

Taking Care of Farmers

Editorial

Government Funding for Succession Planning

One major challenge that faces almost every farm family at some point in time is that of succession. How can we make sure the farm stays in the family? How can we allow our parents to retire in comfort? How can we expand the farm to meet the needs of future generations of our family? Do we have all of the skills to take the farm to the next level? What is fair to those who have left the farm? How can our family make business decisions while we cope with the emotional challenges of family life? How do we prepare a succession plan? Can we afford it?

The Government of Canada, along with the provincial and territorial governments, has committed \$5.2 billion to the Agricultural Policy Framework to strengthen our agriculture and agri-food industries. One program of the Renewal element of the APF is the Specialized Business Planning Services. The SBPS, delivered through Farm Business Advisory Services, provides producers with financial support to help with farm business planning and farm succession planning. The program will provide up to 50% of a consultant's eligible costs for the preparation of a succession or business plan. The maximum funding available is \$8,000 for an individual applicant, and a maximum of \$25,000 for four or more participants.

In order to be eligible for funding a producer must submit an application to SBPS along with a succession or business planning proposal from a consultant having expertise in these areas. The consultant must be a member in good standing of a recognized professional organization, and have experience in preparing business plans or succession plans. As evidence of his or her experience the consultant must provide a professional resume and at least 2 references from previous clients.

VMSW has these qualifications.

The Specialized Business Planning Services program recognizes that a good succession or business plan must be comprehensive. It also recognizes that the planning process requires the involvement of highly skilled people with experience. To make sure the program meets their objectives, SBPS has provided detailed Minimum Requirements for succession or business plans they will fund.

A succession plan, for example, must include such elements as:

- a description of the family's goals and objectives (personal and farm)
- a retirement plan
- training plan for successor children
- farm business plan
- operating plan
- management and labour transfer plan
- ownership transfer plan
- implementation time table
- family communications plan
- contingency plans

Each of these elements must be included in the succession plan in order for the farm to qualify for funding. Agriculture and Agri-Food Canada will first review the proposal to approve the funding, and must then approve the final plan before releasing the funding.

Agriculture and Agri-Food Canada has proven through its research that family farming operations have the best chance for long term success when they follow a strategy of comprehensive business planning. AAFC has such a strong belief in this premise that they are willing to contribute up to \$8,000 per family for succession and business plan development.

If you would like more information on the Specialized Business Planning Services program please contact your VMSW partner, or Greg Bruce in our Woodstock office.♦

Brent VanParys



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Canadian Agricultural Income Stabilization (CAIS) program

With the new CAIS program in place across Canada there are a few items that require participants attention.

You should soon be receiving a Calculation of Program Benefits statement from your 2003 application. Payment, if any, will be issued sometime after. Please forward this Calculation of Program Benefits to us for our review.

March 31, 2005 is the deadline for your Schedule 1 - Production Summary and Schedule 2 - Inventory, Receivables and Payables for the 2004 program.

June 15 and June 30, 2005 is the deadline for submitting Farming Income for Tax Purposes on a T1163 for both individuals and corporations.

In an attempt to ensure the efficient delivery of services to farmers, the Ontario government is transferring administrative responsibilities for the Canadian Agricultural Income Stabilization (CAIS) program to AGRICORP for 2004.

New or updated information on the CAIS program will be provided to us at the Farm Tax and Business Seminar on October 20th 2004.

Environmental Farm Plan (EFP)

Under the Agricultural Policy Framework (APF) federal and provincial governments have committed to provide assistance to producers over the next four years to help implement EFP's.

The program is designed to ensure the agricultural industry can respond to consumer demands that food be safe, high in quality and produced using environmentally friendly methods. An Environmental Farm Plan should help to improve air, water and soil quality and aid producers to identify and assess environmental risks and benefits on their farms.

To prepare and implement your EFP you should take the following steps:

- Step 1** - Attend an EFP Workshop scheduled for your area.
- Step 2** - Complete the self-assessment sections that apply to your operation.
- Step 3** - Develop an Action Plan to address areas of environmental concern on your farm.
- Step 4** - Submit your EFP for a confidential review by a group of locally-appointed farmers. Government personnel will not see your information.
- Step 5** - Begin to implement your EFP Action Plan. Apply for assistance through the EFP Incentive Program.

EFP Incentive: Up to \$1,500 per farm business is available to assist farmers making positive environmental changes identified in their EFP.

The above steps are also required for other program funding such as the Clean Water Project outlined in our last news letter.

For specific dates and locations in your county/district, contact OSCIA toll-free at 1-800-265-9751

Planning and Assessment for Value-Added Enterprises (PAVE)

A creation of the Agricultural Policy Framework, PAVE provides farmers financial assistance to conduct professional feasibility assessments and develop comprehensive business plans for launching or expanding value-added enterprises. Such enterprises may be agri-manufacturing, food processing, wholesale/retail operations, agri-tourism, etc. PAVE will pay up to 50% of the cost of a qualified business consultant to a maximum of:

- For an individual applicant up to \$10,000
- For two participants up to \$20,000
- For three or more it is up to \$25,000

To be eligible a farmer must have \$10,000 in gross farm sales per year and must have a product that clearly adds value to on-farm or off-farm sites that involve the manufacture of farm products.

PAVE is a complimentary program to the Specialized Business Planning Services (SBPS) outlined in our article Government Funding for Succession Planning.

Visit www.agr.gc.ca/renewal

Renewable and Electrical Energy Division

The Renewable and Electrical Energy Division promotes the development of sustainable renewable energy systems for heating and cooling.

REDI has a number of incentive programs for businesses to use solar thermal technologies. Currently REDI will supply 25% of the purchase price and installation costs of a qualifying solar, air or water heating system, to a maximum contribution of \$80,000.♦

Visit www2.nrcan.gc.ca/es/erb/erb/english/View.asp?x=68

Agriculture Workshops: December 8, 2004 & January 12, 2005 - See details on back!
For more information please call Jessica at (519) 539-6109 ext 242.
Enrolment is limited, so register early!



Financial statements..... per pound they have got to be the most expensive commodity around. They are demanded by my banker, the equipment finance companies, government, and just about anyone else who thinks they should know what goes on in my farm. Why do all these people want to see my financial statements? What could they possibly learn about my farm business by looking at a few pieces of paper?"

At first glance financial statements appear to tell you only very basic information: revenue, expenses, profit, assets, liabilities and equity. Not much of a story considering all that goes on in a farming operation. But move those numbers around some; add, subtract, multiply and divide, look at the trends, and the plot suddenly thickens. The story told by financial statements is very revealing to those who know their secrets.

A financial statement story is not an adventure, nor is it a romance. It may perhaps be a self help storey, as long as it is not fiction. While some stories told are exposes, others are testimonials. Part biography, part history, sometimes fantasy, a financial statement tells far more than just the words and numbers on the page. But whatever the story may be, it is best read as a series. A knowledgeable story reader will compare financial statements for five or more years to get the true message of the author. The meaning of the story is further enhanced by comparing it to other similar stories.

In many well written stories the reader must read between the lines to get the real meaning. In the case of financial statements the reader must actually move the numbers and calculate mathematical relationships to unearth the true story. To read between the financial statement lines the reader uses Ratio Analysis.

Ratio Analysis is an analytical tool used to assess and monitor a farm's health in terms of liquidity, coverage, profitability and financial efficiency. It draws the reader to areas that may require attention, and can show trends that will impact the future direction of the farm. Can we get to where we are going? Are there problems with our financial situation? Do we need to make some changes?

Financial ratios are divided into four basic categories:

Liquidity - a measure of a farm's ability to meet its current financial obligations as they come due. Liquidity is an indicator of a farm's cash flow health and short term risk profile.

Coverage - a measure of a farm's debt relative to the investment by the owners (equity) and the impact of that debt on the operations. Coverage ratios indicate a farm's long term risk profile.

Profitability - a measure of a farm's ability to generate profit from its assets. It is a measurement of management's ability to generate a return.

Financial efficiency - a measure of the efficiency with which a farm utilizes its inputs to produce profit.

Here are a few of the more common ratios applied by creditors and analysts to agricultural enterprises.

Liquidity Ratios

Does a farm have sufficient cash, accounts receivable and inventory to cover its bank overdraft, accounts payable and taxes payable? Good liquidity tells suppliers a farm can pay their accounts on time. Good liquidity helps farmers negotiate good credit terms. Poor liquidity may mean C.O.D. with suppliers and higher interest rates and fees from the bank.

Working capital = *current assets minus current liabilities*

Desired result: Positive number

Desired trend: Increasing

Current ratio = *current assets divided by current liabilities*

Desired result: 2.0

Desired trend: Increasing

Debt structure ratio = *current liabilities divided by total liabilities*

Desired result: 20%

Desired trend: Decreasing

Coverage Ratios

Coverage ratios measure the impact of debt on a farm by showing the relative use of borrowed funds as compared to the investment of the owners. Too much long term debt increases the risk to creditors through high interest charges and insufficient security. Unsatisfactory coverage ratios often result in high interest rates, unfavourable lending terms or even the denial of credit.

Debt to equity = *total debt divided by total owners' equity*

Desired result: .4 to 1

Desired trend: Decreasing

Debt servicing ratio = *Income before interest and amortization divided by interest and principal payments*

Desired result: 2 to 1

Desired trend: Increasing

Profitability Ratios

Profitability ratios are "return on" ratios which measure profit against other financial statement items such as owners' equity, revenue and total assets. Profitability ratios assess how well management has employed the farm's assets to generate a profit. These ratios are best evaluated by comparison to other farms in the same industry.

Return on equity = *Net farm income divided by equity*

Desired result: 10%

Desired trend: Increasing

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Financial Statements

The Hidden Stories of Financial Statements...Continued

Return on assets = Net farm income minus interest expense divided by total assets

Desired result: 4%

Desired trend: Increasing

Capital turnover = Gross farm revenue divided by capital assets

Desired result: 40%

Desired trend: Increasing

Financial Efficiency Ratios

Financial efficiency ratios evaluate how effectively management has applied the inputs of the farm to produce a profit.

Gross margin = Gross revenue minus direct expenses divided by gross revenue

Desired result: 50%

Desired trend: Increasing

Return on revenue = Net farm income divided by gross revenue

Desired result: 20%

Desired trend: Increasing

Ratio analysis is a valuable tool for understanding a farm's financial statements. It measures relationships between financial statement items and compares the results with those of prior years. Ratios can be compared with other farms and industry averages. Ratio analysis also provides a benchmark from which to measure future performance and set future goals. Ratios are most effective when they are used to highlight trends over several years. The absolute number is not as important as the direction of the trend.

Ratio analysis certainly makes for interesting reading. The story between the financial statement lines can make an otherwise dull book suddenly become a best seller.♦

VMSW at The Great Canadian Outdoor Farm Show



Greg Bruce participated in the 2004 Outdoor Farm Show to assist Farm Credit Canada demonstrate their AgExpert Software (formerly Settler) Canada's Leading Farm Management Software. For more information on the software, you can reach Greg at (519) 539-6109 ext 232.

Congratulations to Jack & Jane Danen from Tavistock who were the winners of our draw for a Microsoft® Wireless Optical Mouse and a VMSW mouse pad.

Thank you to everyone who visited our booth - We hope to see you again next year!

Agriculture Workshops: December 8, 2004 & January 12, 2005

VMSW, along with Farm Credit Canada and the Canadian Farm Business Management Council, will be presenting Agri-Success workshops focusing on Human Resources.

Recruiting & Hiring: December 8, 2004 - This workshop will cover all of the major areas around finding and selecting the right employees for a farm/agribusiness operation.

Managing & Maintaining: January 12, 2005 - This workshop will focus on the management of employees, either new or existing, to ensure they are motivated, compensated and treated fairly.

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