

Building a 2010 Budget

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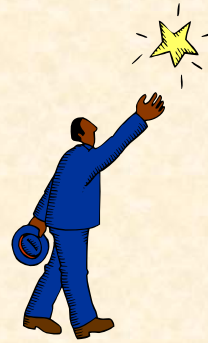
Got To Start Out with Records for Management

- After all, we keep financial records for:
 - Tax Return Preparation
 - Banker
- Instead, let's also use these for:
 - Better understanding our business
 - Making informed decisions
- Blend together production & financial info



We Should Also Utilize Records to Control Our Business

- Setting goals
- Measure, collect, report results
- Evaluate or interpret
- Take action



Set Goals

- Set a target
- Be results oriented
- Be in all key areas of your business



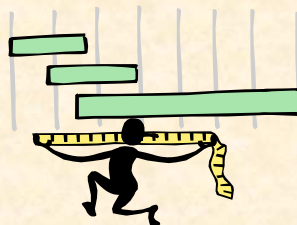
Measure, Collect & Report Results

- Provides feedback
- Must Be:
 - Practical
 - Usable
 - Timely



Evaluate and Interpret

- Measure actual results to standard
- Do you like what you see?





Take Corrective Action

Be a good problem solver

Use your data

After all, it's results that count!



Doing This Yourself

- Takes Time
- Take Notes
- Enterprize your records
 - AgCheck = Enterprise
 - Quickbooks = Class





Got to Understand Cost of Production & Break Even



Cost of Production

A True Economic Measure:

It's
All Expenses
+
Depreciation

Divided by ttl. Cwt. Sold





Break Even

Cash Flow Measure

Can I pay all my

All expenses

+

Principal Payments

Divided by ttl. Cwt. Sold



Budgeting gives us an idea of what
the future will look like.





Budgeting



“Farm By Pencil”

Mistakes are not as costly!

Try it, you might like it!



Whole Farm Budgets

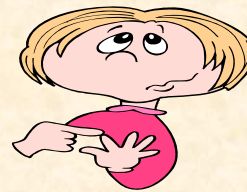
- We're trying to anticipate what next year might look like
- Trying to get the big picture
- Looking at our net cost of production and break-even

- Annual or Monthly?
 - Annual - test the year or multiple years
 - Monthly - when you want to really get your financial arms around the business !



Counts Everything

Income
Expenses
Living Draws
Payments
Borrowed Funds
Capital Purchases



Considerations

- Variable expenses
 - Change proportionately
- Fixed expenses
 - No change
- Inflation
 - Definitely for multiple years
 - Labor & real estate taxes are easy candidates



Doing Whole Farm Budget

- Computer and pad for notes

- But ...

Pad & pencil & calculator still work!

- Microsoft Excel works great

- Records software are limited



Getting Set to Create Budget for 2010

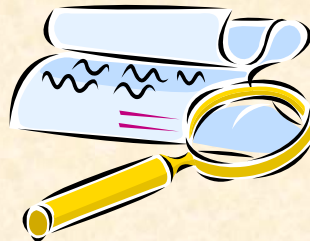
Need to Know some History

- Determine performance of last couple of years.
- Make accrual adjustments. Look at balance sheet changes. Always will adjust for pre-pays and accounts payables between years.
- Write down what is going to be different in 2010.
- Don't get overwhelmed by data



Balance Sheet

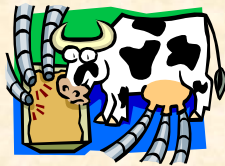
- A/R aging
- Inventory quantity & Value
- A/P aging
- Total debts
- Working Capital



Need to Determine Dairy Efficiency Factors

Cows per worker

Pounds sold per worker



Factors Which Determine Gross Income

- Project Productive Units - the cow numbers.
- Determine realistic production levels.
- Research milk price.
 - Might consider determining your milk price basis.
 - Watch Class III futures, adjust projection accordingly.

**BASIS DETERMINATION WORKSHEET
DIFFERENCE BETWEEN GROSS PRICE RECEIVED
AND CLASS III ANNOUNCED PRICE**

SAMPLE FARMS

2009

<u>Production Month:</u>	<u>Class III:</u>	<u>Gross Producer Pay Price</u>	<u>Difference Basis:</u>
09-Dec	\$ 15.28	\$ 16.66	\$ 1.38
09-Jan	\$ 10.78	\$ 15.25	\$ 4.47
09-Feb	\$ 9.31	\$ 12.56	\$ 3.25
09-Mar	\$ 10.44	\$ 12.40	\$ 1.96
09-Apr	\$ 10.78	\$ 12.76	\$ 1.98
09-May	\$ 9.84	\$ 12.78	\$ 2.94
09-Jun	\$ 9.97	\$ 12.37	\$ 2.40
09-Jul	\$ 9.97	\$ 12.61	\$ 2.64
09-Aug	\$ 11.20	\$ 13.06	\$ 1.86
09-Sep	\$ 12.11	\$ 13.85	\$ 1.74
09-Oct	\$ 12.82	\$ 15.26	\$ 2.44
09-Nov	\$ 14.08	\$ 16.09	\$ 2.01
Average:	\$ 11.38	\$ 13.80	\$ 2.42

ESTIMATED GROSS PRICE FOR 2010 ACCORDING TO DETERMINED BASIS:

<u>Production Month:</u>	<u>Class III:</u>	<u>Basis:</u>	<u>Estimated Gross Price</u>	<u>Payt. Received:</u>
09-Dec	\$ 14.98	\$ 2.42	\$ 17.40	10-Jan
10-Jan	\$ 14.33	\$ 2.42	\$ 16.75	10-Feb
10-Feb	\$ 13.83	\$ 2.42	\$ 16.25	10-Mar
10-Mar	\$ 14.18	\$ 2.42	\$ 16.60	10-Apr
10-Apr	\$ 14.38	\$ 2.42	\$ 16.80	10-May
10-May	\$ 14.83	\$ 2.42	\$ 17.25	10-Jun
10-Jun	\$ 15.36	\$ 2.42	\$ 17.78	10-Jul
10-Jul	\$ 15.71	\$ 2.42	\$ 18.13	10-Aug
10-Aug	\$ 15.82	\$ 2.42	\$ 18.24	10-Sep
10-Sep	\$ 16.05	\$ 2.42	\$ 18.47	10-Oct
10-Oct	\$ 16.01	\$ 2.42	\$ 18.43	10-Nov
10-Nov	\$ 15.82	\$ 2.42	\$ 18.24	10-Dec
Average:	\$ 15.11	\$ 2.42	\$ 17.53	

Revised: 1/12/10



ASK LENDER ABOUT SCHEDULED DEBT SERVICE

- Your break-even milk price necessary to “cash flow” will be influenced by:
 - Profitable earnings (net income)
 - Family living expenses
 - Non-farm income and expenses
 - And, scheduled debt service (P+I)



DAIRY ANALYSIS WORKSHEET

NAME:

SAMPLE FARMS

DATE: 12/14/2009

	2007 Accrual		2008 Accrual		2009 Accrual		2009 TOP DPA PER COW	Inflation Change	Amount Override	2010 Accrual Projection	
	TOTAL	PER COW	TOTAL	PER COW	TOTAL	PER COW				PER COW	PER COW
FARM RECEIPTS:											
+Calf Sales	\$ 34,515	\$ 51	\$ 15,663	\$ 23	\$ 10,796	\$ 16	\$ 13	0%	\$ -	\$ 16	\$ 11,950
+Cow Sales	\$ 139,156	\$ 207	\$ 116,712	\$ 175	\$ 133,746	\$ 201	\$ 113	0%	\$ -	\$ 201	\$ 148,047
+Crop Sales	\$ 650	\$ 1	\$ 4,024	\$ 6	\$ 4,589	\$ 7	\$ 40	-100%	\$ -	\$ -	\$ -
+Govt. Payments	\$ 19,853	\$ 30	\$ 18,198	\$ 27	\$ 68,754	\$ 104	\$ 149	0%	\$ 20,000	\$ 27	\$ 20,000
+Milk Sales	\$ 2,893,677	\$ 4,306	\$ 2,952,708	\$ 4,420	\$ 2,156,189	\$ 3,247	\$ 3,274	0%	\$ -	\$ 4,074	\$ 2,994,500
+Custom Work	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%	\$ -	\$ -	\$ -
+Accrual Inv Changes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%	\$ -	\$ -	\$ -
+Other	\$ 63,238	\$ -	\$ 69,419	\$ -	\$ 52,383	\$ 79	\$ 162	0%	\$ -	\$ 79	\$ 57,984
=TOTAL FARM RECEIPTS	\$ 3,151,089	\$ 4,689	\$ 3,176,724	\$ 4,756	\$ 2,426,457	\$ 3,654	\$ 3,751			\$ 4,398	\$ 3,232,482
OPERATING EXPENSES:											
+Breeding Fees	\$ 18,391	\$ 27	\$ 40,142	\$ 60	\$ 38,204	\$ 58	\$ 52	0%	\$ -	\$ 58	\$ 42,289
+Chemicals & Spray	\$ 56,652	\$ 84	\$ 56,579	\$ 85	\$ 46,163	\$ 70	\$ 69	0%	\$ -	\$ 70	\$ 51,099
+Feed	\$ 604,581	\$ 900	\$ 580,466	\$ 869	\$ 666,441	\$ 1,004	\$ 1,214	0%	\$ 700,000	\$ 952	\$ 700,000
+Fertilizer & Lime	\$ 100,000	\$ 149	\$ 150,476	\$ 225	\$ 138,489	\$ 209	\$ 156	0%	\$ 130,000	\$ 177	\$ 130,000
+Marketing Expenses	\$ 144,332	\$ 215	\$ 158,154	\$ 237	\$ 168,602	\$ 254	\$ 187	0%	\$ -	\$ 254	\$ 186,630
+Fuel & Oil	\$ 96,420	\$ 143	\$ 157,062	\$ 235	\$ 99,970	\$ 151	\$ 168	0%	\$ 100,000	\$ 136	\$ 100,000
+Insurance	\$ 33,263	\$ 49	\$ 47,043	\$ 70	\$ 29,708	\$ 45	\$ 42	0%	\$ 31,500	\$ 43	\$ 31,500
+Interest	\$ 196,305	\$ 292	\$ 187,715	\$ 281	\$ 243,480	\$ 367	\$ 164	0%	\$ 240,000	\$ 327	\$ 240,000
+Labor + (W/C+H+FICA)	\$ 552,236	\$ 822	\$ 621,340	\$ 930	\$ 598,586	\$ 902	\$ 686	0%	\$ 535,000	\$ 728	\$ 535,000
+Machine Hire	\$ 29,333	\$ 44	\$ 31,227	\$ 47	\$ 17,133	\$ 26	\$ 13	0%	\$ -	\$ 26	\$ 18,965
+Rent/Lease	\$ 120,675	\$ 180	\$ 72,098	\$ 108	\$ 76,290	\$ 115	\$ 52	0%	\$ 80,000	\$ 109	\$ 80,000
+Repairs & Maintenance	\$ 149,206	\$ 222	\$ 189,280	\$ 283	\$ 174,366	\$ 263	\$ 229	0%	\$ -	\$ 263	\$ 193,011
+Seeds/Plants	\$ 55,499	\$ 83	\$ 58,586	\$ 88	\$ 41,511	\$ 63	\$ 62	0%	\$ -	\$ 63	\$ 45,950
+Supplies	\$ 62,936	\$ 94	\$ 93,875	\$ 141	\$ 98,299	\$ 148	\$ 138	0%	\$ -	\$ 148	\$ 108,810
+Taxes	\$ 16,949	\$ 25	\$ 15,411	\$ 23	\$ 17,293	\$ 26	\$ 46	0%	\$ -	\$ 26	\$ 19,142
+Utilities	\$ 47,189	\$ 70	\$ 48,995	\$ 73	\$ 52,657	\$ 79	\$ 69	0%	\$ -	\$ 79	\$ 58,177
+Vet. & Medical	\$ 131,452	\$ 198	\$ 116,065	\$ 174	\$ 85,967	\$ 129	\$ 117	0%	\$ -	\$ 129	\$ 95,159
+BST	\$ 78,619	\$ 117	\$ 108,048	\$ 162	\$ 55,832	\$ 84	\$ 82	0%	\$ -	\$ 84	\$ 61,802
+Bedding	\$ 58,038	\$ 86	\$ 54,512	\$ 82	\$ 26,999	\$ 41	\$ 66	0%	\$ -	\$ 41	\$ 29,886
+DHA	\$ 11,849	\$ 18	\$ 10,333	\$ 15	\$ 8,339	\$ 13	\$ 11	0%	\$ -	\$ 11	\$ 9,231
+Hoof Trimming	\$ 30,639	\$ 46	\$ 31,324	\$ 47	\$ 23,624	\$ 36	\$ 24	0%	\$ -	\$ 36	\$ 26,150
+Other	\$ 44,324	\$ 66	\$ 37,848	\$ 57	\$ 35,016	\$ 53	\$ 78	0%	\$ -	\$ 53	\$ 38,760
+Heifer Boarding	\$ 183,210	\$ 273	\$ 151,243	\$ 226	\$ 89,444	\$ 135	\$ 129	0%	\$ 80,000	\$ 109	\$ 80,000
=TOTAL OPERATING EXP	\$ 2,822,098	\$ 4,200	\$ 3,017,822	\$ 4,518	\$ 2,832,323	\$ 4,266	\$ 3,832			\$ 3,920	\$ 2,881,561
TOTAL FARM RECEIPTS	\$ 3,151,089	\$ 4,689	\$ 3,176,724	\$ 4,756	\$ 2,426,457	\$ 3,654	\$ 3,751			\$ 4,398	\$ 3,232,482
-TOTAL OPERATING EXP	\$ 2,822,098	\$ 4,200	\$ 3,017,822	\$ 4,518	\$ 2,832,323	\$ 4,266	\$ 3,832			\$ 3,920	\$ 2,881,561
= NET FARM INCOME	\$ 328,991	\$ 490	\$ 158,902	\$ 238	\$ 405,866	\$ 611	\$ 611			\$ 477	\$ 350,921

NET FARM INCOME	\$ 328,991	\$ 490	\$ 158,902	\$ 238	\$ 405,866	\$ 611	\$ 611			\$ 477	\$ 350,921
+INTEREST EXPENSE	\$ 196,305	\$ 292	\$ 187,715	\$ 281	\$ 243,480	\$ 367	\$ 164			\$ 327	\$ 240,000
=TOTAL \$ AVAILABLE FARM	\$ 525,296	\$ 782	\$ 346,617	\$ 519	\$ 162,386	\$ 245	\$ 83			\$ 804	\$ 590,921
TOTAL \$ AVAILABLE FARM	\$ 525,296	\$ 782	\$ 346,617	\$ 519	\$ 162,386	\$ 245	\$ 83			\$ 804	\$ 590,921
+SALE CAPITAL ASSET	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%	\$ -	\$ -	\$ -
=TOTAL FUNDS AVAILABLE	\$ 525,296	\$ 782	\$ 346,617	\$ 519	\$ 162,386	\$ 245	\$ 83			\$ 804	\$ 590,921
FAMILY LIVING EXPENSES	\$ 107,428	\$ 160	\$ 145,085	\$ 217	\$ 114,295	\$ 172	\$ 169			\$ 156	\$ 114,295
+INCOME TAXES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0%	\$ -	\$ -	\$ -
=TOTAL LIVING & TAXES	\$ 107,428	\$ 160	\$ 145,085	\$ 217	\$ 114,295	\$ 172	\$ 169			\$ 156	\$ 114,295
DEBT REPAYMENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			\$ -	\$ -
+OPERATING INTEREST	\$ 42,250	\$ 63	\$ 12,500	\$ 19	\$ 22,500	\$ 34	\$ -			\$ -	\$ -
+ACA CAPITAL	\$ 89,134	\$ 133	\$ 123,817	\$ 185	\$ 150,134	\$ 224	\$ -			\$ -	\$ 200,000
+OTHER CAPITAL	\$ -	\$ -	\$ 20,942	\$ 31	\$ -	\$ -	\$ -			\$ -	\$ -
+DEALER LOANS	\$ -	\$ -	\$ 6,066	\$ 9	\$ -	\$ -	\$ -			\$ -	\$ -
+FSA CAPITAL LOANS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			\$ -	\$ 60,000
+ACA REAL ESTATE	\$ 199,604	\$ 294	\$ 187,297	\$ 281	\$ 207,499	\$ 307	\$ -			\$ -	\$ 207,000
+FSA REAL ESTATE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			\$ -	\$ -
+OTHER REAL ESTATE	\$ -	\$ -	\$ 7,137	\$ 11	\$ -	\$ -	\$ -			\$ -	\$ -
=TOTAL DEBT PAYMENTS	\$ 330,988	\$ 493	\$ 357,759	\$ 536	\$ 380,133	\$ 572	\$ 332			\$ 635	\$ 467,000
TOTAL FAMILY LIVING	\$ 107,428	\$ 160	\$ 145,085	\$ 217	\$ 114,295	\$ 172	\$ 169			\$ 156	\$ 114,295
+TOTAL DEBT PAYMENTS	\$ 330,988	\$ 493	\$ 357,759	\$ 536	\$ 380,133	\$ 572	\$ 332			\$ 635	\$ 467,000
=TOTAL FUNDS REQUIRED	\$ 438,416	\$ 653	\$ 502,844	\$ 753	\$ 494,428	\$ 745	\$ 701			\$ 791	\$ 581,295
TOTAL FUNDS AVAILABLE	\$ 525,296	\$ 782	\$ 346,617	\$ 519	\$ 162,386	\$ 245	\$ 83			\$ 804	\$ 590,921
-TOTAL FUNDS REQUIRED	\$ 438,416	\$ 653	\$ 502,844	\$ 753	\$ 494,428	\$ 745	\$ 701			\$ 791	\$ 581,295
=EXCESS/(DEFICIT)	\$ 86,880	\$ 129	\$ (156,227)	\$ (234)	\$ (656,814)	\$ (989)	\$ (618)			\$ 13	\$ 9,626
EVALUATION FACTORS:											
AVERAGE NUMBER COWS	672	668	664	661	661	661	661	0%	735	735	735
POUNDS MILK SOLD/COW	21,797	22,198	23,252	23,173	23,173	23,173	23,173	0%	0	0	23,550
TOTAL LBS MILK SOLD	14,647,890	14,828,224	15,439,334	15,439,334	15,439,334	15,439,334	15,439,334	0%	17,300	17,300	17,309,250
PRICE MILK/CWT	\$ 19.75	\$ 19.91	\$ 19.97	\$ 19.97	\$ 19.97	\$ 19.97	\$ 19.97	0%	17.30	17.30	17.30
FEED AS % MILK INCOME	21%	20%	31%	37%	37%	37%	37%				23%
FEED COSTS/CWT	\$ 4.13	\$ 3.91	\$ 4.32	\$ 5.24	\$ 5.24	\$ 5.24	\$ 5.24				4.04
DEBT PYMTS AS % MILK INC	11%	12%	18%	18%	18%	18%	18%				16%
BREAK EVEN MILK PRICE	\$ 19.16	\$ 20.97	\$ 18.22	\$ 18.22	\$ 18.22	\$ 18.22	\$ 18.22				17.24

The benchmark used represents Ave Dairy Profit Analyzer Farms for year-ending 11/30/09 in Western New York Farm Credit's Comprehensive Management Program.

Western New York Farm Credit - Farm Business Consulting Group

COST OF PRODUCING MILK ANALYSIS

NAME:

SAMPLE FARMS

DATE: 12/14/2009

CASH OR ACCRUAL BASIS: ACCRUAL ACCRUAL ACCRUAL

	2007 PER CWT	2008 PER CWT	2009 PER CWT	2008 Avg. DPA PER CWT	PROJ PER CWT
HERD SIZE	672	668	664	661	735
Expenses:					
Feed (Purchased)	\$ 4.13	\$ 3.91	\$ 4.32	\$ 5.24	\$ 4.04
Labor + (WC, HI, FICA)	\$ 3.77	\$ 4.19	\$ 3.88	\$ 3.00	\$ 3.09
Interest	\$ 1.34	\$ 1.27	\$ 1.58	\$ 0.71	\$ 1.39
Dairy (1)	\$ 3.93	\$ 4.08	\$ 2.76	\$ 2.66	\$ 2.62
Repairs (Bldg. & Equipment)	\$ 1.02	\$ 1.28	\$ 1.13	\$ 0.87	\$ 1.12
Crop (2)	\$ 2.11	\$ 2.85	\$ 2.11	\$ 1.91	\$ 1.89
Taxes, insurance, utilities	\$ 0.66	\$ 0.75	\$ 0.64	\$ 0.62	\$ 0.63
Marketing (freight & trucking)	\$ 0.99	\$ 1.07	\$ 1.09	\$ 0.81	\$ 1.08
Other (3)	\$ 1.33	\$ 0.95	\$ 0.83	\$ 0.61	\$ 0.80
Adjusted Operating Expenses	\$ 19.27	\$ 20.35	\$ 18.34	\$ 15.54	\$ 16.65
+ Depreciation (4)	\$ 0.84	\$ 1.23	\$ 1.34	\$ 1.16	\$ 1.20
+ Family Living & Inc. Tax	\$ 0.73	\$ 0.98	\$ 0.74	\$ 0.73	\$ 0.66
TOTAL COSTS	\$ 20.84	\$ 22.56	\$ 20.43	\$ 18.43	\$ 18.51
- Nonmilk Income (5)	\$ 1.76	\$ 1.51	\$ 1.75	\$ 2.06	\$ 1.37
Net cost of Production	\$ 19.08	\$ 21.05	\$ 18.68	\$ 16.37	\$ 17.13
Gross milk price	\$ 19.75	\$ 19.91	\$ 19.97	\$ 14.13	\$ 17.30
Margin/CWT	\$ 0.68	\$ (1.14)	\$ (4.71)	\$ (2.24)	\$ 0.17

- (1) Includes: DHIA, bedding, supplies, breeding, vet and med., hoof trimming, cowreplacements.
- (2) Includes: Chemicals, fertilizer, fuel, seed.
- (3) Includes: Other, machine hire, rent.
- (4) Depreciation is standardized by taking 10% of the estimated equipment and building fair market value.
- (5) Nonmilk income includes: cattle sales, crop sale, other farm income, nonfarm income, & capital sales.

Depreciation:				
Est Machinery FMV	\$ 525,000	\$ 630,000	\$ 675,000	\$ 675,000
Est Building FMV	\$ 700,000	\$ 1,200,000	\$ 1,400,000	\$ 1,400,000
Total Investment	\$ 1,225,000	\$ 1,830,000	\$ 2,075,000	\$ 2,075,000
Estimated Depreciation @ 10%	\$ 122,500	\$ 183,000	\$ 207,500	\$ 207,500

Western New York Farm Credit - Farm Business Consulting Group

Summary



Making Profitable Decisions

- Purpose
 - Analysis tools
 - Know your business
 - Do comparative analysis. Benchmarking



Build A Wealth of Knowledge

- Get Serious About Your Records
- Know Your True Profitability
- Look at Business Trends
- Know Your Cost of Production
- Know Your Break Even Cost





Don't Be Afraid

“Just Do It”

Take a logical, common sense approach

We are here to help!



Thank You!

