

## Farm and Ranch Management

# 10 things you need to have in writing

BY LON TONNESON

**T**HERE are 10 things every farmer and rancher should have in writing, says Steve Metzger, North Dakota Farm Business Management Program instructor, Carrington, N.D.

Following are the 10 items and Metzger's comments on each:

**1. Balance sheet.** "A balance sheet is basic to any business, and with ag producers I would recommend a dual balance sheet listing both the market values, as desired by the lender, and the cost values based on the actual investment. The market-value balance sheet is a must for borrowing and establishing the value of the loan collateral. The cost-basis balance sheet reflects the actual dollars of investment and uses a more normal life method of depreciation of assets than might be found on a market-value balance sheet. The return on investment is more factual on a cost-basis balance sheet and reflects the return on the actual investment and

### Key Points

- Successful farm, ranch business managers write things down.
- Financial reports top the list of things to have in writing.
- Business agreements, wills and list of assets should be recorded.

not on an inflated asset dollar amount simply due to inflation. A good dual balance sheet is found in the FINPACK program from the University of Minnesota. We use this in our Farm Business Management Program, and our members understand and appreciate the importance of the dual system."

**2. Cash flow statement.** "A written cash flow statement is a must both in good times and in tougher times, as we are seeing today. This cash flow should be on some type of program that allows the producer to go in and make adjustments to allow for changes in crops, production levels and market prices. The written cash flow statement is critical to

the everyday operations of the farm or ranch. Not having a solid cash flow plan in today's environment would be equivalent to driving with a blindfold on. You need to see what is coming and make the proper changes to get to your destination."

**3. Farm and enterprise analysis.** "A comparative analysis of where my operation is today compared to farms of my size, producers my age, producers with my debt level or producers in my area is key to being competitive when it comes to bidding for the purchase or rental of assets, including land. An accurate enterprise analysis can be a leading indicator of the profitability of various crop and livestock enterprises found on the farm or ranch. Tighter times, such as those today, demand that we understand where the profit is on our farms and ranches so that we can look at the potential to expand that enterprise if it fits within the total context of the operation. Again, FINPACK is an excellent program for completing both the farm and enterprise

analysis from the same data base."

**4. All purchase, sales and rental agreements.** "Although many producers operate with a handshake for a rental or purchase agreement with a longtime friend or neighbor, it is imperative that those agreements be written down, signed and kept in the business files. The sudden death of a producer or a business acquaintance can lead to a different interpretation of a long-standing agreement by those left behind to deal with the estate of the departed. It is important for the surviving spouse and heirs that the business not be placed in jeopardy by a different interpretation of what has gone on in the past. Agreements can be brief, but they should be written, dated and signed."

**5. Goals.** "I believe that every producer has goals, but how many have taken the time to write them down and share them with their family and business partners? A brief list of goals could include financial elements, production levels, business continuation elements and many other items.

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They do not need to be lengthy, but writing them down and reviewing them at least once per year is certainly recommended. Goals should include a timeline. Perhaps the main goal or two can be posted above the office desk as a constant reminder of why we do what we do.”

**6. Business plan.** “This closely follows the goals formation and could simply be a step-by-step description of how we achieve those previously stated goals. The business plan does not have to be a dozen pages long, but simply a listing of how the business will get to the desired goals. This plan should be shared with all the business partners to be sure that everyone is on the same page. It should be reviewed and updated annually.”

**7. List of assets and asset locations.** “This is different than the balance sheet and is meant to cover more of the nonfarm type assets. For example, if there are CDs or other bank accounts held outside the farm, or investments in stocks or bonds, what are they and where are these assets located? Producers should never assume that their descendants will eventually find them all. This list will make the transition at a tough time go much better.”

**8. Will.** “I don’t know that much more can be said about the importance of a written and up-to-date will. We all need to express our thoughts as to what exactly we want to have happen with our assets when our time on this earth ends. Producers should not assume that the kids will get together and just divide it up. Old promises and statements can suddenly come to light, and there can be hard feelings for years to come. A written will can help to deliver the estate to the proper parties in a timely and efficient manner. An attorney or a court of law may not see things the same way the former producer did, and the result can be chaos within an already grieving family.”

**9. Living will.** “This is a tough one for many older producers to talk about, let alone put in writing, because it makes us realize our own mortality and the chance that we may not be able to make the final decisions about our own health questions. This inability leads us back to the distinct possibility that there will be disagreements and even chaos with the family or business partners. Not all family members will see the situation from the same standpoint. Talking about what to do with a parent or business partner upon their death is entirely different than being asked to complete the final actions as requested in a living will. The living will puts the responsibility with the owner and not with the heirs who have so many other things to think about and deal with at that time.”

**10. A business diary.** “There could be a number of things that could be listed

for a 10th item, but I chose to list a business diary as the last item. What I mean by this is simply a written record of what business items the producer talked about doing with his or her partners and how that might relate to their passing. For example, it might state that on a particular date the producer visited with his nephew and told him that he wanted him to be given the first opportunity to buy the homestead or a particular piece of equip-

ment by a certain date or time. It may not be part of the will and may not seem to fit into the business plan, but it is something that the producer wanted to accomplish. This diary can be as simple as a notebook listing those types of conversations and desires. This notebook could be one of the items listed with those other assets in item 7 above. It might be thought of as a catch-all to gather up the various thoughts and ideas of the producer as they related

to their business and personal life.”

Regardless of how these written plans are constructed and put into use, Metzger says to be sure to have a backup file or copy of these items.

“This is particularly easy today if they are being put on computer. Taking photos of these items with your phone and storing those images off-site can be a very easy and useful way of maintaining a backup system.”

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