

# Preparing for Loan Renewal

## Balance Sheets & Cash Flow Budgets

---

Jessica Groskopf

308-632-1247

[jgroskopf2@unl.edu](mailto:jgroskopf2@unl.edu)



# Operating Loan or Line of Credit

- Used for annual operating expenses, paid off with farm/ranch income
- **Operating loan** – 1 year loan, paid off when crops or livestock are sold
- **Line of credit** – a multi-year approved \$ amount, paid off at least once per year.

# Loan Renewal

- Schedule your appointment early
- Bring
  1. Updated Balance Sheet
  2. Updated Cash Flow Budget
  3. Most Recent Income Tax Returns
  4. Plan for coming year

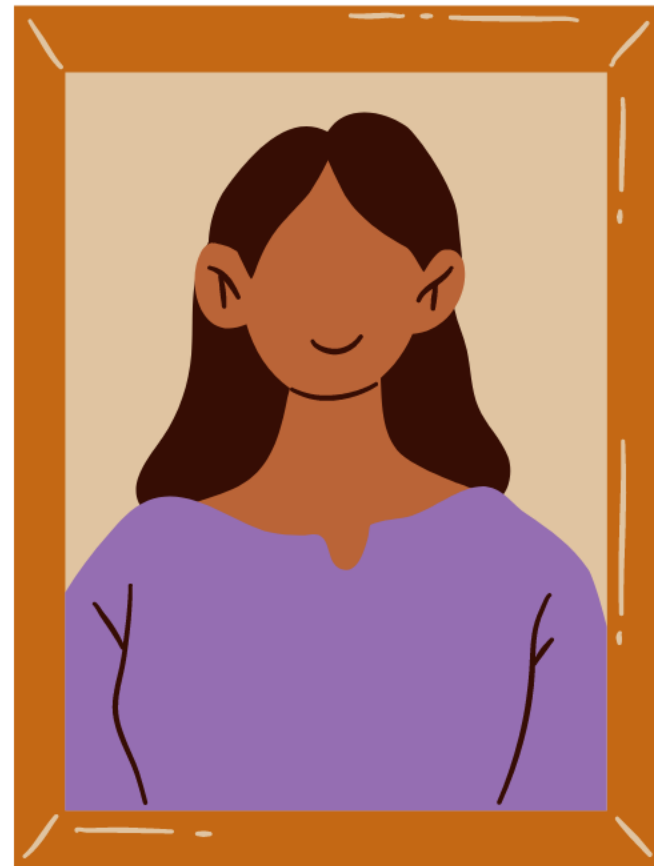
New Lender @ least past 3 years (Items 1-3)

# Template Documents

- Get one from your bank!
- Balance Sheet – <https://www.canr.msu.edu/resources/farm-balance-sheet-template>
- Cash flow –Iowa State  
<https://www.extension.iastate.edu/agdm/wholefarm/xls/c3-15cashflowbudget.xlsx>

# Balance Sheet

# Balance Sheet



A snapshot of your business's financial position at a point in time.

Listing of everything your business owns (assets) and owes (liabilities).



# Balance Sheet

*Assets*



*Liabilities*



Prepare your  
balance sheet  
at the same  
time every  
year.





# Assets

## Current Balance

- Cash
- Checking Accounts
- Accounts receivable
- Hedging accounts

## Current Inventory

- Prepaid expenses & supplies on hand
- Investment in growing crops
- Crops “in bin” and market livestock

## Current Inventory/Value

- Breeding livestock
- Machinery
- Titled vehicles
- Land
- Buildings/Improvements

# *Assets: cost vs. market*

- **Put a value on it...**
  - Cost value
  - Market value

# Assets: cost vs. market

- **Cost value** - purchase price less economic depreciation
  - Depreciation – “wear and tear” overtime that depletes the value of an asset: machinery, vehicles, buildings, breeding livestock.
  - Depreciation reported on the balance sheet is sometimes called “Book depreciation”
    - Maybe different than depreciation reported on taxes – may be “accelerated” to reduce income tax liability (Section 179).

$$\text{Straight-line depreciation} = \frac{\text{Purchase Price} - \text{Salvage Value}}{\text{Asset Life}}$$

$$\frac{\$75,000 - \$15,000}{10} = 6,000/\text{per year}$$

# Assets: cost vs. market

- **Put a value on it...**

- Cost value – purchase price less economic depreciation

- **Market value** – what a willing buyer would pay for the asset

- Lender will provide commodity prices (\$X/bu., or \$X per head)

# Assets: cost vs. market

- **Put a value on it...**

- Cost value – purchase price less economic depreciation
- Market value – what a willing buyer would pay for the asset

Land (Schd M)	Acres	Cost Value	Market Value
Farm 1	235	152,750	293,750
Farm 2	160	32,000	224,000

# Balance Sheet





Take care  
when valuing  
assets. Make  
notes when  
you adjust  
values.

# Liabilities

## Current Balance

- Accrued interest
- Accounts Payable
- Operating loans/lines of credit
  - With any provider (seed, chemical, machinery)*
- Credit cards

## Amount due within next year vs. long-term

- Machinery Loans
- Land Loans



# Organize

- Current (< 1 year)
- Intermediate (1-10 years)
- Long-term (>10 years)

... and subtotal

A hand-drawn balance sheet template on a spiral notebook page. The page is titled "Balance Sheet" in a cursive font. The table is divided into three rows by horizontal dashed lines and two columns by a vertical solid line. The columns are labeled "Assets" and "Liabilities". The rows are labeled "Current", "Intermediate", and "Long-term". At the bottom of the table, the equation "Assets = Liabilities + Net Worth" is written in cursive. The notebook has red spiral binding at the top.

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		
	<i>Assets =</i>	<i>Liabilities + Net Worth</i>

# Organize

- Current (< 1 year)
- Intermediate (1-10 years)
- Long-term (>10 years)

**Non-Current**

**... and subtotal**

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		
	<i>Assets =</i>	<i>Liabilities + Net Worth</i>

# Assets

## Current

- Cash
- Checking Accounts
- Prepaid expenses & supplies on hand
- Investment in growing crops
- Accounts receivable
- Hedging accounts
- Crops “in bin” and market livestock

## Intermediate

- Breeding livestock
- Machinery
- Titled vehicles

## Long-term

- Land
- Buildings/Improvements

# Liabilities

## Current

- Accrued interest
- Accounts Payable
- Operating loans/lines of credit
- Credit cards
- Current portions of intermediate and long-term loans

## Intermediate

- Machinery Loans

## Long-term

- Land Loans

# Net Worth

The difference between, assets and liabilities.

$$\textit{Total Assets} - \textit{Total Liabilities}$$

“Owner’s equity” in the business. Value of what the owner’s have in the company.



*Balance Sheet*

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		
	<i>Assets = Liabilities + Net Worth</i>	



*Balance Sheet*

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		
	<i>Assets =</i>	<i>Liabilities + Net Worth</i>

Farm Financial Standards Council - provides standard financial guidelines for farms/ranches

- Allow for comparison across businesses
- Monitor financial health
- Measure financial performance

Currently 21 measures

*Balance Sheet*

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		

*Assets = Liabilities + Net Worth*

# Ratios...

- **Liquidity Measure** – is the ability of a business to meet financial obligations as they come due.
  - Working capital
  - Current ratio
- **Solvency Measure** – the ability of a business to pay all of its debts if it were sold tomorrow.
  - Debt to asset ratio
- **Profitability** – the difference between the value of goods produced and the cost of their production.



# *Ratios...*

- Working Capital
- Current Ratio
- Total Debt to Asset

# Working Capital

Liquidity Measure – ability to meet short-term obligations, expressed in \$.

$$\text{Current Assets} - \text{Current Liabilities}$$

Can the business cash flow in the near term?



*Balance Sheet*

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		
	<i>Assets =</i>	<i>Liabilities + Net Worth</i>

# Current Ratio

Liquidity Measure – ability to meet short-term obligations, expressed as a %.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

“You/I have \$X.XX assets to cover each \$1.00 of liabilities” (the bigger the better).

<1.1

1.1 - 1.7

>1.7



## Balance Sheet

	Assets	Liabilities
Current		
Intermediate		
Long-term		
	Assets =	Liabilities + Net Worth

# Debt/Asset Ratio

Solvency Measure – the ability of a business to pay off all of its debts.

$$\frac{\text{Total Liabilities}}{\text{Total Assets}}$$

How much of the business the bank owns (smaller the better).

>60%

20-60%

<20%



## Balance Sheet

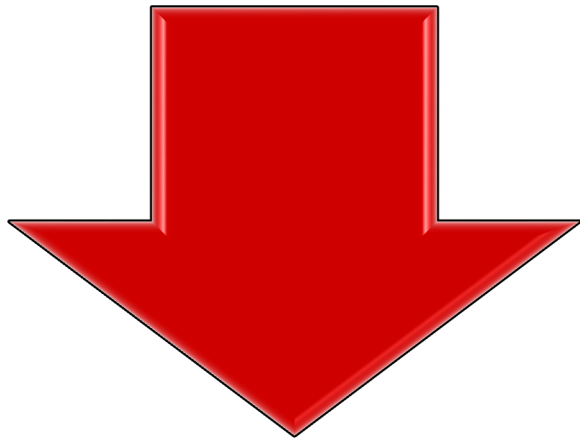
	Assets	Liabilities
Current		
Intermediate		
Long-term		

Assets = Liabilities + Net Worth

Improving your balance sheet.



Assets



Liabilities

# Improving your balance sheet.

- Sell assets for more than they are valued for on the balance sheet
- Pay off debt
- Refinance
  - Reduce interest expense, or extend length of the loan
- Delay capital purchases
- Reduce personal withdrawals
- Sell off unprofitable or unnecessary assets – use assets more efficiently (custom farming)

# Cash Flow Budget

# Cash Flow Budget

- Spending plan
  - Annual, quarterly, or monthly
- Estimate monthly income and expenses
  - **Income** - grain sales, livestock sales, custom hire....
    - The bank will usually provide commodity prices (\$X/bu.)
  - **Expenses** - rent, seed, chemical, insurance, repair, feed, veterinarian bills, labor....
- Identify when and how large of an operating note or line of credit is needed.



# Cash Flow Budget

- Where to find information?
  - Look back at previous spending
  - Know how many acres, expected bushels, head...
- Make sure you don't "double count" any pre-paid
- Don't forget "overhead" expenses – utilities, insurance, labor, etc.
- <https://cap.unl.edu/cropbudgets>
- <https://finbin.umn.edu/>

		Jan
Beginning Cash Balance		\$87,000.00
Cash Inflows	+	
Cash Outflows	-	
Balance + Inflows-Outflows	=	

Beginning Loan Balance		\$0.00
Amount Borrowed	+	
Principal paid on operating loans	-	
Ending Loan Balance	=	

<b>Ending Cash Balance</b>		
----------------------------	--	--

		Jan
Beginning Cash Balance		\$87,000.00
Cash Inflows	+	\$3,500.00
Cash Outflows	-	\$36,000.00
Balance + Inflows-Outflows	=	\$54,500.00

} Estimates by line

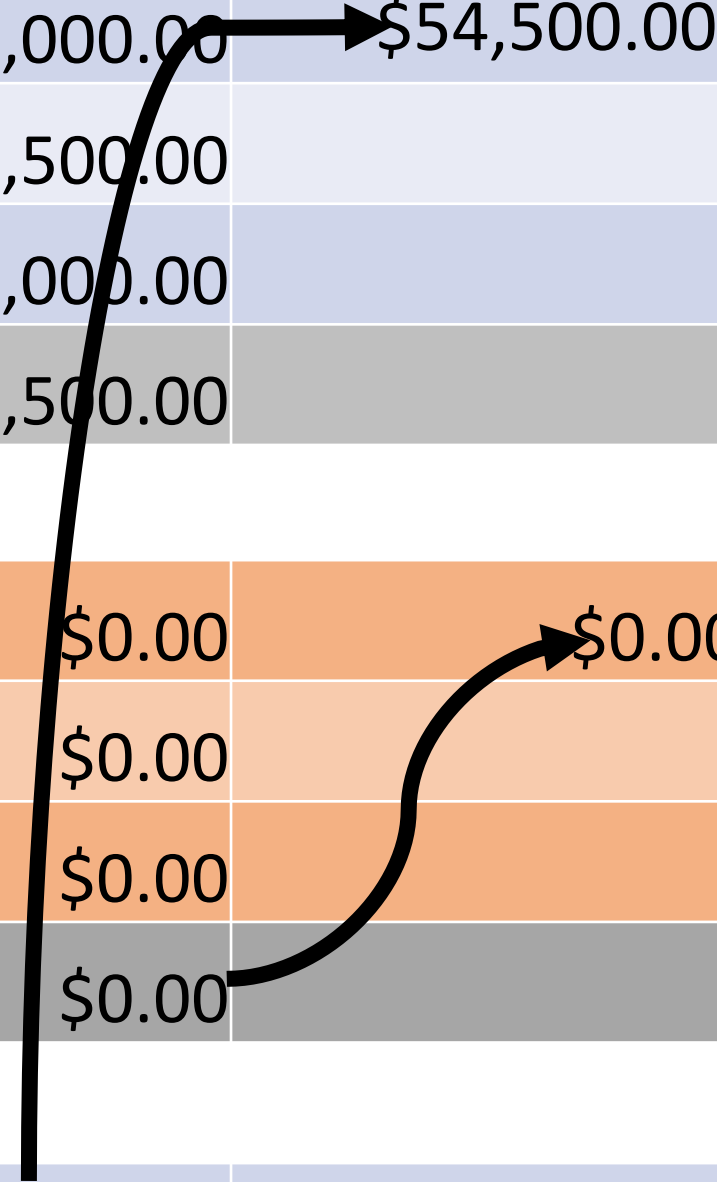
Beginning Loan Balance		\$0.00
Amount Borrowed	+	\$0.00
Principal paid on operating loans	-	\$0.00
Ending Loan Balance	=	\$0.00

<b>Ending Cash Balance</b>		<b>\$54,500.00</b>
----------------------------	--	--------------------

		Jan	Feb
Beginning Cash Balance		\$87,000.00	\$54,500.00
Cash Inflows	+	\$3,500.00	
Cash Outflows	-	\$36,000.00	
Balance + Inflows-Outflows	=	\$54,500.00	

Beginning Loan Balance		\$0.00	\$0.00
Amount Borrowed	+	\$0.00	
Principal paid on operating loans	-	\$0.00	
Ending Loan Balance	=	\$0.00	

<b>Ending Cash Balance</b>		<b>\$54,500.00</b>	<b>\$14,000.00</b>
----------------------------	--	--------------------	--------------------



		Jan	Feb
Beginning Cash Balance		\$87,000.00	\$54,500.00
Cash Inflows	+	\$3,500.00	\$3,500.00
Cash Outflows	-	\$36,000.00	\$44,000.00
Balance + Inflows-Outflows	=	\$54,500.00	\$14,000.00

} Estimates by line

Beginning Loan Balance		\$0.00	\$0.00
Amount Borrowed	+	\$0.00	\$0.00
Principal paid on operating loans	-	\$0.00	\$0.00
Ending Loan Balance	=	\$0.00	\$0.00

<b>Ending Cash Balance</b>		<b>\$54,500.00</b>	<b>\$14,000.00</b>
----------------------------	--	--------------------	--------------------

		Jan	Feb	Mar
Beginning Cash Balance		\$87,000.00	\$54,500.00	\$14,000.00
Cash Inflows	+	\$3,500.00	\$3,500.00	\$3,500.00
Cash Outflows	-	\$36,000.00	\$44,000.00	\$58,000.00
Balance + Inflows-Outflows	=	\$54,500.00	\$14,000.00	(\$40,500.00)

Beginning Loan Balance		\$0.00	\$0.00	\$0.00
Amount Borrowed	+	\$0.00	\$0.00	
Principal paid on operating loans	-	\$0.00	\$0.00	
Ending Loan Balance	=	\$0.00	\$0.00	

<b>Ending Cash Balance</b>		<b>\$54,500.00</b>	<b>\$14,000.00</b>	
----------------------------	--	--------------------	--------------------	--

		Jan	Feb	Mar
Beginning Cash Balance		\$87,000.00	\$54,500.00	\$14,000.00
Cash Inflows	+	\$3,500.00	\$3,500.00	\$3,500.00
Cash Outflows	-	\$36,000.00	\$44,000.00	\$58,000.00
Balance + Inflows-Outflows	=	\$54,500.00	\$14,000.00	(\$40,500.00)

Beginning Loan Balance		\$0.00	\$0.00	\$0.00
Amount Borrowed	+	\$0.00	\$0.00	\$40,500.00
Principal paid on operating loans	-	\$0.00	\$0.00	
Ending Loan Balance	=	\$0.00	\$0.00	

<b>Ending Cash Balance</b>		<b>\$54,500.00</b>	<b>\$14,000.00</b>	
----------------------------	--	--------------------	--------------------	--

		Jan	Feb	Mar
Beginning Cash Balance		\$87,000.00	\$54,500.00	\$14,000.00
Cash Inflows	+	\$3,500.00	\$3,500.00	\$3,500.00
Cash Outflows	-	\$36,000.00	\$44,000.00	\$58,000.00
Balance + Inflows-Outflows	=	\$54,500.00	\$14,000.00	(\$40,500.00)
Beginning Loan Balance		\$0.00	\$0.00	\$0.00
Amount Borrowed	+	\$0.00	\$0.00	\$40,500.00
Principal paid on operating loans	-	\$0.00	\$0.00	\$0.00
Ending Loan Balance	=	\$0.00	\$0.00	\$40,500.00
<b>Ending Cash Balance</b>		<b>\$54,500.00</b>	<b>\$14,000.00</b>	<b>\$0.00</b>



		Mar
Beginning Cash Balance		\$14,000.00
Cash Inflows	+	\$3,500.00
Cash Outflows	-	\$58,000.00
Balance + Inflows-Outflows	=	(\$40,500.00)

Beginning Loan Balance		\$0.00
Amount Borrowed	+	\$40,500.00
Principal paid on operating loans	-	\$0.00
Ending Loan Balance	=	\$40,500.00

<b>Ending Cash Balance</b>		<b>\$0.00</b>
----------------------------	--	---------------

		Mar	Apr
Beginning Cash Balance		\$14,000.00	\$0.00
Cash Inflows	+	\$3,500.00	\$3,500.00
Cash Outflows	-	\$58,000.00	\$58,000.00
Balance + Inflows-Outflows	=	(\$40,500.00)	(\$54,500.00)

Beginning Loan Balance		\$0.00	\$40,500.00
Amount Borrowed	+	\$40,500.00	
Principal paid on operating loans	-	\$0.00	
Ending Loan Balance	=	\$40,500.00	

<b>Ending Cash Balance</b>		<b>\$0.00</b>	
----------------------------	--	---------------	--

		Mar	Apr
Beginning Cash Balance		\$14,000.00	\$0.00
Cash Inflows	+	\$3,500.00	\$3,500.00
Cash Outflows	-	\$58,000.00	\$58,000.00
Balance + Inflows-Outflows	=	(\$40,500.00)	(\$54,500.00)

Beginning Loan Balance		\$0.00	\$40,500.00
Amount Borrowed	+	\$40,500.00	\$54,500.00
Principal paid on operating loans	-	\$0.00	\$0.00
Ending Loan Balance	=	\$40,500.00	\$95,000.00

<b>Ending Cash Balance</b>		<b>\$0.00</b>	<b>\$0.00</b>
----------------------------	--	---------------	---------------



		Mar	Apr	May
Beginning Cash Balance		\$14,000.00	\$0.00	\$0.00
Cash Inflows	+	\$3,500.00	\$3,500.00	\$51,000.00
Cash Outflows	-	\$58,000.00	\$58,000.00	\$44,000.00
Balance + Inflows-Outflows	=	(\$40,500.00)	(\$54,500.00)	\$7,000.00

Beginning Loan Balance		\$0.00	\$40,500.00	\$95,000.00
Amount Borrowed	+	\$40,500.00	\$54,500.00	
Principal paid on operating loans	-	\$0.00	\$0.00	
Ending Loan Balance	=	\$40,500.00	\$95,000.00	

<b>Ending Cash Balance</b>		<b>\$0.00</b>	<b>\$0.00</b>	
----------------------------	--	---------------	---------------	--

		Mar	Apr	May
Beginning Cash Balance		\$14,000.00	\$0.00	\$0.00
Cash Inflows	+	\$3,500.00	\$3,500.00	\$51,000.00
Cash Outflows	-	\$58,000.00	\$58,000.00	\$44,000.00
Balance + Inflows-Outflows	=	(\$40,500.00)	(\$54,500.00)	\$7,000.00

Beginning Loan Balance		\$0.00	\$40,500.00	\$95,000.00
Amount Borrowed	+	\$40,500.00	\$54,500.00	\$0.00
Principal paid on operating loans	-	\$0.00	\$0.00	\$7,000.00
Ending Loan Balance	=	\$40,500.00	\$95,000.00	\$88,000.00

<b>Ending Cash Balance</b>		<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
----------------------------	--	---------------	---------------	---------------

# Operating Note

- Greatest estimated loan need (i.e. \$95,000)
- Ask for an amount slightly larger than the estimate

# Improving/Reducing Operating Note Needs

- Align income and expenses
- Spread out payments
- Reduce principal payments – refinancing

Cash Flow Makes Your Business

**GO!**

No Cash Flow

No Business!



The balance sheet  
and cash flow DO  
NOT show  
profitability!

# Preparing for Loan Renewal

## Balance Sheets & Cash Flow Budgets

---

Jessica Groskopf

308-632-1247

[jgroskopf2@unl.edu](mailto:jgroskopf2@unl.edu)

