

# Cultivating Capital & Financial Fitness



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# 1<sup>st</sup> Things First: Financial Fitness

- Order a free credit report from *www.annualcreditreport.com*
- Look for inaccuracies & problem areas
- Work on raising your score by:
  - Getting a small term loan (auto)
  - Opening & managing 1-2 credit cards
  - Paying all bills on time, automate bill payments
  - Closing store cards

# More Financial Fitness

- Open bank account in business name
- Don't use business account for personal expenses
- If you want to pay yourself, you can either: 1) wait till the end of the year & draw from any net profits you realized, or 2) put yourself on payroll, or 3) take a regular 'owners draw' from gross profits to deposit into your personal account. They all have different tax implications. Ask an accountant what will make most sense for you.

# Financial Statements

- Profit & Loss (Income Statement) should be updated monthly
- Balance Sheet (Shows net worth & biz equity) should be completed 1 x a year, at the same time of year (i.e. 7<sup>th</sup> of each January)
- Cash Flow Budget should be completed 1 x a year right before new year (or fiscal year)
- Ideally, compare your monthly P & L with your budget to see where cost overruns or income shortfalls might lie. Work on problem areas immediately, don't wait.
- Review your monthly bank and credit card statements to look for inaccuracies

# Taxes

- Start filing taxes as soon as you start a business. Schedule F is farm tax form, Schedule C is small business tax form for sole proprietorships
- Don't over exaggerate your business expenses just to get a bigger tax refund. This will come back to bite you if you ever want to get a loan, find investors, or sell the business
- A smart way to reduce year-end tax burden is make investments for future years

# What is Capital?

**Financial** - the financial resources available to invest in a business

**Social** - collective value of all social networks

social networks have VALUE

# Types of Financial Capital

**Fixed/Asset Capital** - \$ for assets that will remain permanently with the business to help it earn income. Ex- land, buildings, greenhouses, processing plant, feed mill

**Working/Operating Capital** - money used for running the business day to day. Ex- seed, fertilizer, fuel, utilities, labor, packaging

# Terms of Financial Capital

**Short term (12 months or less)** – 1 yr.  
operating loans, CSA payments, credit cards, deposits, contracts, off-farm income

**Medium term (1-7 years)** – term loans, leasing, lines of credit

**Long term (7-30 years)** – mortgage, retirement accounts, equity investments



# Conventional Sources of Debt Financing

**Short-term:** credit cards, operating loan, extended repayment terms

**Medium-term:** bank loan, USDA loan, SBA loan, line of credit

**Long-term:** mortgage, refinance, USDA farm purchase loan

# Unconventional Debt Financing

Owner loans (partnerships, LLCs)

IRA loan

Friends & family loans

USDA loans (energy efficiency,  
renewables, crop storage, microloans)

Owner-financing

Loan-based crowdfunders- [prosper.com](http://prosper.com),  
[lendingclub.com](http://lendingclub.com), [kiva.org](http://kiva.org)

Convertible Debt

# Investor/Equity Financing

Only pay back if you make a profit

Agree to give a % of profits (what profit??)

Requires extensive legal filings

Sell stock to individuals or firms

Mostly for fast-growing, high-revenue potential ventures like processed foods, specialized equipment, apps, etc.

Ex. Organic Valley Class E non-voting stock

# Cooperative Financing

Each member-owner makes a financial contribution or a sweat-equity contribution or combo of both

Helps spread risk, more resistant to economic booms & busts, assures more stable supply

Owners receive annual patronage dividends or choose to reinvest back into business

Good way for small-scale producers to 'scale-up' & build necessary infrastructure

# Grant & Cost-Share Programs

Not free \$- costs \$ to apply, manage, report

Very competitive in most cases

Most reimburse for funds already spent- do you have cash flow for this?

Require good record-keeping, bookkeeping, & reporting

Ex. USDA REAP, Value Added, FMPP, CIG, EQIP, CSP, CRP, WRP, SARE, & others



[www.usda.gov/knowyourfarmer](http://www.usda.gov/knowyourfarmer)

# Crowdfunding

Donation-based programs (Kickstarter, Indiegogo, BarnRaiser) or loan-based (Prosper.com, Kiva Zip)

Need to come up with gifts for donors & you pay a % to website (6-10% of total)

Need compelling idea, catchy video, good social media skills, media connections

Timeline is critical to meeting deadline. Start making connections now if you want to do this in future

Projects that benefit more than just one farm/business seems to garner more support

# Buyer/Consumer Financing

CSA pre-purchases

Private Clubs/Membership Programs

Gift Certificates

Deposits

Pre-paid contracts with buyers  
(wholesale/retail)

Customer loans (individuals & retailers)



# Why Social Capital?

Lending a hand

Lending money

Barn Raising!

Insurance Policy

Borrowing & bartering

Make friends and cooperators

Mutual learning & improving practices

Word of mouth marketing, referrals



# Pete's Greens barn fire- Jan. 2011, Craftsbury, Vermont



# Value of Social Capital

“Pete has a huge CSA, and a farmers’ market and self branded wholesale presence in Vermont. I think a lot has to do with the range of people who see themselves as connected to the farm—the size of the community from which the farmer can draw their support. For a dairy shipping milk, it seems that community is limited really to the people who personally know the farmer, whereas a direct-marketing farmer clearly has a much wider pool of people who feel invested in their farm.”

# Building Social Capital

Take stock of your social networks

Consider volunteering

Join boards of directors, steering committees, etc.

Join chamber or other business groups

Do lots of public speaking

Charitable donations

Representing your 'brand' at all times

# Building Social Capital cont...

Build a social media presence

Promote others, even competitors

Share your values, walk your talk

Farm tours, videos, etc. to build connection  
with customers

Local media tour or local chef tour

School visits or bring kids out

Don't be invisible - build a strong brand

# A Few Examples-

## TLC Ranch

- Off farm income
- 0% credit cards
- CSA partnering
- Egg Share program
- 3 private 10K loans
- Farm tours w/BBQ
- Adopt a Hen fundraiser



# Soul Food Farm

- Fire rebuild fundraisers at restaurants
- Volunteer crew to rebuild chicken coops
- \$ raised to buy new birds
- Egg Share program
- Slow Money group loan
- Agritourism- farmstays,  
cooking classes, speaker series





# Misty Brook Farm

- Volunteer crew for sudden move
- 0% credit cards
- CSA prepayments
- Private loans for house
- House equity financing purchase of farmland
- Partnered with land trust

