical data.

With solid budgeting in place it should be relatively easy to extend that for added acreage, whether purchased or leased, and to be able to determine best case scenarios after reviewing the possible alternatives available to you. With any change in acreage, it will be important to review machinery needs, determining whether to upgrade or replace existing machinery, or to acquire additional machinery. In each case, you must calculate whether it will be better to lease or buy.

A strong consideration should be the role that new technologies have in changing production capabilities which it is doing at an increasing rate. New technologies impact the tillage, planting, input application, and harvesting processes. While these new machines are more flexible, they utilize software that may be upgraded periodically. This further complicates the decision to buy or lease.

An additional consideration with any growth is the need for additional structures for storage, sorting, washing, and packaging, whether temporary or permanent. Generally, these will be capital purchases.

The advantage that owning land has over leasing is complete control over your use of the land and not having to worry about losing the lease to a higher bidder. The disadvantage is the capital cost and potential long-term liability incurred. The advantage of leasing machinery is an increased flexibility to upgrade to more efficient models, as the capital cost is not a concern. If the need for a piece of equipment is ongoing, a longer-term lease may be appropriate and cheaper. However, for short-term needs (e.g. pre-planting only or harvest only), a short-term rental may be more appropriate. While short-term rentals are generally more expensive per unit of time, you only bear that expense for that short period of time. Another aspect to consider is convenience and the acceptable cost for such a convenience. The bottom line is the impact of these decisions on cash flow and your capacity to meet all of your financial obligations.

CROWDFUNDING

Crowdfunding is another alternative to raising capital. I would generally only recommend its use for small projects. Success depends primarily on your initial presentation, the type of project, and your engagement with updates as

the project moves forward. Typically, 30% of projects receive full funding overall according to entrepreneur.com. However, the specific platforms for farming operations appear to have a better success rate. Selecting the right platform for your project is important and takes some research to determine. These websites are popular options for crowdfunding business projects.

- www.indiegogo.com
- www.kickstarter.com
- www.patreon.com
- www.gofundme.com

Two platforms oriented specifically toward sustainable farming operations are:

- www.harvestreturns.com
- www.barnraiser.com

Two websites to check out that can provide information and guidelines on crowdfunding are:

- www.university.upstartfarmers.com
- www.modernfarmer.com

Regardless, be sure to read all the fine print, understand all the rules, and know the fees that will be charged. Taking into consideration the time needed to invest to develop and implement a good project and the low success rate ranging from 30-60%, crowdfunding may not be a reliable source of funding.

IN SUMMARY

Access to capital is the key ingredient needed for most business to succeed. Without it most businesses would not. However, access to capital requires understanding and following the rules needed to acquire it and to manage its use in order to be successful.

There are four basic steps a business goes through to execute a startup or a growth strategy.

1. The Planning stage, where you determine all of your capital needs.
2. The Implementation stage, during which you put capital to work making the changes you need for your plan.
3. The Control stage, where you manage the use of capital to run your operation.
4. The Feedback stage, where you make adjustments to your original plan based on the results of your operation.

These last two are ongoing for the life of the business.

CHAPTER 3

FARMLAND ACCESS – ASSESSING RISK, AFFORDABILITY, AND OPTIONS FOR ACCESSING LAND

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In today's high land value market, farm ownership affordability is one of the greatest barriers to farm entry. Beginning farmers often underestimate the amount of work it takes to create two full-time incomes from the farm and struggle to keep up with the work and farm payments. Increasingly, beginning farmers can only access land by leasing it from retiring farmers and non-operating land owners. Beginning farmers are being left behind as high land prices drive farmland consolidation and block new farmers from having a chance to develop a viable farm. This chapter shares key considerations regarding a beginning farmer's decision to rent and/or own land and provides real-life examples of how various beginning farmers are finding access to land. Based on knowledge gained by working with over 850 graduates of the Land Stewardship Project's (LSP) Farm Beginnings® program, this chapter provides guidance for beginning farmers about how to reduce their financial risk related to investing in farmland. Farmland access is not possible without working with retiring farmers, non-operating land owners, or—in some cases—through creative partnerships. This chapter shares perspectives drawn from LSP's decades of work with farmers and landowners across the Midwest in support of beginning farmers' quest for access to land, ultimately leading to stronger communities and better care for the land.

INTRODUCTION

The Land Stewardship Project (LSP) believes that rural communities are more vibrant when more farmers are making a living on the land. Farming communities are stronger when beginning farmers have the opportunity to fully contribute. All too often, beginning farmers are being left behind as high land prices drive increasing farmland consolidation and deny new farmers the chance to develop a viable farm. In the short-term, we need to do whatever is within our grasp to support beginning farmers as they seek access to land. In the long term, we must prioritize policies and programs that invest in small- and medium-sized farms, as well as local and regional food systems. LSP has seen beginning farmers overextend themselves financially when purchasing land to the point that they lack the necessary remaining funds to invest in the development of the farm. Other beginning farm families working with established farmers to transition the farm have run into irreconcilable differences in farming practices, resulting in the termination of the relationship.

Fortunately, these scenarios are preventable.

To help beginning farmers access land, LSP, the Farm Beginnings Collaborative, and GrowNYC developed the Farmland Access Financial Decision-Making Tool (downloadable at https://landstewardshipproject.org/farmlandaccessfinancetool) as well as a companion workshop. The information in this chapter is derived from this publication.

KEY CONSIDERATIONS WHEN DECIDING TO PURCHASE FARMLAND

Successfully acquiring a property—especially through ownership—requires an understanding of your financial picture and future financial goals. In addition, sound financial recordkeeping helps to ensure that farming can viably cover or contribute to the cost of the investment, support the expenses of the farm's enterprises, and contribute to the household budget.

When considering land ownership, it is important to answer the following questions:

- How much stable income and/or savings do you have now and for the foreseeable future to invest?
- Are these resources enough to acquire property that can effectively meet your farming goals and the household financial returns you expect from the farm?
- What is your knowledge and skill level in farm production and financial management?

Spending time reflecting and preparing before you make a large financial commitment is crucial to making good decisions that lead to success. Financial recordkeeping skills are essential, not only for positioning yourself to obtain funding for land ownership, but also for successful and affordable ownership itself. You will need to create and manage production and marketing records, enterprise and household budgets to form a viable cash flow plan, as well as a profit and loss statement and balance sheet. These allow you to monitor farm profitability, assess your ability to manage your debt, and develop strategies to build your net worth. If you lack capacity in the area of financial recordkeeping, slow down the farm dream and build the financial skills you need before considering an investment. If you feel ready for an investment and are assessing the affordability of land, it is very important that you invest wisely. You must secure property with enough high-quality soil and acreage to financially support your goals, while ensuring that the amount of debt you take on does not hinder your ability to carry out your long-term plans. It is a difficult balance to strike. The stronger your financial planning capacity and recordkeeping skills, the more prepared you will be for making solid land ownership and land affordability decisions.

Having real-world farming and business experience can be the difference between success and failure. With previous experience, a farmer is more likely able to step onto the land, start farm enterprises, and scale them up towards financial viability, whereas a novice is more likely to step onto the land, realize they have bitten off more than they can chew, and not having enough income, time, or energy to move the farm forward. These are all things that can negatively impact your quality of life. The latter description is harsh, but it is nonetheless an unfortunate reality for many beginning farmers.

Once you have assessed your skills and knowledge of financial management and production, you will have a better sense of the level of risk involved in your land access decision. If you have very little skill or knowledge in financial management, production, and marketing, you are in a high-risk category for making large financial investments and should consider other land access options.

Leasing land can be a great way for beginning farmers to get into agriculture without the high capital cost of purchasing land, while providing landowners a steady income from land they are not using. The right lease can offer secure, affordable, and flexible access to land. Some leases also grant access to buildings and other resources (e.g. water and fencing). Leases can offer a short-term strategic opportunity to make progress toward farm ownership goals, while gaining valuable production and farm business management experience along the way. Farmers can lease land while following a debt reduction plan and acquiring the equipment and machinery for long-term use.

Before entering into a lease, consider the length of lease, cost, party responsibilities, restrictions, and any repercussions in the event of default or dispute. Your land access needs may change as you gain experience. Carefully weigh the benefit of stability offered by a long-term lease versus the adaptability of a short-term lease. Your operation may be subject to things beyond your control. A land lease likely will not allow permanent investments in a home or infrastructure, which may make it difficult to build your net worth over time.

In today's high land value market, farm ownership affordability is one of the greatest barriers to farm entry. However, owning one's farm remains a goal for many. Why? First, ownership sidesteps the long-term land security drawbacks of leases and incubators. It also retains or builds equity on investments, which usually form part of a farmer's long-term retirement and financial security plans. Finally, ownership allows for greater capacity to display one's values through day-to-day work and personal activities.

PURCHASING FARMLAND FROM A RETIRING FARMER

Farm transition occurs when a retiring farmer passes the land and/or operation on to a family member or another individual (i.e. child, neighbor, or a beginning or experienced farmer) with the farm operation continuing into the next generation. These days, most beginning farmers in the United States do not inherit family farmland. Instead, many pursue purchasing land to start and grow their farm. With fewer and fewer families passing their farms on to the next generation, beginning farmers today are at a disadvantage. More and more, beginning farmers enter farming without a connection to family or—in many cases—a rural community. For these farmers, even locating land for sale is very challenging. Most land transfers or farm transitions happen out of public view between people with a preexisting connection or through farm support organizations and agencies that do farm transition work. Beginning farmers looking for land should connect, network, and talk with farmers and farm support organizations directly to assist in the search for available land.

When an available parcel of land is located, beginning farmers are finding ways to work with non-familial retiring farmers and, in some cases, non-operating landowners (NOLOs)—those who own and rent out farmland but do not currently farm themselves—to develop mutually beneficial arrangements. Whether the arrangement is with a farmer or a NOLO, good communication is essential for a successful land transfer. This includes a clear expression of common goals and expectations, detailed financial arrangements, and a process with boundaries for addressing conflicts.

With hard work, thoughtful planning, clear communication, and cooperation, farm transitions can provide a win-win for both parties as they work together to sustain and build the future of small- and medium-sized farms. Some farm transition benefits for the next generation include gaining access to land, infrastructure, assets, and help with financing as well as learning from the experienced farmer. Benefits for the farmer who is handing off the assets include easing the transition into retirement, ensuring continuity of a farm's operation and legacy, bringing fresh energy and strong hands to work on the farm, and financial security.

KEEP IN MIND: A beginning farmer taking over an operation does not necessarily mean that the retiring farmer wants the operation to change. Discussing both parties expectations for the land is essential for a positive transfer. Additionally, a beginning farmer must understand and respect the years of work, values, and finances that went into the farm and should anticipate a fair return to the retiring farmer. A transition is not free. If both farmers plan to live on the land, consider whether the farm can reasonably support two families. Know the total financial needs and the maximum capacity the land base can support.

FARM TRANSITIONS PROFILE: THE GOAL STANDARD OF FARMING

One day in 2014, a man stopped by Bill and Bonnie McMillin's farm, tucked away in the hills of southeastern Minnesota's Wabasha County, and offered to pay cash for all 160 acres, lock, stock, and barrel. Such an offer can be tempting. After all, Bill and Bonnie had worked hard for decades to build a 45-cow dairy operation, which they later transitioned to a grass-fed beef enterprise. It was time to think about the future of a farm that had been in Bill's family since 1946.

Fortunately, the McMillins had recently completed an LSP Farm Transition Planning Workshop, where they had learned the importance of setting goals and figuring out ways to attain them, while developing a retirement plan to guarantee a sustainable income. The McMillins left that workshop more committed than ever to seeing their farm remain a "stand-alone" operation—a home to crops and livestock as well as a place where a farm family would reside—rather than just another 160 acres appended to a larger corn and soybean operation. Bill was especially adamant that the farm offer an opportunity for a next generation agricultural entrepreneur.

"Providing an opportunity for somebody to farm is big for us," says Bill while sitting at a table with Bonnie in their farmhouse on a bright fall day. "I didn't take that offer in 2014 to buy the farm seriously. He was serious, but we had no intention of taking him up on that offer at all."

They knew that once they took the cash, they would have no influence on the future of the farm, and the chances of the buildings being knocked down and the land becoming just one more corn and soybean field would increase significantly.

As the McMillins tell their story, sitting across the table from them is someone who has made realizing their goals of using the farm to launch a new agricultural career much easier, Bryton Miller. On this fall day, the 22-year-old

has just wrapped up the morning chores in the nearby barn and is taking a break before heading over to a neighbor's farm to help with chopping silage. Miller grew up on a 184-cow dairy just up the road from the McMillins, and has always been clear that his ultimate goal is to own and operate his own milking enterprise. A few years ago, he received a dairy heifer due to calve as a Christmas present from his parents.

The McMillins say Miller and his family have a reputation for being hard workers and committing to the community. By the time they received that 2014 offer to sell everything, the McMillins were already in discussion with Miller about how he could take over their operation.

Transitions in farming are full of missed opportunities, connections that are not quite solidified, and general mismatches in timing between parties. A retiring farm couple, for example, may be leaving the land at a time when a beginning farmer is not quite ready to step in and take over. The McMillins and Miller, however, seem to be a perfect match in this regard—a rare bit of lucky providence where a retiring farm family's goals and a beginning farmer's aspirations intersect logistically and at the same time.

A closer look at their situation shows that a lot of preparation went into making certain the two parties could take advantage of that luck and ensure long-term success for both parties.

Getting It On Paper

The McMillins concede that they have a huge advantage over a lot of retiring farmers in that they know Miller and his family. However, such familiarity comes with its own challenges. When tensions over payment arrangements or management decisions come up, "handshake" agreements between neighbors can go sour as the two parties involved realize expectations were never formally put in writing. Though this did not happen in this particular situation, both the McMillins and Miller realized the potential was there.
To ensure that the transition provides a good retirement income for the McMillins while also protecting Miller from getting in over his head financially, Bonnie and Bill knew they had to develop a formal agreement to cover everything from how to handle down payments and conflict resolution to where the retiring couple would live during the next few years. The latter issue can be particularly fraught for retiring farmers, since their place of employment is also their home. Both parties hired attorneys to help draw up a contract and hammer out an agreement, something that was emphasized in the LSP Farm Transition Planning Workshop.

"I hate paperwork," says Bryton.

"But now you know where you stand, and we know where we stand," responds Bonnie.

They ended up agreeing to a contract for deed. This consists of an initial down payment followed by a regular payment schedule over a 10-year period. At the end of the 10 years, roughly half of the price of the farm will be paid for, and a "balloon payment" for the balance will come due. At this point, Miller will either have to refinance to pay the remainder to the McMillins, or the two parties could decide to have him continue making regular payments for the balance.

For the McMillins, it was important that the arrangement allow them to continue living on the farm for up to four years. The contract stipulates that they can live in the house for two years rent-free, but after that they must pay rent to Miller. Miller's attorney counseled against such an arrangement, but the McMillins and Miller say it has advantages for both parties.The McMillins have until 2021 to find a new place to live and Bryton is currently living on another farm. Since Miller currently works full time on an overnight ambulance crew, Bill can often help with the morning milking when a shift runs long since he is still living on the farm. Overall, it allows the McMillins to stay connected to dairying without being tied to it on a daily basis.

The contract for deed has another twist—it allows Miller to spread his down payment out over four years. This helps Bill and Bonnie taxwise, and gives Bryton more breathing room financially as he gets his operation off the ground. "We've farmed our whole lives and we know that sometimes you get a little bit behind," says Bill.

The Cows Come Home

In March 2017, after a dozen-year absence, milk cows returned to the McMillin parlor. Because it had been several years since the operation was a dairy farm, Miller had to replace the stanchions and repair the pipeline milking system. He was able to build up a herd by purchasing cows with money he had saved since he was a freshman in high school. Since he still works full time on an ambulance crew, Miller maintains a steady off-farm income for living expenses. Having outside income and being able to ease into a dairy operation while keeping exposure to financial risk low is important at a time when milk prices are extremely low.

Miller is confident he can make a go of it. He is keeping his expenses low and relying a lot on sweat equity. Today, he is milking 50 cows with a 10-year plan of building a new parlor and a freestall barn, as well as eventually expanding to around 80 cows. Besides milking assistance from Bill, Miller benefits from being able to borrow equipment from his family.

Goal Tending

As they enter a critical stage in the transition—Bryton's last down payment is due in January 2020, and Bill and Bonnie's future living situation must be decided the next year—questions hang in the air. What will happen with milk prices? Where will the McMillins new home be? Is 160 acres enough to support Miller's growing dairy herd?

Bonnie and Bill take comfort knowing that they have set goals for themselves and the farm and have developed a plan that helps them attain those goals. That has been particularly important in the face of unexpected challenges. For example, the 2014 cash offer was not the only prospective buyer. Others in the neighborhood, including extended family members, were also interested in purchasing the farm. Turning down such offers can result in strained relations within a connected rural community, but Bill says the community has generally been supportive of their efforts to keep the farm as a stand-alone dairy operation.

"You think it's your farm and your decision, but it's easy to hurt somebody's feelings," he says. "We have our values, our goals, and it might not go that way if we let somebody else take control of the situation." Sometimes those goals extend beyond one's retirement plans or even the state of the land. In these cases, the key is to develop connections to the next generation that are based on more than just a transaction involving money or infrastructure.

LEASING FARMLAND FROM A NON-OPERATING LANDOWNER (NOLO)

When thinking about accessing farmland, here are some important numbers to know. Roughly 40 percent of the farmland in the contiguous United States is rented. Eighty percent of the rented acres are owned by NOLOs. Many beginning and retiring farmers, as well as NOLOs, have learned to think of the rental relationship as purely transactional, and one-year leases are the most common way of completing that transaction.

The first step in deciding how to structure your lease and rental arrangement is to have a face-to-face conversation with the landowner, during which you share your long-term goals and visions as well as ask the landowner to share theirs. This may also lead to a discussion about long-range options for ownership. Consider that a NOLO may not know many of the terms, acronyms, or mechanics of agricultural practices—offer clarification and explanation if needed.

A critical piece of a good rental relationship is a clear lease. A lease that holds conservation values and goals necessarily means a commitment from both parties for more than one year. Strong conservation leases span multiple years, from three years to a decade. They include clear outlines of goals, practices, expectations, responsibilities, and financial structure. Explore and share information with the landowner about soil health and farming practices. Invite them to field days and share articles that help inform both of you. The more they understand the science and success of great conservation practices, the more they will see reason to support these practices on their own land.

RENTAL RELATIONSHIP PROFILE: VISUALIZING A HEALTHY LANDSCAPE TOGETHER

One summer morning, members of the four families that own the land Mark Erickson rents in west-central Minnesota gathered at his farmstead for a field day, cookout, and some socializing. As the landowners gathered, Erickson explained how he was going to need to make some dramatic changes to stay in business—he wanted to convert the roughly 450 acres of row crops to rotationally grazed pastures for his growing beef herd. Producing profitable crops on the low-lying, often saturated, fields had become a struggle, and Mark was convinced that he needed to rebuild the soil's biology by reintroducing livestock in a big way.

Everyone climbed onto a hay rack for a ride up to a hilltop that afforded a nice view of the corn and soybean fields. Erickson pointed out where the grazing paddocks could go, as well as the water lines and walking paths for the cattle. He asked the landowners to imagine what their land would look like covered in grass 365 days a year—a stark contrast to their current use as annual row crops for just a few months each growing season. They then headed back to the farmstead for a lunch of beef that had been raised on the farm.

"I was trying to help them visualize what was going to happen to their land," recalls Erickson. "It felt like a powerful tool, because when you're sitting out there on that hill, then people can visualize it and it makes so much more sense. Being on the farm brought up questions you would never be able to get just by trying to tell them about it over the telephone or writing a letter."

One question was in regard to the USDA Natural Resources Conservation Service (NRCS) contracts that would help pay for installing the grazing infrastructure—who was responsible for managing them and for how long? What if the landowners decided to rent to another farmer, who then wanted to plow the land, tear out the fences, and raise row crops? Erickson had prepared for such questions by inviting two staffers from the local NRCS office, who showed maps of the proposed grazing setup and explained that Erickson was responsible for managing the infrastructure.

Erickson further explained that the water lines would be buried deep enough that if tillage ever returned to the land, they would be below the plow line. In addition, the interior fencing would consist of one strand of easily removable portable line.

One landowner got up after the meal and said he had to get back home, where he would tell his brother "to go along with this." All the other landowners supported the proposal as well.

"Mark has been really helpful in explaining things in ways that people could understand," says landowners Delano Meyer. "He's good at laying out his vision."

ALTERNATIVES TO LAND OWNERSHIP

It is not necessary to own land to farm. In addition to leasing land, there are other creative ways for people to access land, including micro farming, farm incubators, cooperatives, and partnerships. Farm incubators are one example of an alternative to owning or leasing land. They provide an entry into farming by tackling the high-cost, high-risk nature of agriculture through a collaborative farm and land access model. Many farm incubators offer access to their resources on an interim basis (1-5 years) to help actualize farm starts. Farm incubators often serve as launching pads for farm businesses by providing access to land and supportive resources such as peer support, mentoring, training, and/or access to infrastructure. The drawback to farm incubators is that the personal investments made in the property such as amending the soil may be lost when the term for incubation ends.

Micro farming is another alternative. Many farmers have gotten their start by cultivating their own large backyard gardens, community garden plots, or farming a plot of land provided by their employer on the farm where they work or intern. Large urban and country lots can provide ample space to learn valuable horticultural—and some animal husbandry—lessons, explore enterprise interests, and provide limited production capacity for sale.

While less common in the Midwest, unique partnerships models have developed across the country. These partnerships often create access to land through developing Limited Liability Corporations (LLCs) in which shareholders agree to terms for holding the land jointly. This can protect land from unwanted development while the community looks for a beginning farmer whose vision for the future of the land aligns with theirs.

ALTERNATIVE LAND ACCESS PROFILE: A SHARED THREAT PROMPTS A SHARED VISION FOR A NEW KIND OF FARM

As the land auction progressed, it looked like the parcel on Hidden Falls Road was on its way to exchanging hands at a decent price. The landowner, however, was growing increasingly anxious about the guy likely to get the highest bid—he was a well-known owner of large-scale hog operations in the region. If he were the buyer, it was clear the cropland—which sits atop the environmentally fragile karst geology that dominates this part of northeastern Iowa—would become the home of a concentrated animal feeding operation (CAFO) or, even worse, to the millions of gallons of liquid manure produced by one of these operations.

The landowner, unwilling to expose his neighbors to that fate, stepped up in front of the gathered crowd and told the auctioneer to halt the sale and take the parcel off the market. This set in motion a series of events that resulted in neighbors coming together to support and launch an alternative approach that would help beginning farmers gain access to land. This effort was based on the belief that there are ways to utilize agricultural acres that contribute

to the local economy and social structure while also protecting and improving the environment. This example highlights the importance of responding to a crisis and following up with a long-term plan once someone provides a vision to fuel it. The key is to have in place the kind of farmer who can execute that vision.

It all started when another landowner on Hidden Falls Road decided she was going to sell a parcel that was similar in size to the piece of land the CAFO operator tried to buy the year before—around 34 acres. In this case, the land was owned by a woman whose husband had died and who intended to put it up for public auction soon. A 12-acre parcel consisting of the farmhouse and outbuildings was sold separately, leaving 22 acres that would be available just a mile from the parcel bid on by the CAFO operator. Steve McCargar, who lives next to that 22-acre parcel, asked the widow what it would take to buy her land outright and keep it off the open market. She set the price at $5,500 an acre.

McCargar quickly set about talking to people on and near Hidden Falls Road about protecting this parcel from industrialized agriculture. He also approached the community at large. The solution was the formation of Hidden Falls Land, LLC, which ended up selling 44 half-acre shares to 15 people at a cost of $2,750 per share. In just six weeks, McCargar and the group of community members that he organized raised over $120,000 from selling these shares, and they were able to buy the 22 acres. The land had been saved from being the home for a CAFO.

Now What?

Originally, members of Hidden Falls Land LLC discussed keeping the 22 acres in an uncultivated "natural state" and enrolling it in a Conservation Reserve Program contract or some other set-aside initiative. The youngest shareholder in the LLC, however, had a different vision for the land. Hannah Breckbill, who was not yet 30 at the time, envisioned that parcel as a working landscape—a place where food is produced in a way that benefits the local environment and economy. To her, this was the only logical choice.

Breckbill had plenty of credibility to back up her argument that converting the land to a working, sustainable farm was viable. After earning a mathematics degree, she took the LSP's Farm Beginnings course in Minnesota in 2010-2011. She then worked on a series of vegetable operations, including one in Texas, as well as on the Decorah area farm of the late Chris Blanchard, who was known widely for his innovative business management and marketing strategies.

Breckbill's vision found a receptive audience in Perry-O and David Sliwa, who were original Hidden Falls Land LLC shareholders. David says it was crucial that the person offering a new vision for the land had already proven her farming chops and had a commitment to living in the neighborhood long term as an active member of the community.

While talking with LLC members about the future of that 22-acre parcel, Breckbill showed her seriousness by buying three more shares with money she had set aside through matched savings accounts available through LSP's Journeyperson Course and the Practical Farmers of Iowa. LLC shareholders agreed that no one could speculate on the land by selling shares for more than they had purchased them for. "Which is basically like them holding a no-interest mortgage for me," says Breckbill.

All of the shareholders were eventually won over by Breckbill's argument and over the past few years have been gradually selling—or in some cases donating—shares to her and Emily Fagan, Hannah's second cousin who recently joined the operation. For the first time since Breckbill launched her farming dream after graduating from Farm Beginnings, Humble Hands Harvest has a permanent home. It now produces vegetables, which they market via a Community Supported Agriculture model and sell at the Decorah Farmers Market. They also raise sheep and hogs on pasture for direct marketing. Breckbill and Fagan have planted 300 nut trees of various varieties and intend to add apple trees.

When the issue of future plans arises, Breckbill, who is now in her early 30s, is not afraid to look far into the future at a time when she will be ready to get out of farming herself. She and Fagan have made Humble Hands Harvest into a worker-owned cooperative, with plans to bring other farming partners in to manage, for example, fruit production. Breckbill notes that many small- and medium-sized farms lack an exit strategy. Forming a cooperative that has a life beyond any individual farmer creates a relay system of sorts, which avoids the problems that arise when an individual farmer moves on or dies. Breckbill envisions that when she transitions off the land, the farm enterprise will remain—only the faces behind the food will be different.

ADDITIONAL LAND STEWARDSHIP PROJECT RESOURCES

LSP's *Conservation Leases Toolkit* offers tips and interview questions to help you start these conversations. It also includes "Why Do MN Farmers Do What They Do?", which explains basic farming practices and systems, as well as a cheat sheet of agricultural acronyms and lease examples and a document of frequently asked questions about farmland leases.

Bradley, Cree and Karen Stettler. *Farmland Access: Financial Decision-Making Tool, Assessing Risk, Affordability, Readiness and Land Access Options*. 2018, Land Stewardship Project

ADDITIONAL RESOURCES

Farm Commons Land Matters Resource, https://farmcommons.org/land-matters

Land for Good, Land Access Toolbox, https://landforgood.org/resources/toolbox/

National Young Farmers Coalition, Land Access Hub, https://www.youngfarmers.org/land-access/

CHAPTER 4
INSURANCE

Authors: Harriet Behar, *Sweet Springs Farm*; Leslie Cooperband, *Prairie Fruits Farm & Creamery*; and Wes Jarell, *Prairie Fruits Farm & Creamery*

Commodity crop growers have long considered crop insurance essential for protecting the financial health of their farms. Specialty crop growers, while in the same "risky" business of farming, have accessed this financial safety net less frequently than their field corn, soybean, and small grain neighbors for a number of reasons. These include a lack of insurance products that address the unique needs of specialty crop growers, cost versus benefit, and a general lack of understanding of how to plan for this expense in an overall farm budget.

Most growers purchase home insurance, health insurance, and liability insurance—especially when the farm is open to the public. However, many specialty crop growers have not prioritized insurance that covers financial losses caused by crop production problems or market declines. The financial health of a farm relies on acceptable yields and expected market prices. A forward-thinking specialty crop grower needs to consider how best to manage unexpected risks, such as hail damage to crops, or sudden drops in market prices. Many farm-based mottoes point to these risks. "Do not put all of your eggs in one basket" encourages the grower to use diversity as a risk management strategy. "Do not be penny wise and pound foolish" cautions against making small-dollar decisions (e.g. insurance cost) that negatively affect larger amounts of money (e.g. farm income).

Each specialty crop grower should assess their comfort level with risk, and assess which other sources of income—if any—they could rely upon if actual farm income falls short of projections. If some income comes from an off-farm job, or there are family members who could help cover a shortfall, this could be considered as an informal type of "insurance." If the farmer needs current crop income to pay off short-term operating and equipment loans or the long-term mortgage on the land and homestead, ensuring that essential income should be a serious consideration. If maintaining a market outlet is essential and loss of a crop means the farmer may need to purchase a crop to resell to that market, this is a potential financial burden that needs to be considered. If there is a large investment in perennial crops, and there is damage to those crops that either delay or lessen production and income, this should be addressed in farm financial planning.

In the past, federally subsidized insurance products were not a good fit for the typically diverse specialty crop operations. Many smaller operations believed that even with a federal subsidy they could not cover the cost. Over the past decade, however, the Risk Management Agency (RMA, www.rma.usda.gov) and Farm Service Agency (FSA, www.fsa.usda.gov) within the USDA have developed insurance products that better address the needs of specialty crop growers, thus changing the situation dramatically.

Some crop insurance covers the loss of yield due to climatic conditions such as floods or drought. Other types are tied to the overall income of the farm, which would cover losses stemming from a volatile market or price. Additionally, you may be able to insure one crop under a yield or revenue-based policy and the rest of your operation

under a farm income-based policy. Having an understanding of the options can provide the farmer coverage choices that meet their level of risk and their budget. A crop insurance agent can help you determine what path is right for you (visit RMA's Insurance Agent Locator below).

To find an insurance agent operating under a reinsurance agreement with RMA, visit RMA's Insurance Agent Locator: https://www.rma.usda.gov/informationtools/agentlocator

Specialty crops are currently defined in statute as "fruits and vegetables, tree nuts, dried fruits, horticulture, and nursery crops (including floriculture)." This definition covers more than 300 agricultural crops, including herbs and spices, tea, honey, and maple syrup, flowering plants, trees, and shrubs. Whole-Farm Revenue Protection (WFRP), a type of USDA subsidized crop insurance, covers all of the agriculturally produced farm income (covered on the IRS Schedule F tax form; see Chapter 1, p. 12), which includes virtually everything that is considered a farm product (note that timber, forest products, and livestock for show are not covered; for more information, please visit https://www.rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Whole-Farm-Revenue-Protection-2020).




WFRP, Multi-Peril Crop Insurance (MPCI), Noninsured Crop Disaster Assistance Program (NAP), and crop-hail insurance are all tied to weather events. The farmer must call the insurance agent within 72 hours of the weather event to be eligible for an insurance payment. It is a good idea to take photos throughout the season to document that your crop was healthy and productive, as well as right after the weather event to document the differences.

Assess the financial risk of your farm.

This should be done through the planning and budgeting process. Below are some guiding questions to help you identify your risks.

- Do you have off-farm income to buffer crop losses?
- Do you have significant debt on farm ownership, operating loans, or equipment?
- Does your business plan account for yearly farm income to pay back upfront investment in equipment/perennials?
- Have you planned for a possible loss of niche market or market share if you are unable to supply buyers every year?

WHOLE-FARM REVENUE PROTECTION (WFRP)

This federally subsidized crop insurance program, introduced in 2015, was developed to serve and encourage diversified farm operations. The program is designed to protect a farm's adjusted gross revenue from production losses or decrease in market prices due to unavoidable natural events. It is the only crop insurance program available in every county in every state in the country. However, closing dates vary by location and you should consult a crop insurance agent to find out about deadlines in your area. Full details on the program can be found on the USDA Risk Management Agency website (below).

The premium you may pay for this insurance depends heavily upon the yearly Schedule F tax filing for your farm. A farm can purchase WFRP crop insurance covering between 50% and 85% of expected revenue. The cost of the premium paid increases with the percentage of coverage purchased, customizable in 5% increments (e.g. 50%, 55%, 60%, etc. up to 85% coverage — please note that coverage at 80% and 85% is restricted to producers with three or more qualifying commodities). Additionally, the program includes a special allowance that provides for an increase of up to 35% above your average revenue if you can show how your projected revenue for the insured year would be higher than average. This can be shown in two ways, either through an indexing procedure that identifies if the allowable income from either of the last two years is higher than the five year average allowable income; or by showing that the operation has physically grown (addition of acreage, high-value crops, livestock, etc.). Consult your crop insurance agent to discuss your income and expense projections in order to determine if the expected higher revenue could be covered by WFRP.

One benefit specific to WFRP is the higher federal subsidy provided as a reward for increased crop diversity on the farm. However, in order to be considered as a unique commodity in the diversification list, each crop and/or livestock entry listed must reach a certain revenue threshold to prove this diversification. For instance, if 95% of your revenue comes from one crop such as apples and only 5% comes from hay, this would not meet the two-crop threshold, whereas an 80/20 ratio would.

It is possible to insure only one crop under WFRP, but the federal subsidy is not as favorable until you insure three or more crops as part of your farm income. However, there are two exceptions:

- You cannot insure potatoes alone.
- You cannot insure only one crop if it is also insured by an MPCI revenue policy (see more on MPCI below).

Each county has a commodity list of specific crops that may qualify, depending on whether they meet the qualifying threshold in your operation. Crops not listed can count as part of an "other" category (such as "other fruits," "other vegetables" etc.). The specific qualifying crops for your county can be found at: https://webapp.rma.usda.gov/apps/actuarialinformationbrowser/

In order to determine which commodities meet the qualifying threshold in your crop list, use the calculation below. You will want to consistently round to three decimal places after each calculation. A crop insurance agent can help you make these calculations and can help with the analysis demonstrated below to determine how it applies to you.

Stand-alone Commodity Ratio = (1 ÷ the number of commodities you produce) x 0.333

Qualifying Revenue Threshold = (Stand-alone Commodity Ratio) x (Projected Farm Revenue)

Example: Your farm produces 6 commodities and your projeted farm revenue is $75,000 then you would determine you Stand-alone Commodity Ratio and your Qualifying Revenue Threshold as follows:

Stand-alone Commodity Ratio: (1 ÷ 6) x 0.333 = 0.056
Qualifying Revenue Threshold: 0.056 x $75,000 = $4,200

This amount, $4,200 in the example above, represents the "qualifying revenue threshold." Each specific commodity needs to meet or exceed this threshold in order to be listed as an individual commodity for determining farm revenue. Any commodity that does not meet this threshold may be combined with additional commodities to determine if the combined revenue would meet the threshold to be counted.

Additional Considerations

- WFRP allows your farm revenue to include the purchase and resale of farm products, as long as this amounts to less than 50% of your total farm revenue. This can be very useful for CSA and roadside stand producers, who may purchase items to resell to their members or shoppers.
- Beginning farmers (defined by USDA as those in their first 10 years of farming) only need to show three years of previous income—instead of five—and are eligible for an extra 10% in federal subsidies on their insurance premium purchase.
- If you are a second-generation farmer taking over the operation, you can use the historical revenue data from the previous farm operator to determine your WFRP eligibility.
- WFRP will cover revenue from crops grown on "high risk" land, but will not cover any losses caused by Genetically Modified Organism (GMO) or chemical drift. WFRP only covers loss of insured revenue due to an unavoidable natural cause. Insurable causes of loss will be outlined in the policy. You should discuss your specific loss concerns with your crop insurance agent.

Learn More about WFRP

- USDA Risk Management Agency provides all relevant information regarding WFRP on their website. The site includes record keeping aids and a comprehensive FAQ https://www.rma.usda.gov/en/Policy-and-Procedure/Insurance-Plans/Whole-Farm-Revenue-Protection
- National Sustainable Agriculture Coalition has an excellent guide to WFRP crop insurance https://sustainableagriculture.net/publications/grassrootsguide/credit-crop-insurance/whole-farm-revenue-protection-for-diversified-farms/

MULTI-PERIL CROP INSURANCE (MPCI)

Multiple-peril crop insurance (MPCI) protects farmers against losses caused by unavoidable natural events including adverse weather, fire, insects, disease, wildlife, drought, excessive moisture, wind, frost, and failure of irrigation water due to unavoidable causes (note that hail damage is *not* covered). USDA manages MPCI through a public-private partnership, meaning the federal government subsidizes the premiums, but private companies write all MPCI policies; a full list of providers is available at the USDA website, www.usda.gov. Not all crops are covered under MPCI. The USDA Risk Management Agency determines which crops are covered in which counties, please consult a crop insurance agent to find out what crops are covered in your county. Farmers who wish to buy a policy must do so before they plant their crops. Detailed information about MPCI can be found on the Actuarial Information Browser provided on the RMA website, including which commodity crops are available for insurance coverage in your county, as well as their yields and prices. In contrast to WFRP, each commodity is insured under a separate MPCI policy.

Tools for determining crop coverage:

Actuarial Information Browser: https://webapp.rma.usda.gov/apps/actuarialinformationbrowser/
Crop Report Criteria: https://webapp.rma.usda.gov/apps/actuarialinformationbrowser2018/CropCriteria.aspx

NONINSURED CROP DISASTER ASSISTANCE PROGRAM (NAP)

While the RMA oversees both WFRP and MPCI, Noninsured Crop Disaster Assistance Program (NAP) is offered through the Farm Service Agency (FSA). NAP insures crops not typically covered under MPCI that have been negatively affected by natural disasters or prevented crop planting. NAP covers floriculture, high tunnel and field-grown fruits and vegetables, seeds, honey, maple syrup, mushrooms, Christmas trees, aquaculture, and more. Natural disasters covered include drought, frost, freeze, hail, excessive moisture, and excessive wind. Diseases or insect infestations related to damaging weather are also covered.

Basic NAP coverage is for losses greater than 50% of expected production—based on your historical average—at a rate of 55% of the average market price for that crop. Application fees for this insurance vary based on the number of crops being insured and if the producer is insuring farming interests in multiple counties. The application fee assessed will be the lesser of $325 per crop or $825 per producer per administrative county, not to exceed a total of $1,950 for a producer with farming interests in multiple counties. Beginning farmers, farmers with limited resource, socially disadvantaged farmers, and qualifying veteran farmers or ranchers are eligible for a waiver of the service fee and a 50% premium reduction

In addition, there is "buy-up" coverage available at an extra premium, which offers coverage ranging from 50-65% of production, in 5% increments, at 100% of the average market price. NAP also has extra reporting requirements, which include keeping track of planting dates, all succession plantings, fertility inputs, irrigation, all sales and yields. Because it covers each crop individually, operations that focus on only a few crops may find NAP useful, whereas WFRP could be a better choice for more diverse operations.

For more information about Noninsured Crop Disaster Assistance Program including fillable record-keeping tools, please visit the FSA NAP website. https://www.fsa.usda.gov/programs-and-services/disaster-assistance-program/noninsured-crop-disaster-assistance/index

TREE ASSISTANCE PROGRAM (TAP)

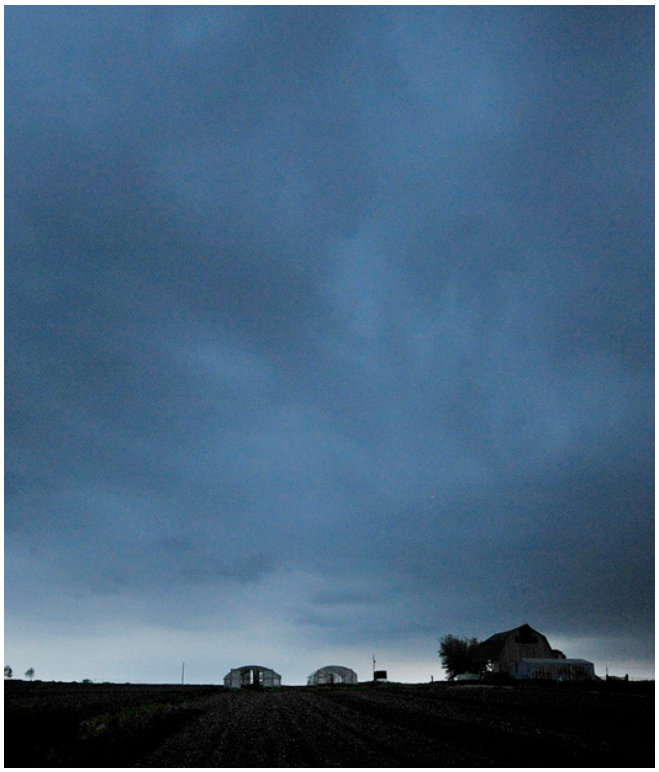
The FSA implemented the Tree Assistance Program in 2015 to provide monetary assistance to eligible orchard owners and those selling nursery trees for the replanting or rehabilitation of eligible trees, bushes, and vines lost or damaged by a natural disaster. Trees, bushes, and vines that produce an annual crop for commercial purposes are considered eligible for this program, as well as ornamental and fruit- and nut-bearing trees. Christmas trees produced for commercial sale are also covered under this program, whereas timber or pulp trees are not. This type of loss is not covered under any other program and addresses the special needs of growers of perennial planting stock who face significant outlays and investment in the planting and management of their farm operations. Damages caused by natural disasters and plant disease can be devastating for these growers.

The TAP program provides help for operators to reestablish or rehabilitate their perennial orchards or plantings. To be eligible, the planting stock must have suffered more than a 15% mortality loss due to a specific natural disaster in its stand, which can be adjusted for normal or expected die off. Losses are covered for planting stock on less than 1000 acres and must not have been preventable through typical management methods. Losses must be visible to the FSA claim reviewer, though the agency may also bring in outside experts to assist with this assessment. The stock—but not necessarily the land—must be owned by the person requesting the payment. The trees, bushes, and vines must be replaced within twelve months of the TAP application approval.

In addition to the natural disasters covered by TAP (e.g. hail, wind, flood, freeze, fire, excessive moisture, drought, mudslides, ice storms, lightening, and severe snowstorms), this program also provides coverage for plant disease infections that reach the same 15% mortality rate (adjusted for normal mortality). The time period of disease infection caused death is determined by the FSA on a case-by-case basis. For example, if an orchard has fire blight each year at various levels for five years, the FSA may only choose to cover losses from the previous year or two.

Payments are calculated as 65% of the actual replanting cost or 50% of the actual rehabilitation cost, both in excess of the 15% mortality rate (adjusted for normal mortality). If there is a maximum eligible amount set by the FSA for that specific practice and planting stock, the lesser amount of either the actual or FSA maximum cost will be paid.

TAP applications are accepted through the local FSA office and need to be submitted within 90 calendar days of either the disaster event or of the loss becoming apparent to the operator. There is no cost to the operator and no payment limitation other than the maximum acreage allowed to be covered. As with all FSA programs, the operation must have an FSA farm and tract number to benefit from TAP; persons or entities with over $900,000 in annual adjusted gross income are ineligible to receive payments from any FSA insurance program.



CROP-HAIL INSURANCE

This type of crop insurance is not subsidized by the federal government and is offered only by private insurance companies. As the name implies, Crop-Hail Insurance, only covers crop damage caused by hail. However, some companies may allow for this insurance to be extended to include fire and lightning, as well as vandalism or malicious mischief (consult your crop insurance agent to find out what is available). Most coverage is on an acre-by-acre basis, with various levels of insurance—and corresponding premiums—to cover more or less of your income losses. The farmer may choose the dollar amount they wish to insure. Hail insurance is usually the least expensive type of insurance, since the farmer can choose to cover only the most extreme losses, in targeted locations.

PRODUCT LIABILITY AND CASUALTY INSURANCE

Depending on your operation, personal exposure to accidents or potential health problems caused to others by your farm products, farm sales areas (even farmer's market booths), or on your farm property can be quite different. Farmers should consider how they interact with the general public and find coverage to meet their specific needs. We live in a litigious society; do not assume that people will be careful with sharp metal farm implements or even while walking where there is not a concrete sidewalk. Bringing your customers out to the farm can be a rewarding experience for all, and the best practice is to ensure that you do all you can to protect the adults, children, and pets—if you allow them—to be as safe as possible.

A quick internet search will reveal numerous sellers of product liability insurance, but the company that currently insures your farm buildings and home should be your first place of inquiry. They can often add product liability insurance to your current policy at a much lower price than purchasing separately from a different company. If you routinely hand out samples at a farmer's market, or there is a chance that your canopy could get caught by the wind and cause injury to a bystander or their $50,000 car, consider getting coverage for these types of situations. Many farmers markets require proof of product liability and casualty (damage to others' property or injuries to others) insurance before you can sell.

If the public routinely visits your farm (e.g. u-pick operations, dinners on the farm, etc.), property insurance protecting you against damages caused by others should also be part of this insurance package. An appropriate minimum policy is $1,000,000 in both product liability and casualty/property insurance. If your operation is

at higher risk due to more public interactions or if the activities are more "dangerous," you may need increased coverage. For example, hay wagon rides are considered hazardous, especially for children who are unaccustomed to being in or on a vehicle with no restraints.

Each farmer should carefully assess their own situation. With a discerning eye, identify areas where someone could trip or be cut, or things that are enticing to youngsters that should not be (e.g. brightly colored sharp objects). Consider your food handling procedures, and the areas of risk you have in selling your food. For instance, do you sample products at the farmers market that should be refrigerated? Once you have thought through both the predictable and unpredictable areas of risk, you are ready to discuss your options with your own insurance agent, seek insurer recommendations from other farmers, or carefully browse the internet for companies that specialize in working with smaller-scale produce growers.

PROPERTY INSURANCE

Companies that insure farms are typically familiar with the various types of buildings and equipment found on larger commodity row crop farms. Specialty crop growers, however, may find themselves "educating" their local insurance agent on how to value and insure high tunnels, vegetable washers, and specialty cultivating equipment. Some insurance agents may add a special fee, or may not insure an outbuilding, greenhouse, or home heated with a wood stove. You may need to shop around to find an agent and a company that has experience with specialty crop growers and is reasonable in their assessment of risk and premium payments. If you built your high tunnel for resilience to high winds and heavy snow loads, be prepared to explain this to the agent. Some companies will not insure high tunnels at any price because they assume these "flimsy" structures are at a high risk of collapse.
You may do much of your post-harvest handling in a semi-enclosed area, the value of which may not be clear to an agent who is unfamiliar with barrel washers, brush washers, etc. Make sure that your policy covers the full replacement cost of the cooler, building, and equipment in the event that lightning strikes and the building burns to the ground with everything in it. If you have areas open to the public, make sure you have sufficient coverage to replace whatever infrastructure you have built for this special purpose. Much of the value in your farm is in the buildings and equipment that enable your operation to be functional and efficient.

CHAPTER 5
FINE TUNING BUSINESS MANAGEMENT (THE ICING ON THE CAKE)

Author: Katie Bishop, *PrairiErth Farm, Inc.*

So far, we have discussed the financial analysis of your farm business and the importance of planning, including how to access capital, investment decision making, capital investment, and insurance options. Now, we will consider how data and consumer trends, as well as effective employee management, can also allow you to manage your risk and ultimately achieve a profitable farm business.

DATA, TRENDS, AND METRICS

To be an effective business manager, it helps to have a solid understanding of three things: (a) your product; (b) your market(s); and (c) your customers.

An in-depth understanding of these three areas of your business allows you to make more informed business decisions and ultimately increase your profits. To understand these areas of your business, you must research and adequately collect data on all three areas. Guessing or going with your gut works for only so long. Your luck will eventually run out, and you will not be able to maintain financial stability without hard numbers to inform your decision making.

This does not mean that you should never make in-the-moment decisions, but your choices should reflect the data that you have collected and internalized, trends you have noticed, or benchmarks you have established. Ultimately, you want to get to the point where you know your products, markets, and customers so well that when faced with a tough decision or new challenge, you can make the best choice based on both your experience and the data you have collected.

EXPENSE TRACKING & PRICING

Pricing your products is an excellent example of where data should guide your decisions. The cost of production is essential information to collect and calculate. Otherwise, how do you know if the sweet corn crop you are growing is profitable or if adding laying hens to your operation would be worth the time commitment? Without knowing the costs to produce or raise a commodity, it is impossible to accurately assess its value. Without knowing the worth of a product, there is no way to choose a price that even covers your costs, let alone assures a profit.

In thinking of the cost of production for goods raised or grown, we view them as a series of inputs and assign a value to each input. These inputs can be grouped together to track and divide out

costs more efficiently. How you choose to break down your costs is your decision, as long as you are consistent and consider every possible input. Typical expense groupings by farm or business include the following costs:

- Land (i.e. rent, mortgage, taxes);
- General equipment (i.e. tools, tractors);
- Infrastructure (i.e. out-buildings, irrigation, fencing);
- Utilities (i.e. water, electricity, gas).

These costs are not typically identifiable in the price of a product but do need to be tracked and monitored.

In addition, there are inputs specific to a particular crop or product. These should be tracked more closely to determine whether the cost of the time it takes to bring a product from seed to sale is justified. If a given product demands more labor than its earnings justify, are you able to offset that labor-intensive crop with a much more profitable product? Can you sell it faster, thereby reducing storage costs or decreasing spoilage costs? Should you scrap that crop all together?

These inputs include the following costs:

- Materials (i.e. seeds, fertilizer, pest management);
- Labor (i.e. starting, planting, weeding/maintaining, harvesting, washing, packing, selling, training).

There are also costs associated with a specific product once it is ready for sale. They include the following costs:

- Marketing (advertising, market/booth supplies, time);
- Storage;
- Transportation and selling (packaging, shipping, market fees, equipment).

How do you track all of these costs? Typically, business managers will log each input and track it with the production of a product. Today, this is usually done using spreadsheet software (i.e. Microsoft® Excel or other similar products). Each software application allows you to track things in a similar way, though each has its unique limitations. Simple spreadsheet tracking can be the easiest way to track everything while leaving you the freedom to format your sheets however you want. Veggie Compass—a free software program created by the Center for Integrated Agricultural Systems at University of Wisconsin-Madison—has also proven successful.

Visit www.veggiecompass.com to download the veggie compass tool, and explore the entire suite of whole farm profit management tools.

It is a farm management tool for diversified market vegetable growers that focuses on a comprehensive spreadsheet system. By using cost, sales, and labor data, the spreadsheet calculates the cost of production for each crop and the profitability of each market channel. While there is a bit of a learning curve to use the program and it requires you to keep detailed records of inputs, time spent in the field, and other associated expenses, the data it can generate is instrumental. Helpful webinars, video tutorials, and in-person training are also available to make Veggie Compass easy to master.

Also, budgeting and production cost forecasting can be made easier using Craig Chase's Ag Decision Maker program. Chase provides free downloads of his program via the Iowa State University Extension and Outreach website.

Find Craig Chase's full suite of decision-making tools at https://www.extension.iastate.edu/agdm/authors/cchase.html

The importance of knowing your cost of production…

Farmer Mary decides to grow winter squash. She purchases seeds and uses the potting mix already bought for her early season starts. She does not have a greenhouse, so she starts her seeds under grow lights in her basement. Once they are ready to be planted, Mary rents a tiller and prepares beds on the land she leases. She plants her seedlings, sets up drip tape for irrigation, and patiently waits until the crop is ready to harvest. In September, Mary realizes her crop is doing very well, which means she will need some part-time help harvesting the squash. Once the squash is cleaned and packed, Mary takes the crop to the farmers market booth she has rented. After arriving, she tries to determine what price to sell her squash for. She walks around the market to check out the prices at other booths. Most farmers are charging 99 cents a pound, so Mary prices hers at 90 cents a pound in an attempt to get more sales. A grocery store reaches out and wants to purchase Mary's squash, but is only willing to pay 75 cents a pound for 100 pounds.

Is Farmer Mary making a profit on the squash sold at the market? Should she accept 75 cents from the grocery store or keep selling at the farmers market? Should Farmer Mary try growing winter squash next year too? It is hard to answer those questions without the data. Farmer Mary should have calculated her costs and gauged her volume of harvest before setting a price. Then she could have determined what sales she needed to cover her expenses, including her own time, and still make a profit. Before deciding whether to grow squash next season, Mary should determine her costs and assess whether it would be profitable to scale up and produce more for wholesale customers.

A complete understanding of your costs ensures that you are planning, planting, and pricing accordingly. You can certainly take the prices of other area farms into consideration, as these can help inform your pricing strategy, but avoid letting them dictate what you charge. Your costs and scale are as unique to you as they are to any other farmer.

A sufficient and conscious pricing strategy is the key to a good return on your investment in farming and will determine the viability of your farm operation. If appropriately priced, your product should cover all of its associated costs and allow you to maintain a profitable business.

MANAGING REVENUE STREAMS AND CROP DIVERSITY

Producing a diverse product mix is a great strategy to manage risk, but so is having a diverse set of marketing outlets. For example, if your only revenue source is a farmers market, and it rains a lot on market days that season, you will likely be left with unsold produce and little revenue to cover your expenses. Many farms find success by having a mix of direct-to-consumer outlets (e.g. farmers markets, on-farm stands, online stores), wholesale relationships (e.g. grocery stores, co-ops, food hubs), value-added producers (e.g. cottage food producers, bakers, canners), food service establishments (e.g. restaurants, catering companies, food trucks, dining halls), and CSA shares or other farm subscription programs. The

more diverse your avenues of sales are, the more insulated you are from risk within the market and the more quickly you can adjust to external forces outside your control that can negatively impact your sales and profitability. Having a diverse mix of both products and points of sale that provide a positive return on your investment provides stability and allows you to experiment with new crops or marketing avenues.

Another element of risk management for your business is knowing when to pull the plug on a crop, marketing effort, or revenue stream that is no longer profitable. Many crops are not profitable to grow at a particular scale or with limited equipment or infrastructure. Frequently, the downfall for these crops is that they are labor intensive to produce, maintain, and harvest. For example, if you have tried everything you can to reduce the labor cost associated with growing potatoes, but you are still unable to turn a profit without significant investment in new machinery, maybe you need to pull them out of production. If you want to include potatoes in your future crop plan, consider investing in the equipment necessary to reduce labor costs enough to ensure profitability or find a market that offers a higher price. On our farm, we stopped growing green beans and sweet corn. Instead, we purchase them from another local farm to supplement our CSA boxes. The farm we buy from has large-scale mechanization for harvesting and can grow these crops at a cost far below what we can. Additionally, our farmers markets are saturated with green beans and sweet corn from other small farms, limiting sales opportunities.

LEVERAGING MARKETING OPPORTUNITIES AND CUSTOMER ENGAGEMENT

The same is true for marketing efforts. If you are spending money on Facebook ads without noticeable results, consider shifting your marketing communications away from Facebook and find out which social media platforms your customers—and, more importantly, your potential customers—are using. As print media continue to trend downward, you may consider spending your advertising dollars on a radio ad or Google Ads instead of local newspaper ads. Identifying who your customers are, how they prefer to be contacted, and which marketing avenues fit your communication style, budget, and preferences often mean increased sales, customer retention, and engagement.

Many marketing efforts come down to the value of your time and the cost of labor for writing weekly emails to all of your CSA members, developing recipes for your customers to encourage them to buy kohlrabi, or drawing elaborate chalkboards for your market booth. If these activities are not driving new sales or increasing customer retention, they may need to be scrapped or at least modified. As with all marketing, you need to understand your customers and their needs to put your resources to the best use.

In addition to knowing who your customers are, you need to know the best ways to communicate with your customers. Do your customers respond better to emails or social media? Alternatively, do your customers prefer face to face interaction? Understanding your customers and their needs allows you to tailor messaging and marketing efforts to reach each specific audience better. Spending your time and money more efficiently in this way increases the return on your investment. Successful farms use a diversified marketing strategy that connects with customers in multiple ways to ensure a higher rate of contact and conversion. The more times you are able to get your message to a customer, the more likely it is to sink in and the more likely they are to respond.

Managing customer engagement and conversion is also essential to the success of your marketing plans and profitability. There are several customer relationship management (CRM) platforms that you can use to create profiles for your customers and track what they buy, when they shop, and how much they spend. You can also keep track of personal details like birthdays or favorite products. Many CRM systems are relatively easy to set up and some you may already use. Square® is a great example because many farmers already use it to process credit and debit transactions. Square allows you to create customer profiles to track their purchases, monitor trends, and analyze

areas where you can increase the amount they spend with you. This information allows you to target individual customers with special offers, alert them when their favorite crops are coming to market, or give them a heads up about a newly unveiled value-added item. The more you can make an individual customer feel special, the more likely she is to remain a loyal customer, increase her spending with you, and promote your business and products by word of mouth.

If you manage a CSA, conducting mid-season and end-of-season surveys can help you understand the needs of your customer. Farmers have shied away from asking members for feedback in the past, fearful of hearing criticism. However, this apprehension means missing out on valuable feedback. Once my farm started listening to our customers, we discovered they wanted flexibility and choice. With this information, we were able to create a CSA program that met their needs, which increased our customer retention.

In addition, be aware of your customers' shopping habits. Watch how they shop and listen to what they want. If you only sell five pounds of eggplant each week at market, grow less eggplant. If the chefs you work with want heirloom tomatoes rather than hybrids, grow more heirlooms. If you are only selling purple top turnips with the leafy green tops and not bulked out, consider planting less or finding a different market for storage turnips. If your market is saturated with chicken eggs and your sales data do not show significant, consistent growth, consider raising ducks for eggs if you want to scale up. Resist the attitude of "If I grow it, they will come." Instead, ask your customers what they are looking to buy.

Collecting customer data and being aware of customer trends are hugely beneficial, but these represents only a fraction of the data you should be tracking. Consider keeping copious records on your sales, broken out by variety and followed through each point of market avenue throughout the year. Compare your current year to previous years and look for similarities or trends that you see forming. If cilantro and basil sales increase substantially when your tomatoes become available, then plant cilantro and basil accordingly so that you can bring enough to market and avoid sending your frustrated customers to look elsewhere. If you sell out of flower bouquets by 10 a.m. every Saturday at the farmers market, start bringing more. We use Square sales reports to track this type of data and find it easy to use. We can also view real-time reports at the market, which drives in-the-moment decisions (e.g. lowering the price on kale or moving the garlic closer to the checkout table).

EMPLOYEE MANAGEMENT

While it might not be at the top of your list of risk management strategies, successful hiring, training, managing, and retention of employees is vital to the success and profitability of your farm. Farm employee retention from season to season is typically a significant challenge. Losing the financial investment you put into training one year, then subsequently spending more time and money to train the newest group of employees the next year significantly hurts your bottom line. If you cannot rely on consistent staff levels because employees quit before the season ends, you may be left unable to harvest or maintain crops that are already planted.

Successful employee management starts the minute you place a help wanted ad. Before you begin hiring, consider the traits you are looking for in an employee. Then, create a detailed job description that includes those traits and realistically outlines the position. Previously, we would try to sell the applicants on how great the job was, though without providing a realistic view of the type of physical work involved. Now we say, "If you like wet feet and muddy hands, this job is for you." We clearly explain the hours, the weather conditions we work in, the types of work involved, the physical attributes needed, and when the season ends. This ensures that only those who are truly interested in and understand what is involved in farm work will apply.

Adequately training and managing employees is often the key to retaining them. If an employee feels invested in and

you are teaching them skills that make them successful, they are more likely to return each season. I have found that most employees want to succeed and do a good job. They need your help in clearly setting expectations that they can strive to meet.

COMPENSATION

Of course, compensation has a lot to do with retention too. Farm workers are notoriously underpaid. While it is hard to pay a fair wage when starting a new business, your workers need to be compensated adequately if you want skilled staff to stay year after year. When we first hired employees, we thought we could not afford to pay a fair wage, so we imitated other farmers in our area by hiring "interns." We tried to balance out their lower stipend with the offer of education and experience, even though we were not that experienced or educated with farming ourselves. As a result, we were attracting employees who were a bad fit for our farm and giving them false expectations. Eventually, they would become disappointed and quit. You truly do get what you pay for.

Offering work-life balance, flexible schedules, a share of the food raised or grown, gear allowances, stipends towards health insurance or daycare, paid time off, and overtime pay are excellent ways to compensate hard-working employees on your farm and attract new ones.

Communicating effectively with and coaching employees are valuable skills. Read books on the subject of leadership, listen to podcasts, and seek out mentors to help you with this. For many farmers, leadership and management do not come naturally, but there is no excuse for not learning these skills.

WRAPPING IT UP

While tracking data, strategizing markets, pricing, and focusing on employee management might not be the reasons you got into farming, they are crucial to the success of your farm business. Paying attention to the profit centers on your farm, the nuances of your crop mix, the success of your marketing efforts, and the engagement and satisfaction of your customers and employees creates a well-rounded business that will remain viable for years to come.

CHAPTER 6
THINKING LONG TERM

Author: Larry Wood

We all have dreams we would like to realize. Bringing these dreams to fruition is the challenge. It is important to recognize that the path we follow in pursuit of those dreams becomes the dream realized. The preceding chapters covered many of the basics required for farming success, but this is just the beginning. Many details and lots of hard work lie between the lines. The list of skills needed is imposing and the need to expand upon this skill set is ongoing. In my seventy years—most spent in some area of agriculture—I have realized that a large percentage of my time has been spent learning, regardless of where I was in my life and career.

What it means to think long term will vary widely from one individual to another. There is a trend that many follow—many farmers just never quit farming. However, the role you play in a farming operation and the approach you use to manage the operation will vary a lot depending on your age.

Younger farmers generally face multiple challenges such as high debt loads, growing their business, raising a family, and other pressures. This means that younger farmers generally face a higher level of risk that needs to be managed. The flip side is that if a young farmer fails, there is more time to recover. Many starting farmers have walked that thin line. Because of this, it is important to begin farming with a good understanding of the best business practices covered in this book, including an array of risk management tools to protect you from catastrophic events. It is not enough to grow crops, raise animals, and hope for the best. Hope may lift your spirits, but it is not a sound business strategy. This is the time to find your place in the food supply chain. This discovery process will reveal that the available opportunities are practically unlimited. You must remain constantly engaged in the marketplace in order to evaluate and take advantage of each new opportunity that presents itself.

As many farmers age and their farms thrive, the equity in their operation grows. The focus begins to shift from risk management of debt exposure to growth and investment. Eventually, this moves to equity preservation as retirement and the need for succession planning approach.

Regardless of your stage of life or career, there is no substitute for comprehensive planning throughout this lifelong process.

A key component of good long-term planning is the development of alternative strategies. Mapping these out provides insight into the type of flexibility needed to survive in our rapidly changing world. To get started, there are some basic questions to consider.

- What quality of life aspects are most important to you?
- What are your plans and expectations for a family?
- What type of a risk taker are you?
- What type of farming operation do you prefer?

The answers to these basic questions should inform your long-term planning, realizing that over time these answers will probably change. It is most important that these answers are shared by all those involved in the business,

especially your family. As priorities change, it is important to maintain transparency and open communication, particularly regarding succession and estate planning.

A tool called SWOT analysis can assist you in choosing how to best manage the structure of your business to ensure its success. SWOT stands for:

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats

The first two categories, strengths and weaknesses, refer to characteristics that are internal to you and your organization—those areas in which you excel and struggle. These are areas over which you generally have direct control.

The remaining two categories, opportunities and threats, refer to external issues—circumstances with the potential to benefit or harm the business. This is the world of the constantly changing marketplace over which you have little to no control. Success requires constant engagement with the marketplace, allowing you to take advantage of opportunities as they occur and mitigate threats or challenges to the extent possible.

Whether short term or long term, SWOT analysis should be done with each major organizational change to ensure that the changing demands of the business can be adequately met by your team's capabilities.

The next key process in maintaining a successful operation is strategic planning. Strategic planning is thinking in the intermediate and long term—establishing goals and a direction for two or more years into the future. This requires researching long-term trends in the marketplace, identifying opportunities that are within your reach and a natural fit with your current business, assessing which resources you need, and determining the biggest potential risks to your success.

Perhaps one of the biggest challenges that everyone faces today are the rapid changes in technology changes that impact everything! As technology expands exponentially, the window for strategic planning shrinks, making it tough to stay abreast even in the short term. More sophisticated tools are churned out on an ongoing basis for all phases of production and for farms both big and small. These advancements allow for increased productivity per unit of labor. Technological enhancements in financial and communication platforms are also ongoing, resulting in instantaneous transactions and creating mountains of data to sift through. Access to that data should inform you of more available opportunities as well as allow you to assess new risks to your current operation.

The final long-term consideration is the process of succession planning. There are several factors to consider when making this tough decision.

- Do you have heirs, generally your children?
- Do any of them have a serious interest in taking over the operation?
- Have they invested their time and energy into really learning the business?
- If you have multiple heirs that fit these criteria, can the business support them all?

Regardless of the answers to the above questions, this process should not wait until a few years before you are ready to retire. You should ideally be grooming a successor many years earlier. If you have children but none are interested, you need to look outside the family. This could be a long-term employee that you bring in as a partner over time or another farm business interested in buying you out. How this is eventually treated should depend to some extent on the role your family wishes to have going forward, which leads into the final consideration—estate planning. Estate planning should also occur far in advance. There are three decisions you should implement early on in order to protect your assets and your dependents in the event that you become incapable of managing your affairs for any reason or you and/or your spouse suffer a fatal accident.

The first of these is a will, which should spell out specifically what will happen to your assets and your dependents. You must specify an executor—and one or more alternates—who will carry out the directives in your will.

The second is a financial power of attorney (POA). This should be someone you trust to manage your financial affairs should you become incapacitated. Typically, a spouse is first on the list, especially if a catastrophic event happens early in life. However, there should always be an alternate in the event that both you and your spouse are unable to carry out those responsibilities. Both you and your spouse should have an alternate.

The third is a health care power of attorney. In a spousal relationship, the spouse is typically named as the health care POA. Again, there should be a POA in place for both spouses with at least one alternate. Typically, this is another adult family member willing to accept the responsibility of making health care decisions, including end-of-life decisions.

Generally, the decisions made in these three documents early on in your career—especially once you have children—are likely to be quite different than those you make once retired. These decisions should be reviewed periodically and updated as needed.

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