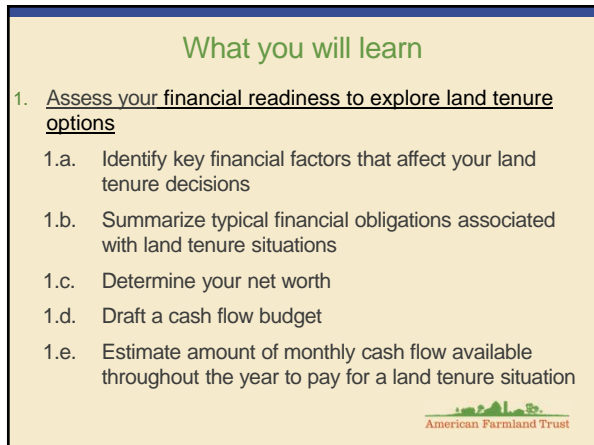
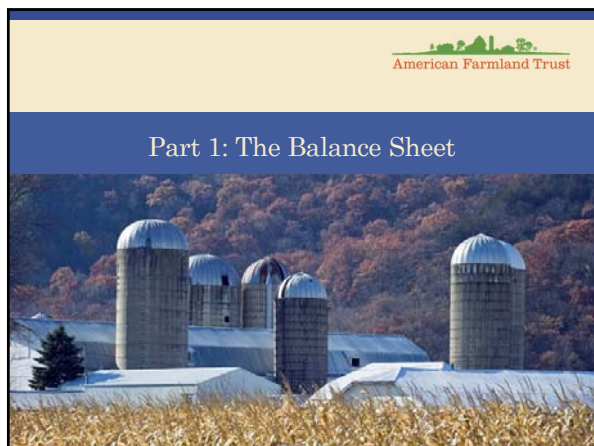


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Factors Affecting Land Tenure Decisions

- Personal and business goals
- Your current financial position
- Capital needs of your business
- Earning potential of your business



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Land Tenure Situations Come with Financial Obligations

- It's important to understand both the costs of buying, leasing and even inheriting land
- AND the costs of maintaining it over time
- Factor in things like property taxes, upkeep, insurance, etc.



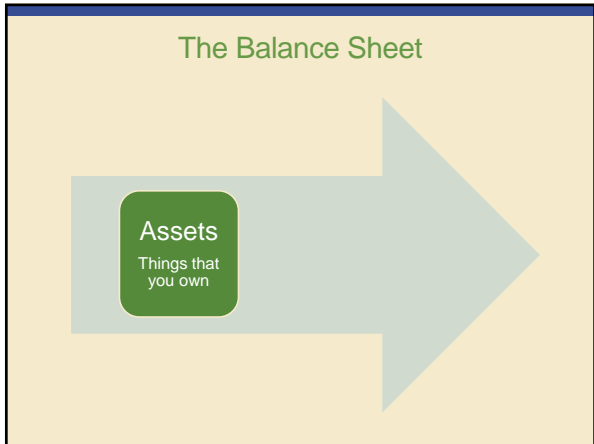
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The Balance Sheet

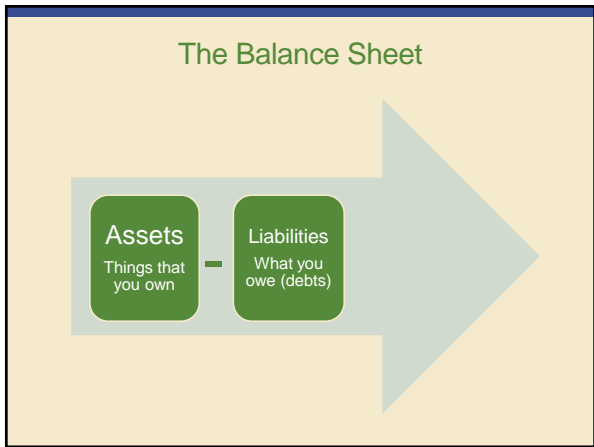
- Details your assets, liabilities and net worth
- Can focus on your personal assets and liabilities
- Can focus on your business assets and liabilities



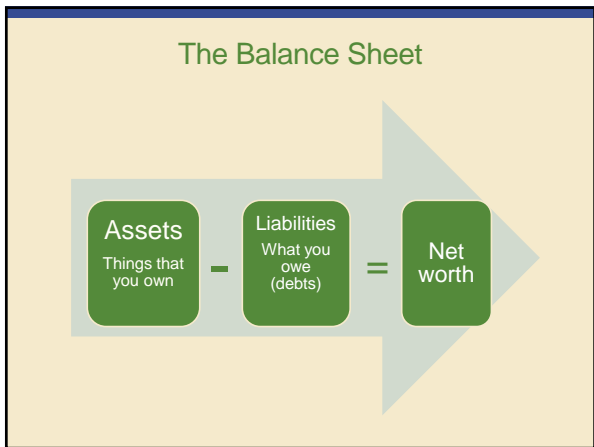
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The Balance Sheet

The **balance sheet** is a listing of all your assets and liabilities.

Balance Sheet		
Assets:		
Savings	\$3,000	
Car	\$10,000	
Real Estate	\$100,000	
Total Assets:		\$113,000
Liabilities:		
Credit Card	\$1,000	
Mortgage	\$50,000	
Total Liabilities:		\$51,000
Net Worth:		\$62,000

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Let's Review Sample Personal and Business Balance Sheets

Your net worth divided by your total assets = Net Worth Percent

i.e., from the prior slide:

Balance Sheet		
Total Assets:		\$113,000
Total Liabilities:		\$51,000
Net Worth:		\$62,000
% Net Worth:		55%

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Percent Net Worth


- Your net worth divided by your total assets is your percent net worth.
- This is an important financial ratio.
- Lenders' requirements vary, but if you have a negative or low percent net worth, it may be difficult to secure financing.

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Part 2: Income Statement and Cash Budget



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Income Statement

- Details where your money comes from and where it goes
- Also known as: Earnings statement, profit and loss statement or profit statement.
- Basic Formula: $\text{Income} - \text{Expenses} = \text{Net Income or Profit}$
- Net income is positive when the business has more income than expense. Net income can also be negative (loss) if expenses are greater than income.
- You will need positive net income to be able to afford a land purchase or lease.


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Some Key Terms to Understand

Fixed Costs

- Expenses that are needed to “be in business” but not tied directly to production like insurance or property taxes

Variable Costs


- Expenses tied directly to producing your product


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Cash Flow Statement


- Details all the sources of cash that you have, as well as where all the cash goes
- It includes 3 main parts:
 - Cash flows from **operating activities** (from income statement)
 - As well as: Cash flows from **investment activities**
 - And: Cash flows from **financing activities**



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Three Main Financial Statements


- **Balance Sheet:** Tells you your current financial position.
- **Income Statement:** Tells whether you are making or losing money in your enterprise.
- **Cash Flow Statement:** Keeps track of where cash comes from and where it goes.



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Creating a Cash Budget

- A **Cash Budget** is basically a forward-looking Cash Flow Statement
- It looks at what you think your **cash needs** will be **relative** to what you expect for **income** throughout the year
- Cash flows often vary by time of year – Your Cash Budget addresses how you will deal with that.



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Let's Create Our Own Cash Budget

	Cash In	Cash Out	Balance
Opening Balance			\$10,000
Operations:			
Inputs		2,000	8,000
Sales	1,000		9,000
Investment:			
Sale of Equipment	500		9,500
Tractor Purchase	5,000		4,500
Financing:			
Loan proceeds	10,000		14,500
Principal payments	5,000		9,500

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Part 3: What are Lenders Looking For?



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Both Leasing and Purchasing Land Require a Financial Commitment

- A landlord will want to make sure you can make lease payments on time.
- A lender will want to make sure you can repay your loan.
- Both may require documentation to prove your credit-worthiness.

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Lenders Want to See Financial Documents

- When approaching a lender: Be ready!
- Whether borrowing for land or borrowing for your farm or ranch business:
 - Know your financial position
 - Know how much loan you can repay
 - Have your documents in order



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Eventually, You'll Need a Business Plan

- It's a roadmap to success
- Critical for long-range planning as well as getting financing
- Should be general enough to be flexible, but provide clear direction



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Elements of a Business Plan

A business plan describes:

- Who you are
- Who are your customers
- What you plan to produce
- How you plan to produce it
- How you will market your product
- **How you will make money!**




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Approaching a Lessor

Be prepared to demonstrate that you will be a reliable tenant.

A lessor may want:

- References
- Credit report
- Cash budget
- Legal contract




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Approaching a Lender

Be prepared with your financial documents.

Most lenders will want:

- Tax returns
- References
- Credit report
- Cash budget
- Business plan



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For Next Session:

- Well-defined personal and business goals
- Comprehensive financial self-assessment
- Business plan for farm business (optional)



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