



Newsletter of the National Sustainable Agriculture Information Service: A project of the National Center for Appropriate Technology (NCAT)

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Farm Business Tips

Creating Smart, Effective Farm Leases and Contracts

From *Tips for Farm Leases and Contracts*
by Rex Dufour, NCAT Agriculture Specialist

Leases and contracts are important pieces of a farm business. They can provide clarity and protection for both parties when leasing or buying land or equipment and when selling farm products.

- If there is a disagreement, the methods and options for resolving it are generally outlined in the document.
- Leases and contracts are legally binding. It may be worthwhile spending money to have a lawyer review the contract prior to signing. You must determine how this will affect your cash flow.
- Make sure you have a signed copy in a language that is familiar to you.



It's a good idea to keep receipts in envelopes labeled with different expense accounts based on the IRS Schedule F form. If you buy items in town, keep a bin in the car to collect receipts to take into the house periodically. Photo: Tammy Howard, NCAT

Elements of a Good Lease

Adapted from California FarmLink and ATTRA's *Finding Land to Farm*

- 1. Contact information:** Be sure to include information for both landowner and tenant.
- 2. Description of leased property:** Include a map if possible.
- 3. Length of term:** How long is lease valid? Can it be renewed?
- 4. Rental amount and how it is to be paid:** What is the amount per term? Is it as cash or share rent? When is it payable? Are there periodic increases?
- 5. Maintenance and repairs:** Who is responsible for what? What are the monetary limits?
- 6. Liability insurance and indemnification:** Is the tenant required to have liability insurance? Most landowners want to specify that they're not liable for the tenant's operation.
- 7. Use restrictions or requirements:** How is the land to be used? Are there prohibitions or limitations on its use, such as types of crops or production methods, for example?
- 8. Compliance with law:** Most leases reiterate that the tenant must comply with all appropriate laws.
- 9. Initial condition of premises:** Is the property okay as-is? Are improvements or upgrades required before or during the lease?
- 10. Alterations:** Are there restrictions or allowances concerning changes to the property? What changes or improvements are allowed, with and without specific permission?
- 11. Subletting:** Are there any restrictions or allowances? Is the tenant allowed to lease to a third party?
- 12. Dispute resolution:** Disputes should be resolved first by mediation, then through binding arbitration.

Download ATTRA's *Tips for Farm Leases and Contracts* at www.attra.ncat.org/attra-pub/summaries/summary.php?pub=427

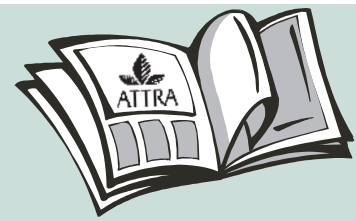
Resources for Organizing a Farm Business

- **Ag Decision Maker** is an ag economics and business website from Iowa State University that offers details on cash flow budgeting, financial recordkeeping, etc. www.extension.iastate.edu/agdm/homepage.html
- **Agricultural Production Contracts** by P.L. Kunkel, J.A. Peterson, J.A. Mitchell. University of Minnesota (2009) discusses contracts and related regulations. www.extension.umn.edu/distribution/businessmanagement/DF7302.html
- **Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses.** 2003. Gigi DiGiacomo et al. Minnesota Institute for Sustainable Agriculture (MISA), www.misa.umn.edu/Publications/BuildingaSustainable
- **Drake University Sustainable Farm Lease** website is a well-organized directory with many resources for those interested in sustainably leasing farmland. www.sustainablefarmlease.org
- **Fearless Farm Finances** is a helpful book by Jody Padgham et al. 2011. Midwest Organic and Sustainable Education Service. www.mosesorganic.org/farmfinances.html
- **IRS Publication 225 Farmers Tax Guide** explains how the federal tax laws apply to farming. www.irs.gov/uac/Publication-225,-Farmer's-Tax-Guide
- **Organic Farmer's Business Handbook: A Complete Guide to Managing Finances, Crops, and Staff – and Making a Profit.** 2009. Richard Wiswall. Chelsea Green Publishing. www.chelseagreen.com
- **Nolo Law for All** website offers many publications and free online resources about legal questions related to business structures, taxes, leases, real estate, employment/HR, and more. www.nolo.com
- **Small Farm and Ranch Income Taxes** is a section of the Beginning Farmer Rancher Resources website. <http://beginningfarmerrancher.wordpress.com/taxes>
- **www.RuralTax.org** is a nonprofit organization funded by the USDA Risk Management Agency.

COMING SOON: ATTRA's Beginning Farmer Business Planning website with extensive new marketing and business materials for crop, poultry, sheep, and goat producers

New and Updated ATTRA Publications

- Basic Accounting: Guidance for Beginning Farmers IP443
- Farm Business Start-Up Checklist IP452
- Tips about Farm Business Structures IP451
- Tips About Farmer Income Tax IP450
- Tips for Farm Leases and Contracts: Creating Smart, Effective Documents IP449
- Tips for Selling to Produce Brokers IP436
- Tips for Marketing Sheep and Goat Products: Fiber IP397
- All Marketing Tip Sheets IP394
- **Marketing Tip Sheets in Spanish**
 - Consejos para vender a traves de Agroturismo y Coseche-Usted-Mismo SP429
 - Consejos para vender a Instituciones —Escuelas y Otros SP427
 - Consejos para vender a traves de Internet SP428
 - Consejos para vender a Agrupadores de Comerciantes-Cooperativas de Productores para Marketing SP434
 - Consejos para vender a Plantas de Embalaje de Frutas y Verduras SP433
 - Consejos para vender a Compradores Mayoristas en Mercados Terminales SP432
 - Consejos para vender a Distribuidores de Productos Frescos SP431



ATTRA Resources for Farm Businesses

The following ATTRA publications and resources include useful information about farm businesses. These resources and many more can be found in the business planning and management section of ATTRA's website, www.attra.ncat.org/marketing.html#business. Call 800-346-9140 for a printed copy. Prices vary. Many resources are free.

- Agricultural Business Planning Templates and Resources RL042
- Beyond Basic Compensation IP360
- Conservation Easements IP239
- Crop Insurance Options for Specialty, Diversified, and Organic Farmers IP438
- Evaluating a Farming Enterprise IP041
- Financing Your Farm: Guidance for Beginning Farmers IP420
- Finding Land to Farm: Six Ways to Secure Farmland IP349
- Planning for Profit in Sustainable Farming IP419
- Positive Practices in Farm Labor Management IP324
- **WEBINAR** Farm Finances: Organizing and Understanding Your Numbers

See ATTRA's series of business and marketing tips in English and Spanish. These include tips on marketing to:

CSAs, Farmers Markets, Grocery Stores, Restaurants, Roadside Stands, Agritourism and Pick-Your-Own, Institutional Markets, Internet Marketing, Aggregators/Grower Marketing Coops, Produce Brokers, Produce Distributors, Produce Packing Houses, and Wholesale Buyers at Terminal Markets.

Also see ATTRA's tip sheets for marketing sheep and goat products: Dairy, Fiber, Meat, Live Animals, and Vegetation Management.

Cash-Flow Budgets and Cash-Flow Statements

Adapted from ATTRA's new publication *Basic Accounting: Guidance for Beginning Farmers*, by Hannah Lewis, NCAT Agriculture Specialist

In addition to growing great food and fiber products and taking care of the land, farmers need to be good financial stewards of their businesses and households. This requires being organized, keeping track of all income and expenses, and having a grasp of the basic principles of accounting.

For instance, if you can predict the months when your major expenses will occur, you'll be better able to ensure that you have the cash on hand to pay for them. This is especially important for farmers, who tend to have high costs in the spring and don't necessarily get paid until later in the year. You can better manage your cash by creating an *annual cash-flow budget*.

A second useful document, the *statement of cash flows*, is a required component of a loan application. This statement helps to answer whether and how all expenses will be covered over the course of a year. It lists total annual cash into and out of the farm household from operations, financing, investing, and non-farm activities. An example and explanation are shown at right.

While good financial management won't make your business succeed on its own, it will help you avoid unnecessary costs, expand your business predictably, and ensure a financial cushion against unexpected events.

Annual Cash Flow Operating Budget

A complete picture of cash flow involves all sources and uses of cash for a farm household. Cash-flow budgeting allows farmers to track or project cash flow by month over the course a year in order to see when cash flow is negative and to plan for those times.

The most valuable information in this sheet is the cash-balance line at the bottom. While the cumulative cash balance at year's end may be positive, some months may show a negative amount of cash. In the planting season, farmers can expect to spend more money than they take in. The question for the farmers to ask themselves: Where will I come up with the money to pay those bills?

Maybe they can get a line of credit from the bank or tap into their off-farm income. Perhaps they have a large enough cash balance from savings in the farm checking account to cover the season's early expenses. If not, maybe they'll consider requesting CSA payments in March instead of April. The point is to anticipate and plan for these potential cash-flow constraints.

To create this budget, farmers sit down at the end of the year with all their receipts and sales-log information and enter the totals month by month according to the type of expense or market venue. They will use this information to create the next year's cash-flow budget. Looking at cash flow from the previous year will help establish a baseline for cash inflows and outflows for the next season, with adjustments to be made for planned changes, such as expanding various enterprises where reasonable.

For a farm just starting its first year, putting together an operating budget is likely to be a time-consuming yet invaluable task. It calls on a beginning farmer to set an income goal and to figure out what prices to set and markets to pursue to achieve that goal. It also requires the farmer to be specific about the equipment, supplies, and other expenses needed to produce and market a particular variety and volume of the farm's products. For guidance on this planning process, refer to the ATTRA publication *Evaluating a Farming Enterprise*.

Statement of Cash Flows	2011	2012	2013
Beginning cash balance			
Operating activities			
Total cash income			
Total cash expenses			
Net cash from operating			
Nonfarm activities			
Off-farm income			
Nonfarm (living) expenses			
Net cash from nonfarm			
Cash from investing			
Capital sales			
Capital purchases			
Net cash from investing			
Cash from financing			
New loans received			
Farmland loan payment			
Equipment loan payment			
Net cash from financing			
Net change in cash			
(total inflows minus total outflows)			
Ending cash balance			
(beginning cash minus net change)			
<p>A cash-flow statement considers inflows from farm sales, bank loans (financing), off-farm income (financing), and selling capital assets (investments), as well as outflows from family living expenses, loan payments, and buying a new capital asset (such as a tractor or walk-in cooler).</p> <p>The bank needs this information to be assured that cash will be coming in from somewhere (if not from the farm operation itself) to pay bills, including servicing the loan. In evaluating a small, nontraditional, and/or beginning farm, a banker may insist that the farm household have off-farm income as a safety net in case the operation doesn't generate as much cash as planned.</p>			

Carefully Consider Your Farm's Business Structure

By Marisa Alcorta, NCAT Agriculture Specialist

There are several types of business structures. Which one you choose for your farm will depend on various factors, including the level of risk and liabilities you anticipate for your farm business. A farm hosting the public for You-Pick events has more risk than a farm selling strictly to wholesale channels. Choosing a structure also depends on how many owners are involved, your income tax situation, and your investment needs.

The main differences between the types of business structures are in the legal requirements and costs for setting up your business, how you report your profits, what type of taxes you pay (whether it's income and/or payroll taxes), and how you pay your taxes.

For a farm or any business starting out on a shoestring, it's common to go with a *sole proprietorship or a partnership*. Neither of these requires legal paperwork to be filed or fees to be paid, and any profits are passed through the busi-

ness to the individual and reported on their personal income tax return. You can also take draws from the business instead of paying yourself a salary, which would be subject to payroll taxes.

The disadvantage of a sole proprietorship or a partnership is that you are personally liable for any business debts or claims. So you would only want to choose this route if you consider the risk of liability on your farm to be low.

Limited Liability Corporations and Partnerships offer owners more protection, but they can be costly to set up. Corporation owners are required to be on salary if they work for the business. It's important to learn about each different type of business structure and make a decision based on your farm's particular situation and plan.

For more detail, see ATTRA's *Tips about Farm Business Structures* and some of the other resources on page 2, especially Nolo Law for All. You should also make sure to consult your financial adviser.

ATTRAnews

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