BARNYARDS & BACKYARDS

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Producers can manage monetary risk with financial analysis tools

By James Sedman and John Hewlett

Today's agricultural producers and agribusinesses must deal with substantial risks on numerous fronts.

Financial risk can come in the form of fluctuating prices, increasing interest rates, unexpected costs, or even losses.

Having a sound risk management plan in place is fundamental to business profitability and survival. Such a plan will allow a producer to determine the major sources of risk through analysis of the data from financial statements and then determine the best course of action. Addressing the risks may include crop insurance, adjusting management practices, or altering enterprises to fit with the risk management plan.

There are several useful financial tools that can help diagnose the financial health of an operation; these tools are often what a lender looks at when determining credit scores. Credit for any business, including ag enterprises, is expected to be tight for the foreseeable future. Creditors will likely require extensive planning and budget documentation before releasing funds.

Cash Flow and Enterprise Budgeting

Enterprise budgets and cash flow projections are the first step in financial statement preparation. Enterprise budgeting involves planning for production of each individual crop or livestock enterprise, while a cash flow statement is a summary of cash inflows and outflows over a given year. Once total operating and fixed costs per acre or per head are established, it is important to calculate a break-even price for a wide range of yield levels. This can help determine what level of risk protection, such as crop insurance, is necessary to ensure a given revenue stream. This information can then be transferred to a whole-farm cash flow projection. Having a complete cash flow budget and break-even calculations for an operation can make the business much more nimble and responsive to changes in costs as well as any opportunities that may arise and provide a feel for risk exposure for the coming production year.

> Financial tools help diagnose financial health of an operation

Income and Net Worth Statements

The next step is putting together separate income and net worth statements. Ideally, these should be done at the end of each operating year to show changes in net worth and profitability.

Income statements summarize gross farm income and all cash and non-cash expenses to provide an estimate of net return for a past (or projected) fiscal year.

Net worth statements compiled each year can help pinpoint the sources of growth or loss in net worth from either increased assets, changes in liabilities, or net return from previous years.

Two financial measures that utilize data from these statements are return on assets (ROA) and return on equity (ROE). The lender will look closely at these when considering extending credit to a borrower.

Repayment Capacity and Risk Capacity

Once this financial information is compiled, a producer can begin to address risk management needs and determine repayment capacity even before meeting with his or her lender. To determine your risk management capacity, answer these three questions:

1. Can the operation afford this risk (for example, can we afford to have the crop unsold at harvest)?
2. If not, what options can we pursue to cover the risk (for example, use crop insurance or forward pricing)?
3. If the operation has debt payments to make, how will our financial decisions affect our ability to repay debt?

Repayment capacity can be determined by using the debt-to-asset ratio, the leverage ratio, and the term debt repayment margin. Calculating these numbers for current operations before visiting a lender about credit needs is extremely beneficial.

For More Information

Producers looking for tools to help construct detailed enterprise budgets, cash flow projections, and other financial statements can find a wide assortment online at the Western Risk Management Library at http://.agecon.uwyo.edu/riskmgt.

Follow the Financial link on the left-hand side of the page and select either the Business Planning or the Software links for interactive spreadsheet tools, or follow the Production link on the home page for articles on enterprise budgeting and other production-related risk management articles.

The library also has a wealth of other information on production topics such as crop insurance, fertilizer management, and record-keeping.

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Habitat practices can help increase sagging insect pollinator numbers

By Sandra Frost and Bonda Habets

Populations of commercially managed honey bees and wild bees are declining, according to the 2006 report "Status of Pollinators in North America" from the National Research Council. Moths, flies, beetles, wasps, hummingbirds, and butterflies are also at risk.

Many of the world's crop species benefit from insect pollination, mostly provided by bees. Up to one-quarter of our diet comes from crops whose production requires pollinating bees. The USDA Natural Resources Conservation Service (NRCS) is encouraging pollinator habitat by promoting seeding plans that include site selection and flowering species favored by pollinators. If the purpose of the seeding is to target local pollinators, then a pollinator habitat plan is developed for the specific pollinator(s).

Pollinator Habitat Plan

A pollinator habitat plan should be at least 0.5 acres (150 x 150 square feet) in size. Species can be planted as a seed mix or separately in sections within the site. The goal is to have grasses provide less than 50 percent of the cover and at least nine flowering species (forbs, legumes, or shrubs) providing the rest of the cover. A requirement is to provide continuous seasonal bloom with one-third blooming in early, mid-, and late season. Management of the site is a consideration as disturbances (haying or mowing) and grazing are delayed until after the flowering period.

Home gardeners and farmers can provide food, water, and shelter for pollinators with thoughtful vegetation choices.

- Plant a variety of flowering plants because bee species have different-length tongues. Bumble bees are generalists and will feed on a variety of flowering plants.
- Leave some dead wood, nesting boxes, or bare earth because bees nest in a variety of sites.
- Provide bird baths or open water for drinking and moist soil for minerals.
- Leave some rocks for pollinators to rest on in the sun.
- Plant fragrant flowers that open in late afternoon or night and are white or pale colored to attract moths.
- Beetles, flies, and birds also pollinate plants. Plants with bright-colored tubular flowers attract hummingbirds.

Pesticide Application Considerations

Pesticide applicators can avoid damaging pollinators by selecting the least harmful formulation of a product for a pest and applying it at rates and timings according to the label. Pesticides can be applied when pollinators are not actively foraging, such as early morning and evenings. Apiary yard sites in Wyoming are mapped by the Wyoming Department of Agriculture (WDA). Applicators should locate hives within 1.5 miles of the application site by asking neighbors or calling the WDA for information (see above). Good communication between pesticide applicators and commercial beekeepers will avoid problems. Contact beekeepers 48 hours before an application and tell them what pesticides will be applied. This will allow beekeepers time to move hives if necessary.

With your help, pollinator populations can rebound and continue their roles in gardening and farming.

Bee Resources

*** Wyoming Apiculture Act of 1983**
Section 11, Chapter 7
Wyoming State Statutes
Booklet available from Wyoming Department of Agriculture
2219 Carey Avenue, Cheyenne, WY 82002-0100
(307) 777-7324
On the Web: http://legisweb.state.wy.us/statutes/dlstatutes.htm and click on the Title 11 Agriculture, Livestock and Other Animals link.

*** Honeybee inspector**
Consumer Protection Specialist
Wyoming Department of Agriculture, Technical Services
(307) 777-6590

*** Wyoming Beekeepers Association**
Contact Larry Krause at (307) 856-4239 for information

**** Selecting plants for pollinators: A regional guide for farmers, land managers, and gardeners in the Intermountain semidesert province*** including Wyoming, Washington, Oregon and Idaho
North American Pollinator Protection Campaign publication
www.pollinator.org/pdfs/Intermt-Semidesrt342.rx2.pdf
www.nappc.org

**** Plants for Pollinators in the Intermountain West***
Natural Resources Conservation Service Wyoming Plant Material Technical Notice No. 17
http://efotg.nrcs.usda.gov/references/public/WY/wypm17_Pollinators.pdf

*** Managing Pollinator Habitat**
www.xerces.org/pollinator-conservation-agriculture/

*** Selecting Adapted Species from your EcoRegion's Plant Guides**
www.pollinator.org/

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