

Holistic Financial Planning: Planning for Financial Success

Key Outcomes

You will learn:

- 9 steps to Financial Success
- The difference between bookkeeping, financial planning, and accounting.
- How to create a Net Worth Statement
- How to create a budget or cash forecast
- Key testing questions for effective Financial Planning
- How to create profit
- How to develop Gross Profit /Enterprise Analysis budgets
- How to prioritize expenses
- How to plan strategically for investments
- How to monitor a financial plan
- If managing livestock, how to coordinate the build up of both livestock and infrastructure while remaining profitable

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www.holisticmanagement.org; hmi@holisticmanagement.org

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Introduction

Farming and ranching are challenging businesses to run in the best of times. With challenging economic times it can be even tougher. Good financial planning and management are essential for business success. This manual focuses on a holistic approach to financial planning using all the standard financial planning tools to help you plan for success. But, it offers more than just those tools. It will help you make those financial decisions and plans in the context of your values, taking into account all the reasons that you are involved in farming and ranching. We have found that having a value-based goal to direct decisions and plans is not only a powerful tool to clarify direction and create common ground for the whole management team, but also is a very important motivator to help the management team actually implement the plans and decisions and persist in challenging times.

If you have not learned about how to create a holistic goal (a whole farm/ranch goal) or the decision making questions that are used to analyze your business decisions, we suggest that you either read the *Introduction to Holistic Management Manual* or read carefully the Business Management Basics on the next page to learn about this management goal so you can more fully utilize the information about holistic financial planning in this manual. Be sure to complete the exercises before continuing on with this manual.

Just as work expands to fill the time available, so too expenses often rise to the level of anticipated income with little thought for which actions are actually moving you in the direction you want to go. It becomes extremely important to have a process that helps you resist the temptation to spend what you anticipate earning, and to prioritize actions and expenses so your spending is aligned with your short and long-term goals. Holistic Management® Financial Planning does just that—helping you move toward the outcomes you want.

In this way, Holistic Management helps you achieve a healthy triple bottom line (thriving financial, environmental, and social resources). By integrating this simple-to-use financial planning process into your current accounting or budgeting systems as well as your production planning and holistic goal, you will not only be able to increase your profit, but also improve your quality of life and your land's health and productivity.

It can be challenging to overcome old habits or attitudes that make you resist financial planning (“I don’t know how,” “This is not a good time to start learning,” “I hate math,” “I have all my financials in my head”), but if you want to make steady progress toward creating the business and life you want on your farm or ranch, a written financial plan is essential. This manual will help you create your plan and implement it. Many farmers and ranchers have used this process and found a way to create financial security in their lives.



United States Department of Agriculture
National Institute of Food and Agriculture

Introduction

Prior to focusing on financial planning, three critical areas of business management must be addressed. If you are a new business, you will need to complete these tasks before you can begin your financial planning. If you have already completed these tasks you can proceed with your annual review as outlined on page 14.

The four components of business management basics are:

- 1) Identify your management team
- 2) Create management inventory
- 3) Create the mission and direction of your business through a management goal (a holistic goal)
- 4) Make decisions in line with your Holistic Goal

Once you have accomplished these steps you can begin the annual review process.

1. Identify Management Team

When identifying your management team you focus on who is making management decisions at the various levels of managements. Those people are the ones that should help create a holistic goal and who must have ownership in it.

2. Identify Resources

Your management inventory includes:

- Clients and vendors (human resources)
- Tangible assets like buildings, equipment, and livestock, and money.
- Intangible assets like skills and knowledge

Management Inventory

Exercise: Using the Management Inventory Worksheet on page 41, complete a Management Inventory. You will use this inventory later when you are developing your holistic goal and assessing your net worth.

Knowing what your resources are then allows you to better manage it. This step can make you further aware of the influences impacting the inventory that you manage and how you affect them.

3. Create a Holistic Goal

People begin and run businesses for many different reasons. It is important to know what the key reasons you and your management team want to be in business so you can more effectively work together and produce the outcomes you want. When people create a holistic goal they answer a series of questions that helps them determine their values as well as identify key behavior or system needs to sustain their business. Lastly, they develop a vision for the future that will drive long term decisions. With a holistic goal, you are looking at social, economic, and environmental needs and outcomes that will sustain your business. In this way you are able to make decisions consistently that move you toward a healthy triple bottom line.

Introduction

To create your holistic goal, ask your management team to describe:

- The quality of life desired (Quality of Life)
- What to create or produce to live that life (Behaviors, Systems, & Processes)
- What must exist to sustain that life in the future (Vision)

These three different components of a holistic goal help the team define the quality of life they want right now which motivates them to manage toward the common ground articulated. It also helps them identify the behaviors, systems, and processes they must put in place to get there. Lastly, it helps them articulate their vision for the future with the legacy they want to leave in

regards to their relationships with their communities and the land by describing:

- How they have to behave
- The future landscape they want to create with the land they manage
- The future community that will support the business and be influenced by it

In this way the holistic goal provides guidance for both short and long-term decision-making by ensuring all decisions in your enterprises are consistently supporting the direction you want to go. It may also lead to a mission statement for your business that will create further clarity of direction for the business as well as the marketing plan for that business.

4. Make Decisions Toward Your Holistic Goal

Many people start a small business because they enjoy the production aspects (they like to farm or ranch). But to run a successful business, you also need to have at least one person on your management team that is interested in and good at making management and financial decisions and has a grasp of some basic accounting principles. Ideally, you want everyone on the management team to be good at making those kinds of decisions. These are the kinds of decisions that are very important to the growth and sustainability of the business. For example, if you have someone who is very good at fixing fence but no one who has considered if that fence should even be there, let alone needs to be fixed, then you can waste a lot of human and financial resources.

The Holistic Management ®Testing Questions were developed to help people make more effective decisions by simply running each decision through the testing questions while keeping the business' holistic goal in mind. To read an overview of the Testing Questions and learn more how to test your financial decisions toward your holistic goal, go to page 44. There is a Decision Testing Matrix on page 39 that you can duplicate and where you can formally test and record your decisions.

Holistic Goal

Exercise: Using the Holistic Goal Worksheet on page 43, create a Holistic Goal with your management team. If you are unable to involve the rest of the management team, complete the worksheet on your own while considering what the other people on your management team might like to have included if they were involved. There is a sample holistic goal on page 42.

9 Steps to Financial Success

Let's start with a quick overview of the **9 Steps to Financial Success** that we focus on in holistic financial planning. You may not be familiar with some of the financial terms used in this manual. There is Financial Glossary on page 36. Refer to it if a financial term is not familiar to you.

There are many levels of financial planning. The producers we have worked with have found these 9 Steps to Financial Success extremely helpful in creating a sound financial plan to more effectively manage their farm or ranch and use that financial information to get operating loans or lines of credit. Here's a brief overview of the 9 Steps. We will get into more detail later in the manual.

As you can see from the diagram, on page 7 **Step One** is the "Annual Review." This step focuses on assessing your current situation in the context of your value-based goal and identifying key management issues that will need financial or time allocations in your financial plan. This step helps you step back and take the 10,000 –foot view of your operation and assess the health and flow of the business and production methods.

Step Two is "Assess Starting Net Worth" so you have a financial baseline from which to create your annual financial plan.

Step Three is "Plan Income." This is where you will select the enterprises that will create income for your farm and look at how profitable they are.

Step Four is "Plan Profit." This step asks you to plan your profit before you begin planning your expenses. It helps business managers put a cap on expenses so you can use that profit to invest back into your business.

Step Five is "Enterprise Investment Analysis." In this step, you analyze each of your enterprises to determine which aspect of that enterprise is limiting your ability to create more income. You then determine how to strengthen that "weak link" and allocate resources in your financial plan.

Step Six is "Prioritize Expenses." In this step you use the analysis you did in Step Five to begin to sort your expenses into 3 basic categories: 1) Top Priority Investments in the business, 2) Liabilities (money already committed to previous investments or legal obligations like taxes), and 3) Maintenance (any other expense that doesn't fall into the first 2 categories).

Step Seven is "Create Cash Forecast." This is where you put all your number crunching on a spreadsheet and see if you have enough cash to flow through the year (positive) or if you need to go back to the drawing board because you have too many expenses and not enough income.

9 Steps to Financial Success

Step Eight is “Assess Ending Net Worth.” Here you look at how your cash forecast (annual plan) has affected your net worth. Ideally, your ending net worth will be better than your starting net worth.

Step Nine is “Monitor for Results.” Once you’ve created a plan, you also need to then implement it, monitor it, and adapt to changing circumstances.

We’ll work through the basics of each step and then we’ll dive into some of the detail to help you create your financial plan.

9 Steps to Financial Success



Holistic Financial Planning

- Make financial decisions toward your **holistic goal**
- Facilitate important conversations
- Analyze your enterprises
- Assess potential new enterprises
- Plan for profit upfront (not just production)
- Define income streams
- Calculate a **cap** for all expenditures
- Prioritize expenses to reinvest in your operation
- Monitor your plan proactively

Financial Basics

Aligning Financial Planning with Your Values

Now that you have an overview of the 9 Steps to Financial Success, let's look at how this financial planning fits in with the rest of the business decisions you make. As you learned earlier, the holistic goal is a compass that helps guide all your decisions or plans. It provides a framework for your management team to make effective decisions that are in line with your reasons for being in business. It is the foundation to a productivity pyramid.

This Productivity Pyramid demonstrates how your holistic goal is the foundation that will drive your strategy and policy whether you have a full strategic plan or just some strategic objectives for which you are striving. In time, those strategic objectives or plan will then influence your projected financial plan, your yearly financial and production plan, and your monthly, weekly, and financial and production decisions.

Having an annual financial plan (cash forecast) is a good way to be clear about your annual objectives (your time management and production objectives) as well as longer-term, strategic projects (guiding investment in your operation) you might not accomplish in a year and for which you need even more planning. If you have the big picture clearly mapped out, you are better able to begin breaking into chunks the work you need to accomplish in a given month, week, or day as well as respond more effectively to new opportunities or decisions that come up unexpectedly.

Why are you in the business you are in? What do you value about this work?

Productivity Pyramid



Financial Basics

Financial Planning, Management, & Accounting

Financial management is integral to any business and involves planning on a daily, monthly, or yearly basis—e.g., business planning, annual budgeting, tax planning, estate planning, investment planning, retirement planning—as well as routine tasks such as recordkeeping, bookkeeping, payroll, etc. Each activity is important and is part of the planning necessary to be successful.

Holistic Financial Planning provides an avenue for bringing all this planning and information together in the context of your holistic goal. It gives you a big picture view of your financial activity, enabling you to assess how well you are meeting your strategic objectives, financial and otherwise. It can be used as a yearly cash forecast tool as well as a strategic projection tool for long-term goals. The key to success is to make sure that you have people responsible (either on your management team or contractors) for each of these financial systems.

Financial planning focuses on projection, investment priorities, analyzing, and creating a cash forecast tool that will create the financial outcome that you want.

Financial management focuses on the systems you need to keep track of the money so you can implement your plan successfully and have good numbers to use for your planning and your accounting. Financial management can include bookkeeping, deposits, invoicing, reconciling accounts, and monitoring your plan. If you do not have sales logs and expense logs, there are blank forms for you to use in the Appendix.

Financial accounting is creating reports (accounts) of your financial activities so you can manage your finances and more effectively plan going forward. Those reports are also used to share your financial activities with entities that need that information for taxes or loans.

Recordkeeping Worksheet

Exercise: Using the Recordkeeping Worksheet, on page 49 list your current financial management systems and who is responsible for each task and when it is accomplished. If you don't have a financial management system, use the worksheet to develop your recordkeeping system and the timeline you intend to develop these components of your financial management system

Planning	Management	Accounting
Analysis	Checks/Invoices	Reports
Projections	Bookkeeping	Net Worth Statement
Prioritizing	Deposits	Tax Form
Investing	Monitor	Investors
Cash Forecast	Adjust Plan	Decisions Makers

Financial Basics

Profit vs. Production

What is Profit?

Conventional planning often has you plan production and associated revenue, plan expenses, and then check to see if there is any profit left over. Holistic Financial Planning plans for profit *first* then tests the means of production for social, financial, and environmental soundness. This simple paradigm shift from production to a profitable triple bottom line helps move people from a “status quo” or “production-focused” mode to an “investment” or “strategic” mode that will move them toward their holistic goal.

There is a big difference when you are planning your cash forecast if you set a goal of 10% or 20% or 30% profit from the income you have earned *before* you begin penciling in the details of expenses. Likewise, if you have determined certain investments you want to make or a certain salary from your work and pull that amount out of your gross income first before you look at your other expenses. By setting that profit goal you challenge yourself to make your plan cash flow by reducing expenses or changing enterprises that are more profitable than what you have currently been doing. You may not achieve your initial challenge, but you will be further along in analyzing how you can free up more money to invest in your business than if you had just accepted that all your expenses as necessary and accepted whatever profit was left over.

Such a financial planning tool would change financial focus from:

**Profit is not the same as
production.**

Income – Expenses = Profit

To:

Income – Profit = Expenses

As a financial planning strategy we have found it helpful for people to focus on profit first. This change in formula results in a change of paradigm in which the farmer or rancher is now looking at their agricultural activities as a means to a profitable business, not just a means of producing a certain crop or commodity. This helps the agricultural producer be a price maker, not a price taker. Many people who have taken to heart this change in formula have decided to change enterprises or market their products differently in order to create the profit they wanted, such as the producer that decides to seek buyers for his cattle rather than going to the sale barn. Likewise, they looked at all their expenses and realized they could get rid of equipment or change production methods to reduce expenses and create more profit. This kind of thinking can sometimes yield hundreds of thousands of dollars worth of profit that can then be invested in critical areas of the business or be used to reduce debt. Please keep in mind this focus is separate from the traditional formula from an income statement.

You will learn more about how to do this when we cover Step 4.

**“The farmer is the only man in our economy
who buys everything at retail, sells
everything at wholesale, and pays the
freight both ways.”
—John F. Kennedy**

Preliminary Steps

Planning Forms

Holistic Management International has developed paper forms and collaborated on a simple Excel-based spreadsheet on which to work out the details of your financial plan. You should get familiar with them before beginning the financial planning process. The paper planning forms and electronic spreadsheets include:

1) Worksheets

These are the standard worksheets used to record the detail of every income and expense item or category.

2) Livestock Production Worksheet

This is really a specialized worksheet for detailing livestock breeding operations—tracking movements of animals from one class to the next (e.g., calves to weanlings), livestock sales and purchases and more.


3) The Annual Income and Expense Plan

This multi-columned spreadsheet summarizes the figures contained on all the worksheets, resulting in a master plan that relates time, income, expenses, cash, and credit.

4) Control Sheets

These forms are used in monthly monitoring to report items that run counter to plan and to record decisions on corrective actions and who is responsible for implementing them.

You'll find samples of these in the appendix. All full-sized forms or spreadsheets can be ordered from or downloaded from Holistic Management International. You will need to use either the spreadsheets or paper forms to complete some of the 9 Steps to Financial Success.

		WORKSHEET												Planning Sheet Column Reference _____		Worksheet No. _____	
Date _____		Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec				

Preliminary Steps

Identify the Financial Planning Team

It is best if you can create your financial plan with other members of your management team. Select a team that is as inclusive as possible without being unwieldy. There are several reasons for this strategy:

- People who become involved with projects at the beginning will care about them and see them through to the end.
- If people are going to be held responsible for generating income or holding down expenses, they should be allowed to come up with the figures that are directly under their control.
- When hard choices must be made, morale will survive much better if everybody understands why and has a chance to work on solutions.
- It takes a lot of work to prepare for good decisions. Information gathering, inventories, gross profit analysis, time sequences, etc. A team gets through that work faster and better than any individual.

As part of the identifying the financial planning team, you are also going to be clear about who is in charge of the financial management and accounting process that needs to take place throughout the year as you implement the plan and monitor it. Make sure you are clear about who is responsible for what and the timeline for when financial action steps are due.

Financial planning is not an accountant's job but that of the management team. If people are going to be held responsible for generating income or holding down expenses, they should be allowed to come up with the figures under their control.



The Financial Team

Exercise: Spend a few minutes and list who should be involved in creating your financial plan. Look back to the whole you've defined, especially to the decision makers and the people in your resource base as a starting point to consider who should be part of your financial planning team. Determine who should fill out which worksheets that you will need for income, expenses, etc.

Preliminary Steps

Create the Financial Planning Schedule

Try to schedule your annual financial planning to ensure you have a complete written plan one month prior to the end of your current fiscal year. Once you are familiar with the various steps of the planning, you will begin to get a feel for how much time each step can take. When you are first starting, it's better to err on the side of giving yourself too much time. The key is to take the time, preferably away from home and any distractions (work, children, animals, etc.). The time between each session will also depend on how much needed information you already have from your financial records or strategic planning. Depending on the complexity of the financial plan and your business, the entire process can take a few hours here and there getting estimates, plus a weekend creating the final plan, to a couple of months gathering figures, checking feasibility of some ideas, and several scheduled meetings to allow for reporting and adjustments.

Now that you have your planning team and schedule figured out, it's time to go through each of the 9 steps in the financial planning process.



Financial Planning Schedule

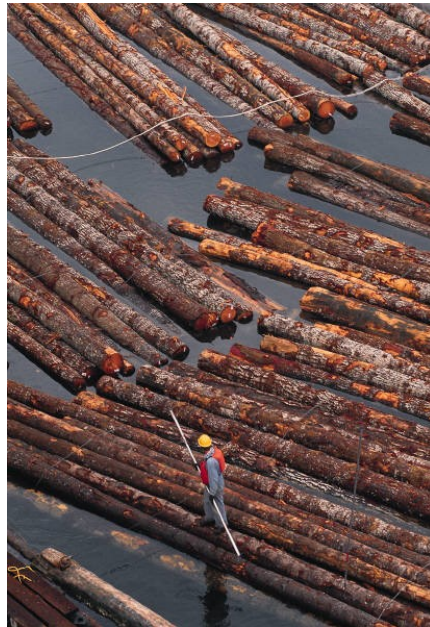
Exercise: Working with your financial team, create a schedule to develop your financial plan for the current fiscal year if it is still early in that year, or for the upcoming year if you are almost done with this year. Put the dates on the calendar and give people assignments to complete by those dates to get the necessary numbers to complete the analysis and planning.

Step 1. Annual Review

Is There a Logjam?

The annual review helps you step back from your business and address some of the big picture issues before you get into the details and numbers of the business. You will consider any major issues your business has faced in the previous year or ones that it may be facing as you move forward particularly if this is the first year you are in business.

The first step in the annual review is to answer the questions “Is there a logjam?” and “If so, how will you address it?” Movement toward your holistic goal should be steady and continuous. If you find that nothing has really changed and progress is minimal and frustration is high, then a logjam exists in your operation and you must think about time or financial allocations to fix it. Review the whole business, looking at it from all angles. Most of the time the problem lies within management, and in the early days the logjam is often created by a failure to change the way decisions are made.



Once a logjam is found, you need to decide what to do about it. For example, one family realized that their logjam was a high real estate contract (debt) that was keeping them from getting ahead. They put all their effort into the various action steps that needed to happen to change the contract into a mortgage that would reduce their payments from \$1200/month down to \$700/month. Over the 15 years that remained on that real estate contract, that family had \$90,000 they could invest in their business to create more net worth. Had they not stepped through the logjam test, they may never have been able to identify what was holding them back and take the necessary (and difficult steps) to change the situation.

Logjam Exercise

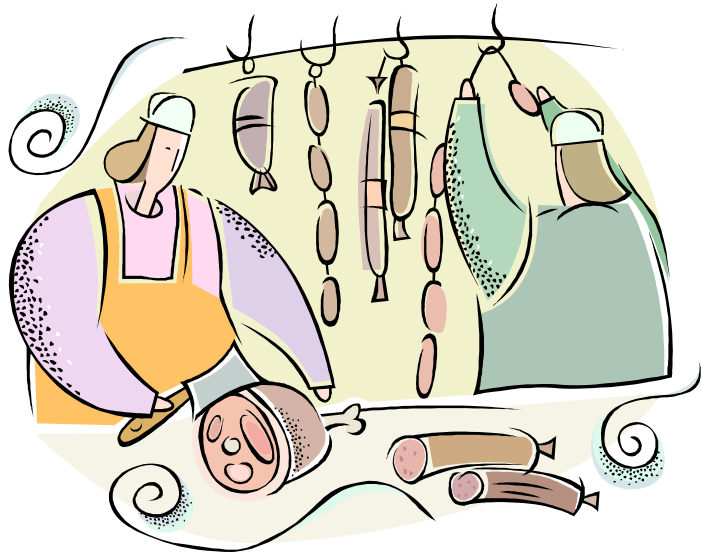
Exercise: On a sheet of paper, note all factors that you think are causing a significant blockage in progress toward your holistic goal. Explore each problem using the “Five Whys.” (Ask why each time you think you have uncovered the cause of a problem). Do this five times. This leads you to discovering the root cause of the problem. See if there are any patterns in the various problems. If you do determine you have a logjam, what would it take to address it? How much time and money? You will use this information in the next exercise.

If overcoming a logjam will involve spending money, it is the most important thing to spend money on and is a top priority expense.

Step 1. Annual Review

Other Adverse Factors

As part of the first step you also need to ask the question “Are other factors adversely affecting the business as a whole?” This question is similar to the first in that it is asking you to think broadly about your business. In this case, you’re mainly looking for things that reduce overall efficiency and productivity. They are less urgent than something that is blocking progress altogether, but still important. If not addressed, they could potentially become a logjam at some point. Review your holistic goal to see where you might be falling down. Any one aspect that is continually neglected will have an adverse effect on the operation at some point.



Common factors adversely affecting agriculture businesses include:

- No time or funds allocated for vacations or to visit family
- Lack of management transparency (conflict within relationships)
- Lack of good recordkeeping
- Lack of computer skills
- The family is not moving closer together
- Lack of communications infrastructure (e.g., clear telephone lines, internal access, etc.)
- Work environment too toxic (chemicals) or dangerous (heavy machinery) to involve the children
- Lack of processing facilities for value-added products
- Lack of expertise and “connections” for marketing value-added products

Likewise, if there are any other factors adversely affecting the business as a whole, now is a good time to know it and to give thought to possible remedies, which may or may not involve additional expenses.

Adverse Factors

Exercise: Now that you have identified any logjam or adverse factor and potential solutions, make a copy of the blank Investment Worksheet on page 53 and title it: “Investments.” If you have a logjam, note what it is, your solutions, and the associated costs. Next list your other issues, solutions, and costs for your adverse factors. You will work these figures into your cash forecast spreadsheet later. To see an example of an “Investment Worksheet” go to page 52.

Step 2. Assess Starting Net Worth

Financial planning is more than making sure each year has a positive cash forecast. To sustain a business you need to build reserves that will be a buffer in poor markets, unexpected expenses or hard financial times. By tracking how your net worth grows over time, you have ongoing information of your financial health.

Net worth is very simple. List your assets minus your liabilities. An increase in net worth can be held as increased assets or decreased liabilities.

In essence, assets are items of economic value owed by a business. These may include categories such as cash, land, equipment, animals, inventory, etc. Liabilities are what you owe. The difference between the two is your net worth.

Creating a simple Net Worth Statement provides you with your net worth at the beginning of the year. You can compare this number to your planned ending net worth and see if you are making progress toward your holistic goal and your financial and production goals. You may find out that you will need to seek outside financing to achieve those goals. To see a sample of simple Net Worth Statement go to page 54.

As a part of your annual planning process, it is very important to assess the value of all of your assets to keep them as current as possible. For the purposes of financial planning, this will mean accurately evaluating their current fair market value (this is especially important when seeking outside financing for your business). Be careful to avoid guessing or reliance on a non-expert opinion (such as your neighbor or ranch manager, even if they might have a reasonably good idea). Utilize resources such as NADA and Kelley blue book values for vehicles, dealership or other appraisals for other equipment or the most recent auction or per-unit market price estimates for livestock or other tangible goods. Overvaluing assets can lead to false expectations.

It's important to keep in mind that the values of your assets on your Statement of Net Worth could very well vary greatly from your financial statements generated from your accounting software. This is because Generally Accepted Accounting Principles (GAAP) that your bookkeeper or accountant may use have rules about how some assets are depreciated or how basis is calculated. Your accountant can explain how GAAP requirements might affect the value of your assets between your Statement of Net Worth and other financial statements.

Assess Starting Net Worth

Exercise: Find the blank Net Worth Statement on page 55. Make a copy of it. Put the date on the top for the beginning of your fiscal year. Under assets, put any cash, investments, or property or inventory you own. Be conservative in your assessment of fair market value if you don't have actual appraisals of those assets. Total all your assets. Next, fill out the liabilities section with any debt you owe or loans you have. Total all your liabilities. Subtract your liabilities total from your asset total. That is your beginning net worth.

Step 3. Plan Income

Are Current Enterprises “Profitable”? Using Gross Profit Analysis

The next step is to plan your income. The easiest place to start is to do a Gross Profit Analysis on your current enterprises and for any you are considering. Gross Profit Analysis is both a simple enterprise analysis tool and one of 7 testing filters used to help people make financial decisions that are in line with their values.

If this is your first year for a particular enterprise, then you will need to do some research to get the appropriate numbers. You can check the

Gross Profit Analysis

Why: You want to see which enterprises, after the direct costs and risks associated with the enterprise have been factored in, produce the most income for the least additional cost and risk. In this way you assess what each enterprise contributes to covering the overhead costs of the business and the degree of risk involved in assuring that contribution.

When to do a Gross Profit Analysis

- In the preliminary planning when comparing new and/or existing enterprises to select the ones that will provide the best return.
- *Assessing a brainstormed list of possible new enterprises:* Any time an additional new enterprise is being considered, to narrow down the list, do a quick review and very rough estimates to identify the desired return on investment based on your strategic objectives (i.e. When do you expect the investment to pay itself back and what percentage of return are you expecting after that?). Then do a full analysis, using real estimates, to identify the one or two that come out best.
- *Determining final enterprises:* Do a final analysis of all enterprises, including any new ones, to determine which you will undertake this year. Consider:
 - 1) How will different conditions, such as price changes, affect the gross profit of each enterprise?
 - 2) How will diverting assets from one enterprise to another affect the gross profit of each one?
 - 3) How will diverting investment from several enterprises into the expansion of one favored enterprise affect the gross profits of all?
 - 4) When looking at best, average, and worse-case scenarios remember the least controllable factor = RISK. The more conservative your estimates, the less risk. This will result in potentially less profit. You must decide the balance between these 2 factors based on your value-based goal (holistic goal).
 - 5) When comparing gross profits, define what unit of measurement you are using to compare - /hectare or acre; /\$; /hr. of labor.
- After financial planning to recheck feasibility.
- At year's end to check actual performance.

Step 3. Plan Income

information you get from one source against another (i.e. what you learn from your neighbor or Extension or from the Internet).

If the gross profit for any current enterprise is not proving to be as good as planned, determine why and make appropriate adjustments in the new plan or drop it in favor of a higher-yielding enterprise. On the other hand, if income was higher and expenses right on target, is this likely to happen again in the coming year?

Ideally, you not only want to maximize gross profit but also **to spread risk** by not relying on one high-yielding enterprise to cover all your overhead costs. It would be very unwise to commit all your resources—land, management time, and money—to one enterprise because its gross profit was exceptional this year. You would have to decide how much of these resources you *would* commit and how much should be put into other enterprises to help spread the risk.

- Do a gross profit analysis per 100 livestock unit, acres, or whatever units are appropriate. Consider looking at what each enterprise contributes per dollar or per acre (or hectare) so you can better determine which enterprise to allocate more funds to in the coming year if you know you are limited by money or acreage (hectares).
- Be prepared to drop any enterprise that is not providing a positive gross profit unless you have a special reason for running an enterprise that costs more than it brings in.

It is the gross profits of all enterprises combined that must cover all the overhead costs of the business *and* provide the excess that becomes your profit. With the gross profit analysis done, you have a good idea of which are your most “profitable” enterprises—the ones that contributed most to covering your overhead costs. And with all enterprises consolidated on the worksheet, you can see how profitable you are likely to be in the coming year. If there is insufficient income to cover your overhead costs (which you may have some knowledge from past experience), you need to revisit all enterprises and modify them or seek more lucrative ones.

The key to survival in business is **flexibility**—being able to change enterprises and not feel locked into doing things the way you always have. The issues of debt, overhead costs, risk, and scale are all critical to consider when investing in various enterprises. Whether you are looking at two different enterprises or two different ways of doing the same enterprise, it is important to determine where your breakeven point occurs, and how much risk you are willing to take in both the short and long term. Can you keep overhead costs at present levels as you increase direct costs, and still achieve acceptable income levels? At what point will you lose the benefits of economies of scale in terms of the overhead costs and debt you will have to take on? Doing a gross profit analysis gives you the information to make those decisions.

When comparing scenarios in a gross profit analysis, you will usually consider poor, average, and good results and then determine what risk you are willing to take. It’s probably wise to avoid enterprises that only pay well in “good” years. If the return is good in even a poor year, then you would probably consider that enterprise as one to keep. But the gross profit analysis doesn’t take into account your overhead costs and they do have to be paid. That is why the profit

Step 3. Plan Income

from the enterprises as determined by the Gross Profit Analysis needs to be sufficient to cover those overhead costs. If you add a new enterprise that pushes up your overhead costs, then you will lose some flexibility, and that increases risk.

Example of Planned Income

Planned Income													
Date	January	February	March	April	May	June	July	August	September	October	November	December	Total
CSA	\$ 10,000	\$ 10,000	\$ 10,000	\$ 4,100									\$ 34,100
Actual	\$ 8,000	\$ 9,000											\$ 17,000
Eggs								\$ 350	\$ 350	\$ 350	\$ 175	\$ 175	\$ 1,400
Actual													\$ -
Bees										\$ 500	\$ 500	\$ 500	\$ 1,500
Actual													\$ -
Salsa								\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 6,000
Actual													\$ -
George's Off Farm Income	\$ 10,000												\$ 10,000
Actual	\$ 10,000												\$ 10,000
Plan													\$ -
Actual													\$ -
Total Plan	\$ 20,000	\$ 10,000	\$ 10,000	\$ 4,100	\$ -	\$ -	\$ -	\$ 1,550	\$ 1,550	\$ 2,050	\$ 1,875	\$ 1,875	\$ 53,000
Total Actual	\$ 18,000	\$ 9,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,000

Gross Profit Analysis

Exercise: Create a worksheet for each enterprise by copying the worksheet on page 59 Label it, "Gross Profit Analysis (Enterprise Name)" at the top. Write down the information you are using to determine income (i.e. \$/lb.). Do the same for all direct expenses as they relate to that enterprise (i.e. labor, fertilizer, feed, etc.). If you are making changes to an existing enterprise, note any modifications you plan to make in the coming year as a result of the gross profit analysis. List any new enterprises you might be adding, either as a result of your market research or of an earlier brainstorming session, and write in the gross profit figures you used in considering these enterprises. For an example of a gross profit analysis, go to page 58.

Step 3. Plan Income

Optional Step Brainstorm New Sources of Income

If you have a number of income generating enterprises that are already highly profitable, skip this step as you don't want to add too many enterprises and weaken your management focus. The same holds if you're still in the process of developing enterprises you brainstormed in the last year or two. Generally you only need to brainstorm new sources of income about every three years. If this is your first time to plan and you think you could be generating more income with an additional enterprise or two, then it is time to brainstorm new sources of income and sift the options later.

Brainstorming Tips

- 1) Make sure the objective of the brainstorming is clear and understood by everyone.
- 2) You'll produce more ideas if you work in teams rather than as one large group. Keep teams to 5 to 8 people for best results.
- 3) The actual brainstorming time MUST have a limit (no more than 10 minutes).
- 4) Write everything down (preferably on a flip chart so everyone can see it).
- 5) Build on the ideas of others (often referred to as "piggybacking").
- 6) Allow cheating (e.g., using an idea overheard from another team in the room can start a fresh run of ideas at your own table).
- 7) Produce ideas as quickly as possible (don't rehearse them internally).
- 8) Quantity matters, not quality.
- 9) Make sure everyone is contributing (the playful warm-up should help).
- 10) Above all, suspend your judgment. Anything goes in brainstorming. No idea is too ridiculous!
- 11) If silence develops don't start talking or ideas will stop flowing.

Step 3. Plan Income

Brainstorming

Financial planning requires creativity as you seek ways to increase income, cut costs, streamline calving, lay pipe, or whatever. But it's easy to lose your creativity when grinding away at the numbers. Research shows that the most original and fruitful thinking occurs during moments of humor and playful competition. The concept of brainstorming grew from that insight. Use it and you will come up with more ideas you can use for new sources of income, better ways to do what you're already doing, or creative ways to cut expenses that you wouldn't have discovered otherwise.

It's important not to limit your brainstorming sessions to the people you work with daily. Include children, outsiders from various walks of life, and people who really don't understand your business. They can all add a creative element to this session.



Warm Up First

It's critical to the brainstorming process that you warm up first with a timed competition (about 3 minutes) for the longest list of ways to solve a lighthearted problem such as, "What uses could you find for . . . a hat?" Any idea will do, no matter how crazy. No judgment will be made. Only the number counts. Pour out ideas and don't stop to talk or discuss them. When the three minutes is up, announce the winner—the person or team who came up with the most ideas—and give a humorous prize. Now put the serious challenge on the table and let the groups compete in the same way (for 10 minutes). It is amazing the number of useful ideas that emerge from this type of thinking that have created thousands of dollars of profit once implemented.

Brainstorming

Exercise: Write down a brief explanation of the situation (enterprises that generate income, expenses that need to be reduced), then state your objective: to increase the income in a current enterprise, to consider new income-generating enterprises, to reduce fuel costs, to reduce overhead costs, or whatever category you choose. With a group of at least three people, use the brainstorming process to generate at least 30 ideas. There is an example on page 60.

Afterwards

From the final list, or lists, pick out the ideas that have potential. Don't be too quick to judge and dismiss ideas out of hand. Some ideas may seem ridiculous but may have real merit. Others may spark still other ideas. One person might spot a way to modify a certain idea that makes it all the more valuable. Feel free to add these new ideas or modifications to your list. You will use the testing questions later to help you with choosing the most appropriate enterprises.

Step 3. Plan Income

Selecting Appropriate Enterprises

Before adding new enterprises, or eliminating old ones, bear in mind the following:

- Managerial effectiveness is diluted by the number of enterprises one manager is responsible for.
- There is a direct relationship between management effectiveness and the distance to what is being managed.
- It is often easier to alter an existing product or develop new uses for it, than to create something entirely new.
- Possibilities may exist to collaborate or partner with other related businesses or organizations that produce complementary products or services.

Selecting Enterprises

Exercise: On a piece of paper, write down each of your enterprises. Examine the list in light of the four points above. Rate your ability to manage each one on a scale from 1-10, where 1 = extremely ineffective management to 10 = highly effective management. Note why you gave it that score to the right of each number.

Gross Profit Analysis Considerations

1. You still have to total the income from all the enterprises to make sure total overhead costs are covered.
2. Remember Gross Profit Analysis is only one of the Holistic Management seven testing questions to consider when determining enterprises. Use the testing questions on page 44 to help you test any enterprises you are considering to determine if they are moving you toward your holistic goal.
3. A diversity of enterprises provides the most stability in ever-changing markets, just as biodiversity does in nature.
4. A Gross Profit Analysis doesn't account for time. Use a standard financial planning worksheet to lay out various combinations of enterprises that make the best use of labor and equipment.
5. You should still look at how each enterprise is utilizing overhead costs (like equipment, land, facilities, etc.) and compare the gross profits of those enterprises in the context of those overhead costs for a more accurate reflection of their profitability. You may also decide that some of those overhead costs aren't justified given the new enterprises you have selected and you will get rid of that expense.

Step 4. Plan Profit

Profit planned before expenses is critical to place a ceiling on how high expenses can rise. Challenge yourself. If you are servicing a large debt, subtract the debt payment first and then set aside a challenging percentage of profit from what remains. In the example below, the scenario on the left is a 30% profit margin. On the right, due to debt payments, the profit margin is 20%. Choosing a profit percentage is just one to plan your profit

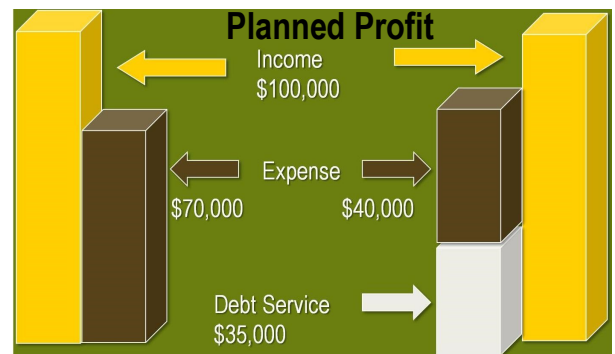
Planned profit can be used to pay yourself, invest in the business, build reserves, or invest in quality of life. You may choose to determine the specific dollar amount for each of those items up front and use that as your planned profit total. You will test those decisions as you begin to look at the cash forecast situation and how your investing of planned profit affects your ending net worth for the year. You may have to adjust your initial profit as you build out your cash forecast spreadsheet later, but as you consider what you could invest in if you had more profit, you begin to think more creatively on how you can increase profit through improved enterprises or reduced expenses or both.

Planning Profit & Debt Servicing

If you have debt and still want to plan profit, you can plan your profit as in the example below. Calculate your planned income, subtract your debt service from that amount and select a challenging percentage of the remaining amount to put away for profit. You will need to keep your expenses within the remaining amount.

How to Create Profit

- 1) Calculate your total gross income then consider a percentage that will challenge you to set aside for profit you can use to invest in the business.
- 2) Spread the difference between income and costs to push profit up by looking at your business carefully and seeing how you can increase income through careful planning and reduce expenses that are unnecessary
- 3) Keep your holistic goal in mind at all times and test all the actions and tools you plan to use in running any enterprise.
- 4) Work to a predetermined plan and schedule, and stay committed with others on the management team to making it happen even if it doesn't seem easy. Motivation and clarity of what you want to achieve are critical.



Planned Profit

Exercise: Using your Planned Income Worksheet from page 57, next to your total income note the percentage of that you want as profit. Note what that dollar amount is. Circle that number and write “Profit” next to it. You will need to compare that amount with amounts that you have begun to build out in your “Investments Worksheet.”

Step 5. Enterprise Investment Analysis

In this step you are determining what is “the weak link” in each of your selected enterprises and how you will address it. The Financial Weak Link Test is another of the 7 testing filters and is used specifically in this step to determine the best investment in the enterprise to improve your ability to maximize the income you can generate from that enterprise.

Financial Weak Link

What: Identifying the weak link in the chain of production.

Why: To determine the best investment in the enterprise to maximize the income you can generate from that enterprise.

The **financial weak link** test asks you to consider: the following: In my enterprise, what single thing will have the greatest positive impact on my ability to generate more income?

In the Holistic Management® Financial Planning process you identify the financial weak link in the chain of production—**resource** conversion, **product** conversion, or **marketing**—for each enterprise. Then, you determine how best to address the weak link in any enterprise before considering any other investments. To spend dollars on any other link in the chain before the weak link is addressed would be a waste of your money. The strength of a chain is that of its weakest link. Address that weakest link, and you strengthen the entire chain. When you invest funds in addressing a weak link, it is considered to be a *top priority investment expense* and gets top priority in Step 6.

The key to generating wealth is not in the things you sell, but in how you reinvest the money earned.

You have a **resource conversion weak link** when you have insufficient ability to convert sunlight into raw resources (grass, trees, corn, etc.) and/or lack sufficient raw resources (including money, capacity, talent, etc.) to produce your product. (See the examples on page 26).

Or, you may have more than enough raw resources, but you lack the capacity to convert them to a marketable form. In that case, you have a **product conversion weak link** (grass to meat, for example). If you've created a great product or service, but are having difficulty selling it, then there is a **marketing (money conversion) weak link**. The **financial weak link test** is explored in great detail in the *Introduction to Holistic Management Manual*.



Step 5. Enterprise Investment Analysis

Using the concept of the financial weak link will help clarify many issues in your planning. It is particularly useful when making long range plans where accumulation of assets is desired. Getting it right is critical to moving forward.

Before spending your weak link investment allocation at any time, you should double check that the financial weak link is still what you thought it was at the time of the financial planning – it may have changed!

Occasionally, the weak link changes during the year, either because it was easily addressed early in the financial year and another link then became weakest, or because your situation suddenly changes. In the first instance, you will probably anticipate the change and will have planned how to address the next weak link. In the second case, if the change isn't so drastic that you're forced to re-plan altogether, double check to make sure that the weak link you diagnosed months ago, when you created the plan, remains the same before spending money to address it.

Each enterprise on your property will have a weak link. Once you have identified the financial weak link for each enterprise, you will identify actions that would strengthen that link in each enterprise. Then test those actions through the other testing questions that you learned about in the Introduction to Holistic Management or in the Appendix. Those tests that apply will help you to determine the best way to address the weak link this year. If two or more options pass the testing, use the comparing options test to help you prioritize. An example of this process is on page 44.

Remember, ultimately, only **ONE** link can be **THE** Weakest Link and is the one you need to focus on first. This is the one you must address this year, and you will only deviate from this if an extraordinary opportunity – e.g., a guaranteed-return marketing possibility – presents itself. These will be rare. Stepping through the exercise below will help you do the prioritizing necessary.

Enterprise Investment Analysis

Exercise: Use your "Investment Worksheet" and list the weak links for each enterprise down the left column leaving enough space between them to write in the actions that passed the testing. Estimate the costs for implementing each action and record the figures on the worksheet.

Note that some or even all of your enterprises may have the same weak link, often the case with marketing, and actions you take to address a weak link in one enterprise may also address the weak link in others.



Step 5. Enterprise Investment Analysis

Identifying the Weakest Link		
Crop Farming Operation		
Resource	Production	Marketing
Poor water management	High damage loss (insect, disease)	Low prices
Wrong choice of crop	Poor germination	Market resistance due to:
Poor crop health	High harvest and handling loss	Insensitivity to demand
High fertilizer cost	Poor product	Inadequate research
Low Yields	Inadequate equipment or labor to harvest crop	Poor sales effort
Livestock Operation		
Resource	Production	Marketing
Forage shortage	Unutilized forage	Low prices
Paddocks too few to minimize overgrazing	Animal performance	Market resistance due to:
Species composition poor	Poor product	Insensitivity to demand
High supplement cost	Not enough animals	Inadequate research
		Poor sales effort
Small Business		
Resource	Production	Marketing
Under staffed	Production challenges	Low prices
Lack of or confused strategic focus	Shipping or transport issues	Market resistance due to:
Lack of leadership & management	High production costs/poor profit margin	Insensitivity to demand
Lack of raw resources (money)	Poor product	Inadequate research
	High damage loss	Poor sales effort
		Ignorance of market mechanisms (niche, wholesale, venture capital, etc.)

Step 6. Prioritize Expenses

As part of holistic financial planning, you will look at expenses a little differently than just the traditional direct and overhead expenses that are a part of traditional accounting. By having an additional focus on how to prioritize your expenses, business owners are better able to prioritize how they effectively invest in their business.

Categorizing & Sorting Expenses (Helps you Prioritize Expenses)

T = Top Priority Investments in the Business

L = Liabilities (Debt, etc.)

M = Maintenance Expenses

Top Priority Investment expenses are those investments that would resolve major human resource or production issues, and/or increase your income over and above what you are currently earning (by addressing the weak link in an enterprise). These investments may not address these issues in one year, so you need to consider the return on investment timeframe as you prioritize these expenses. You identified these expenses in the preliminary planning and recorded them on the Investment Worksheet. These are new expenditures—investments to build or improve your business as it currently exists and create more wealth.

Liability expenses are those you are legally or contractually obligated to meet. These are generally fixed amounts that cannot easily be delayed or negotiated, so there are very few of these expenses. Examples may include a debt obligation to a friend or family member, or a non-negotiable land tax.

Maintenance expenses are the remaining direct expenses associated with each enterprise and all overhead costs. They are essential to running the business and maintaining present income levels. Most expenses fall into this category: salaries/draws, fuel, machinery maintenance, insurance, supplemental feed, fertilizer, etc.

Once you have sorted them into the appropriate categories, consider any other non-cash expenses, such as replacement costs (see box on this page). You may want to create an expense account for that as well. You may also want to create inventory consumption worksheets. Plan consumption rates for any items purchased in bulk that are a direct expense associated with an enterprise. You want to track inventory change from beginning to end of year as well as note when you will need to replenish it and determine how that affects cash forecast in Step 7. See pages 64 and 65 for examples and exercises.

Creating a Replacement Fund

An expense you might want to consider is an annual contribution to a replacement fund, so that when an asset has lived out its lifespan, you have the money to replace it without having to borrow. For example, if you know a piece of equipment will last 10 years and costs \$10,000 then put \$1,000/year aside so you will have the money in hand to pay for it when you need it. Create a separate worksheet titled "Replacement Fund" and list the items you are saving money to replace. You can pay for this fund through your profit.

Step 7. Create Cash Forecast

Now that you have all your worksheets and detail figured out, it's time to see the big picture of the cash forecast by putting the income and expense amounts for each month on the Annual Income & Expense spreadsheet or in the Holistic Management Financial Planning E-Spreadsheet or in your accounting software. Creating your cash forecast will help you know if you will have a positive cash forecast for the year or a given month (be in the black) or a negative cash forecast (be in the red).

Creating your cash forecast plan gives you a big picture view that will also give you the opportunity to adjust your plan and determine if you can change income and expenses in certain months to create a positive cash forecast or begin to explore new sources of income or reduce expenses. Don't think of your first draft as your final plan. It is just a draft, a starting point. You know what you want to accomplish and the resources you have available, so use the creativity of the whole management team. Ultimately, the effectiveness of your management team will help you face financial challenges that may begin to emerge as you look at the yearly cash forecast. All your figures will be entered in the "Plan" rows. *See page 66 for a sample. For instructions for the Holistic Management Financial Planning E-Spreadsheet go to <https://www.dropbox.com/s/cs0tz1hmchubxc9/HM%20Financial%20Planning%20Spreadsheet%20Directionsed.docx?dl=0>*

To fill out the form (in pencil):

- 1) Write the months of the year in order down the left side of the chart in the spaces provided. Start with the first month of your financial year.
- 2) Starting in the left column, enter each income source (i.e. Income from enterprise, salary, etc.) with a column for each source or in one column depending on level of complexity.
- 3) If you have multiple income sources, put a Total Income column to the right of the last income source column. Total the incomes for each month and for the year at the bottom of that column.
- 4) Begin filling your expense columns in the following order:
 - Investment Expenses (Expenses for logjam, adverse factors, or weak links)
 - Liability Expenses (including debt payments)
 - Enterprise expenses (direct expenses for those enterprises)
 - Overhead Expenses-you may have multiple columns
 - Any other maintenance expenses
 - Your total expenses
- 5) Total your expenses across each month and the total for the year
- 6) Create a net profit/deficit column. Subtract the monthly expense total from the monthly income total and note whether you have a profit (+) or a deficit (-).
- 7) Create a Bank Balance total and put your projected bank balance for the beginning of the year on the top of the column. Each month you have a profit, add the amount to your bank balance. Every month you have a deficit, subtract that amount from your bank balance.
- 8) You can track your other accounts (such as credit cards, savings accounts, stocks, etc.) on your balance sheet or a separate worksheet.

Step 7. Create Cash Forecast

Addressing Negative Cash Forecast Situations

Bringing the Plan into Balance

Once all expenses are totaled on the spreadsheet, you will know whether or not your income covers them, and whether or not you've come close to achieving your planned profit. If it does not, your challenge now is to cut, paste, compromise, and fit everything into one plan that addresses your social, economic, and environmental needs. Many first draft cash forecast plans show a negative cash forecast situation (especially in the first year of planning). Instead of immediately lowering your planned profit and investments, see what you can do to keep to your plan by reducing unnecessary maintenance expenses. Your current production system may actually not be the most profitable system and you will need to decide if you keep doing what you've been doing or change your production system to improve profitability. There are 3 options to bring your plan into balance.

1. Reduce expenses. (*focus on the maintenance expenses*) Cut out any that aren't absolutely essential to each enterprise or to running the business, or that can be put off for another year without damaging the enterprise or the business as a whole. See the box below for ideas on how to reduce expenses.

You were introduced to the Holistic Management testing questions briefly at the beginning of the manual and will learn more about them in greater detail later in the manual. Two of these tests will be particularly helpful to use when you are looking at cutting maintenance expenses.

The **root cause** test is invaluable here. For every maintenance expense, ask yourself if the expenditure is addressing the root cause of its need, or is it "symptom treating" (i.e. Is the expenditure on your parasite program addressing the reason why parasites are even present in your stock?). If it isn't, then you may want to look at spending money elsewhere to address the

Brainstorming Ways to Lower Your Costs

The first step when trying to reduce expenses is to really consider if there are better ways to accomplish the same results or outcomes without a given expense or with less expense. For example, would articles in the newspaper and an email list be better than paying for advertising or for a booth fee at a market? Yes, there is more labor involved, but sometimes that's okay if you have time but not money.

Hold a brainstorming session to focus on ways to lower your costs. Concentrate on big, rather than small expenses to get the most out of the session. You can choose the top five expense categories or the top ten individual expenses, or whatever is most helpful to keep you focused on the big ticket items. Once you have those items, brainstorm how to reduce that expense or eliminate it all together. For example, some people have sold their haying equipment after realizing it cost them more to grow their own hay.

Step 7. Create Cash Forecast

root cause and solving the problem with less expense or more effect.

Use the **comparing options test**. Apply any excess gains (from your maintenance expense cuts) to those investment expenses that only received minimal funds but needed every dollar they could get. Apply the most dollars where they give the highest return in terms of your holistic goal.

A good way to do this is to look at the ratio of Planned Cost : Expected Return from the investment. For example, fencing may cost \$5,000, but over its life create a 5% increase in productivity, earning say \$3,000 per year of additional revenue. If the fence lasts 20 years the ratio is \$5,000 (cost) : \$60,000 (return of \$3,000 X 20) or a 1:12 ratio. Other alternative investments may have higher or lower ratios or higher and lower rates or return.

2. Consider new options for income. Now that you have all your planned expenses pared down as much as you can, you may decide it is worth taking more time to create more income (an additional enterprise or job). If you are able to create more income this year to invest in critical areas you may be able to reduce your time investments in subsequent years. This will be a decision you make toward your holistic goal.

3. Consider loans or credits. If you have a financially sound plan with a clear investment strategy to make the business profitable, it may be worth getting an operating loan or line of credit to cash flow your business the first year or two. Debt or liability does increase risk so this is a decision the management team should test toward their holistic goal.

After balancing your plan, as part of your cash forecast analysis, you will need to look at your planned profit and your plans for investing it. It could go to increased investment expenses to grow your business. It could be invested elsewhere to spread your risk. It could be kept liquid for emergencies or invested in strategic objectives such as college or retirement. Even though you haven't yet made that profit, it might be a good time to talk with a tax planning or estate planning specialist. Profit can be held as increased assets, decreased liabilities or cash. This should be determined from your holistic goal.

It may take a lot of conversations and thinking to get a plan that everyone on your management team can live with. It's important to take the time to have these conversations and to do the research necessary to get the right numbers. The most important step of all is putting something to paper. Even if you don't complete all the steps to the degree you would like to, it is a starting point. Each year these plans become easier because you have more of the information and more experience.

If you find you cannot juggle figures sufficiently to avoid deficits over several months, you will have to borrow enough to get you through these months—either from overdraft facilities at your bank or a short-term loan.

Note: If you have made any adjustments, re-calculate the total figures along the bottom of the sheet (for both income and expense columns) and across all "Plan" rows, and make sure the totals across and down are the same. The electronic spreadsheet does this automatically.

Step 7. Create Cash Forecast

Final Check

Your plan is not complete without first making some important checks.

Is the Plan Sound When Projected Forward?

At this point your plan represents the actual cash forecast into and out of the business, including the level of borrowing, if any, and when it will peak during the year. Although the plan might look good now, you won't know if it really is until you project the plan ahead several years to see if there is any distinct trend that leads to heavy borrowing. Doing this forward projection is relatively easy and takes far less time if you have entered all your figures onto computerized worksheets and spreadsheets. You will need to redo or revisit these projections each year as part of your annual financial planning.

To project the plan ahead, transfer the figures you have now to new worksheets. Then go through each of the income and expense items and make the changes that you know will apply in the following year. For instance, if you are running livestock and bought a scale and five new bulls in this year's plan you know you can delete these expenses from next year's plan. On the income side you will need to rework the livestock production worksheet so you can accurately assess number of animals, hides, amount of wool, etc. for sale in the following year. See page 73.

When you have made all the adjustments you can foresee and have transferred them from the worksheets to the spreadsheet, simply look at the bottom line, rate of payoff of any loans and peak of indebtedness during the year. If that looks satisfactory, repeat this whole process but for the following year. Keep repeating this process for as many years ahead as you need to before you get a clear idea of the trend of the business.

Is the Plan Sound From an Overall Business Point of View?

Will the plan produce a profit or loss in real terms at the end of the planned period? Will it leave you in an acceptable position in terms of your holistic goal? Remember that while you may have allowed for depreciation in real terms, you have not used government depreciation tables **nor accounted for increases or decreases in net worth** on the spreadsheet(s). Any items deliberately held back from sale, or unsold products held in storage at the end of the year, will represent an increase in wealth, although not yet reflected in cash. You should note this in the next step.

Figure Debt Costs in Relation to Cash Forecast

If any borrowing is involved, then you must work out the full cost of borrowing by calculating the monthly interest. In addition, by manipulating the cash forecast you may be able to reduce the peak of indebtedness. Create a Line of Credit column to the right of the Bank Balance Column. Note the percentage interest on the loan and the amount borrowed. Calculate the amount of interest for each month of borrowing in that column (see page 68 for more instruction).

Step 8. Assess Ending Net Worth

To know how profitable the year is really planned to be, start by:

1. Calculating the difference between the opening and closing (beginning and end of year) values on all business assets, including unsold or held back inventory.
2. To the resulting figure, add any cash excess planned and deduct the allowable depreciation on any assets. This final figure will tell you how profitable your plan is.

If you have any doubts, have your accountant or tax advisor review the plan and assist you. Your spreadsheets and worksheets should contain all the information he or she will need. Knowing what the likely tax consequences of your plan are going to be will prove useful. It is for this reason that the planning should be completed at least a month prior to the end of the fiscal or tax year; it gives you the opportunity to push some expenses forward to the next planned year, or to arrange purchases before the end of your current year. Your tax advisor can recommend tax strategies that might influence your planning.

If, after this final analysis, the plan looks good, then proceed. If not, then re-plan right away. Re-plan until the results satisfy you.

When you assess your ending net worth, some questions to consider are:

1. Did I achieve the profit I desired?
2. Was I realistic in my price projections?
3. Do I have the discipline and motivation to plan until I achieve my profit?
4. Do I realize that a re-plan doesn't reflect badly on me or my plan. Something changed. By doing a re-plan I will achieve the profit toward which I am working.

Ending Net Worth

Exercise: Using your beginning and ending net worth figures determines what percentage of growth you had over your plan. What percentage of growth would you like to achieve next year? What would your total net worth be if you achieved that growth? Does your financial plan support that objective? What adjustments should you make?

Calculating Depreciation

A simple way to calculate depreciation is to use the following formula:

Depreciation = (Purchase Price – Salvage Price) / Years of useful life

Ex: Ranch Truck (\$20,000 - \$2,000) / 5 years useful life = \$3600/year depreciation expense

You would subtract \$3600 from the value of cost of the truck until it has been fully depreciated.

When calculating “useful life,” it is recommended that you use the IRS table of useful life categories. These can be found in IRS Publication 946 or you can ask your accountant how you should most accurately depreciate your business assets. There are also other depreciation formulas that may give you better tax advantages so you may want to talk with your accountant regarding this. Also, many tax or fixed asset software programs can do these depreciation calculations for you.

Step 9. Monitor For Results

No plan ever goes exactly to plan as many unforeseen events will unfold. However, having your plan will allow you to more quickly and effectively adapt to those events. For that reason, no planning is complete without implementing and monitoring your plan so you can control deviations, and re-planning when necessary. Before your new financial year begins, schedule monthly monitoring sessions and use the following guidelines.

Monthly Monitoring Guidelines

1. Establish the most convenient means to obtain, before the tenth of each month, the actual income, expense, and inventory consumption figures.
2. Enter your figures *in ink* on the second row (headed "Actual") of the spreadsheet.. (Ink will help you distinguish plan versus actual figures.
3. For each month compute the difference between the planned and the actual amounts. Enter the result *in ink* in the third row (headed "Difference"). For all income and expense columns, enter the figures that are adverse to plan in red ink and those better than plan in blue so your overall position will be graphic.
4. After the first month, record the accumulated difference in the fourth row, again using red or blue ink. This is the cumulative year to date financial performance It will alert you when small differences ignored in your monthly control represent a serious drift away from your plan.
5. Fill out a control sheet, noting the critical deviations, what you plan to do to get the plan back on track, and who is responsible for following up on which action items.

Keep in mind that financial planning and monitoring is not an accounting process, which is more detailed and exact in nature, and relatively standard for any manner of business operations. It is very important to use standard accounting practices when monitoring your plan as accounting reports (income statement, balance sheet, etc.) can act as an important, consistent medium to accurately convey the economic activities and condition of your business to the outside world, including bankers and financiers and even yourself. This is why it is essential to get all of your figures for the month entered into your accounting software and be able to review your planned versus actual figures in a timely manner. Whatever accounting software you use, it should be something that allows you to keep track of your finances easily. If your software has a lot of bells and whistles, but you don't enter your figures in it, you need to get someone else to do it, find a simpler software or use paper to track your finances on a monthly basis.

Keeping Your Plan On Track

One look at the planning sheet and its red and blue entries will show you the deviations from plan at a glance. Consider all the major adverse deviations in detail, column by column, going back to the original worksheets (which you have carefully filed) as necessary. Do something now to address them by using the control sheet!

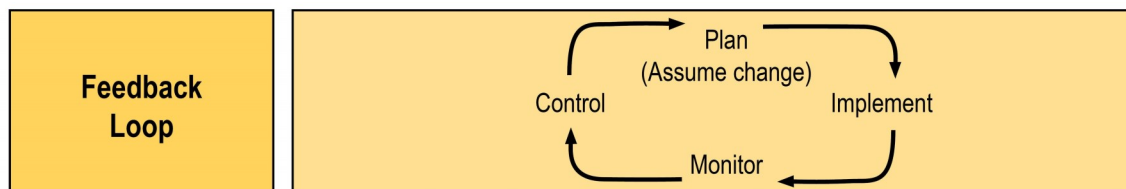
If the **income** totals are much lower than planned, they can only be "controlled" by increasing income streams in other areas or cutting total expenses. This will require you to re-plan, perhaps from scratch. The sooner you respond to this information, the

Step 9. Monitor For Results

more time you have to get your plan on track. Don't give up. You and your management team can adapt your plan to changing circumstances using the information you have already gathered and collecting additional information that is needed.

If the **expense** totals for any column are more than were planned, always control that expense regardless of if you have surplus income or less expenses in another area in your plan.. Never simply eyeball the numbers and balance a surplus in one column against a deficit in another. The general rule is "control" within an expense category, not across all expenses. If you do have more surplus because other expenses are less than planned, don't assume you can reduce your focus on the expenses that have exceeded your plan. You want to accumulate any surpluses you can since they may be needed later in the year. Certainly, expenses or income may come sooner or later than planned, so you will be tracking your cumulative totals and watching your cash forecast. But, watch for trends that show you are going off plan. if you don't keep every expense on target, you can lose control of the whole plan.

It is crucial to apply the utmost energy and imagination to get things back on track. Mental attitude counts more than anything. Don't hurry. With this process, you will create profit that moves you toward your holistic goal. Your financial plan, strategic plan, business plan, policies, and mission should all be integrated through your holistic goal. In other words, all your planning will be supported by your holistic goal as you have ownership in creating the results you want. The Holistic Financial Planning Process is a key component in integrating your other planning with your holistic goal. Through this yearly planning process, you have a tool to check your progress in a very tangible manner. With the monthly monitoring, you can make sure you keep yourself on track—creating financial success and the quality of life you want.



Conclusion

Value-Based Financial Decisions

You now know how to develop, implement, monitor, and control your financial plan. This financial planning is closely linked or will help you develop or revise your marketing plan, production plan (time management), and business plan. Each of these plans will guide you in your action list for any given month, week, or day.



People who have used this financial planning process, have found that using the Holistic Management Testing Questions on a regular basis has helped them not only create their financial plan but keep that plan on track. There will be many decisions that come up over the course of the year that you did not think about when you were building your financial plan. To make sure they are sound on a social, economic, and environmental level, practice testing these decisions toward your holistic goal formally by working through the Decision Testing Matrix on page 39. Keep a record of those decisions so you can return to your decision log if there are questions around those decisions later.

Remember that time and money are connected and what you choose to do with your time very much influences your financial results as well as your quality of life. Testing decisions towards your holistic goal regularly will help you prioritize your time as well as your finances. Your holistic goal will help you balance the need for connection as well as accomplishment and financial success.

By participating in the financial planning, the decision makers on your management team will have ownership in the plan and work to make it happen. If any of them have concerns about the holistic goal not giving adequate direction, using it in conjunction with Holistic Financial Planning should allay those fears and give you the direction you need.

Financial Decision-Making

Exercise: Using your holistic goal and the Holistic Management Decision Testing Matrix on page 39, pick a financial decision you are considering making. It can be big or small. Test that decision toward your holistic goal and fill out the Matrix. Does the decision pass or fail? Did you come up with a different idea all together? What did you learn from testing that decision?

Financial Planning Glossary

Accounting/Bookkeeping

A system of recording financial transactions and reporting on results that gives a picture of the economic performance and condition of a business.

Accounts Payable

A liability created by purchasing goods or services on credit. Accounts Payable would be under “Current Liabilities” on a balance sheet.

Accounts Receivable

Money owed to you by selling goods or services on credit. Accounts Receivable would be under “Current Assets” on a balance sheet.

Accrual vs Cash Accounting

Accrual accounting is an accounting system that records expenses and revenues by the date they were incurred or earned – not necessarily when cash was received or disbursed. Cash Accounting is a system that records expenses and revenues when cash is actually received or paid. Cash accounting is generally considered simpler but accrual accounting gives a more accurate picture of the financial health of a business. The type of accounting system used can have some tax implications so speak with your accountant about what would work best for your business.

Assets

Items of economic value owed by a business. These will be entered on your balance sheet and may include categories such as cash, land, equipment, animals, inventory, etc.

Balance Sheet/Statement of Net Worth

A Balance Sheet is a main accounting report that shows the assets, liabilities and owner’s equity of a business at a given point in time, usually at the close of a period (month, year). A Statement of Net Worth is a report used in financial planning that lists the current fair market value of business assets and any liabilities the business may have incurred.

Cash Forecast/Annual Budget

A financial tool you create to plan the cash that is coming (revenue/income) and going out (expenses) for one year. Ideally, you would have an idea of the profit or loss you will experience by year’s end as well as what liabilities you will pay down or investments you will make. You can use this tool to monitor your ability to implement your budget or you can use your Profit & Loss Report or Income Statement.

Depreciation versus Replacement Cost

In accounting, depreciation is the systematic allocation of the cost of an asset as a periodic expense over the expected useful life of the asset. The IRS does have specific rules about how an asset can be depreciated so ask your accountant how to properly depreciate the assets belonging to your business. On the other hand, replacement costs are used to

Financial Planning Glossary

determine the cost of doing business when you are doing a gross profit or enterprise analysis. Knowing what your cost for a product then allows you to determine if you should create that product or buy it in because someone else can do it more cheaply (such as hay).

Direct Expenses

Costs that can be specifically tied to the cost of a product.

Gross Income/Revenue

The amount of money received by a business over a certain period of time generally computed monthly, quarterly, or annually. No expenses are considered for that figure.

Gross Profit

This is profit you create from an enterprise to help pay for overhead and operating expenses. Some people call this Gross Margin.

Gross Profit Analysis

This is a form of Enterprise Analysis that is simple to do because it does not ask you to take into account percentage of overhead costs used by a particular enterprise.

Inventory

A list of the cost of products waiting to be sold. The ending value should include any raw materials, work in progress (products not ready for sale) and products ready for sale.

Liabilities

All the money that a business owes others or would have to pay out if the business was sold.

Logjam

Anything that is causing you to not create significant progress toward your whole farm goal. You may need to use the Root Cause test to determine what is creating the issues that are causing you not to make progress. Any expense or investment that addresses the logjam gets top priority.

Overhead Costs

Expenses necessary to operating the business, but are not directly tied to a particular enterprise or product. These can be things like rent, insurance or utilities expense. Some overhead expenses, like utilities expense, can be appropriately allocated to a product or enterprise making them a direct expense.

Financial Planning Glossary

Profit

The money you create in your business through your financial planning by determining what income you can generate and how you want to spend that money such that can cash forecast your business and hopefully increase your net worth through effective investments and prioritizing of expenses. The formula for profit is:

$\text{Income} - \text{Profit} = \text{Expenses}$

Profit and Loss Statement (Income Statement)

A financial statement that tracks income and expense over a certain period of time. It can be used to track how you are performing against your budget or financial plan. This statement show whether you are making a profit (+) or a loss (-).

Schedule F

The IRS tax form that is used to report farm income and expenses. It is filed along with the 1040 form.

Top Priority Investment

Any expense or investment that addresses a logjam, adverse factor, or financial weak link.

Decision Testing Matrix

Proposed Action:	Pass	Fail	Doesn't Apply	Don't Know	Notes
Root Cause					
Weak Link – Social					
Weak Link – Biological					
Weak Link – Financial					
Comparing Options					
Gross Profit Analysis					
Input Analysis					
Vision Analysis					
Gut Check					
Decision:					
Monitoring Criteria:					

Management Inventory Sample

Management Team

Andy Sulco
Ellen Sulco
Dave Sulco
Pat Willen

Assets

Land

Land Owned by Sulco Farm

94 acres

30 acres corn/hay land

18 acres pasture land

46 acres woodland

· Informal Land Use Agreement

5 acres of pasture land

5 acres of hay land

Livestock

· 53 Holsteins, 39 heifers, 3 pigs

Facilities and Structures

· Main Barn and Milk House (Comfort stalls, Milking pipeline system, Storage area for work-shop and equipment)

· Second Livestock Housing Area (enclosed with 2 – 12 foot openings)

Bedded pack

· Center Shed- 3 open bays

· Woodshop – 2 levels can hold lumber and tools

· Hay Barn – approximately 90 ft. x 30 ft. – can hold approximately 7,000 bales

· Sawdust Shed – currently storing bedding and vehicles

· Sulco House- 4 bedroom house

· Sulco Household Vehicles

Chevy Pickup, Saab, Buick, and Kids wagon

Equipment

362 Massey Ferguson Tractor, T035 Massey Ferguson Tractor, 65 Massey Ferguson Tractor, International S1600 – 3 ton dump truck, Manure spreader, Back hoe, Hay mower, Pin wheel rake, Sickel bar mower, Baler – small square

bales, Broadcast spreader – 3 point hitch, Wood splitter, Portable welder

People Who Influence or Are Influenced By Our Decisions

· Cooperative Extension Agent, NRCS staff, veterinarian, Fertilizer dealer, Seed salesman, DHIA milk tester, Neighboring farmers, Friends, Hay and raw milk customers. Parents

Skills

· Haying
· Forage production and harvesting
· Milking
· Herd Health and Management
· Breeding
· Child development
· Book keeping/Record keeping/Budgeting
· Farm management
· Computer skills
· Graphic design
· School Teaching
· Educational Programming

Money

Sulco Farm has a farm checking account and a credit line with a farm credit agency. They also have personal checking and savings accounts. Off-farm income supports the family and also partially supports the farm. Our income streams come from milk and hay sales and some limited manure sales to home owners.

Management Inventory Worksheet

Decision Makers (Management Team)

Asset Base

People:

Tangible Assets:

Land/Buildings:

Equipment:

Livestock:

Inventory:

Skills/Knowledge:

Money Sources:

Holistic Goal Sample

Why are you farming or ranching?

To enjoy nature and grow healthy food and provide a good income and a nice place to raise our family.

What do want as a quality of life now? (Think big picture)

Family/Personal Time

1. We want time for family
2. Time to do things we enjoy

Financially

1. We want financial security
2. Profit from farming and ranching

Quality of Production on your farm/ranch

1. We want to produce high quality, healthy food from our farm

Connection to the Land

1. We want to be good land stewards

What systems and behaviors do you need to create those outcomes?

Time Management

1. We will create and implement effective time management systems
2. We will prioritize what activities are important

Communication/Relationships

1. We will be willing to listen to others
2. We will be willing to compromise.

Planning /Processes/Systems

1. We will create and use effective financial management systems
2. We will focus on profit not production.

Production

1. We will create and use effective production planning system
2. We will produce what works well for the area we are farming in.

How do the people in your business and resource base have to perceive you?

We want to be known as honest, reliable, hard working, create high quality product.

What condition does your land have to be in?

We want to have good soil fertility and permeability and tilth. Very productive land with a great deal of plant and animal biodiversity. Beautiful to look at.

What do you want to pass on to your children?

We want to pass on a thriving, productive farm and the ability to sustain it.

Holistic Goal Worksheet

Why are you farming or ranching?

What do want as a quality of life now? (Think big picture)

Family/Personal Time

- 1.
- 2.

Financially

- 1.
- 2.

Quality of Production on your farm/ranch

- 1.
- 2.

Connection to the Land

- 1.
- 2.

What systems and behaviors do you need to create those outcomes?

After identifying your values and quality of life, consider what you must commit to providing or creating, to have the life you want. Ignore specific "how to" now. That comes when you begin testing your decisions.

Ask "What are we not doing now?" or "What is blocking us from having the quality of life we described?" If your family wants a better balance between work and home, you might ask,

- "What are we not doing to create that balance?"
- "What's keeping us from spending more time together and less time working?"

If you feel you would have more balance if you found more time, you've identified a solution. The answer is better time management. Write each Quality of Life Statement and make sure you have at least one Behaviors and Systems statement to go with like the examples below. Consider time management, communication, relationships, planning, processes, and production systems

Quality of Life	Behaviors and Systems
We want meaningful relationships with family and friends	Intentional, quality time with family and friends
We want strong, healthy bodies	A stress-free environment, a balanced, nutritious diet, and regular exercise
We are financially secure and provide for our family's needs	A profitable farm enterprise and good financial planning
We value good communication	Open, safe, non-judgmental environment

Quality of Life	Behaviors and Systems

Vision Statement

- How do the people in your business and resource base have to perceive you?
- What condition does your land have to be in? What does your land look like?
- What do you want to pass on to your children or to future generations?

How to Test Decisions

The seven Holistic Management® Testing Questions help us sift through the many factors and complex variables to get to the heart of the matter and help improve decision-making. Ultimately, we are looking at whether the action or decision meets the triple bottom line you have articulated in your holistic goal. These seven tests supplement other considerations when making a decision (research, intuition, cash forecast, etc.). The seven tests are:

Root Cause—Does this action address the root cause of the problem? Determine what the problem is you are trying to address and consider if it is a symptom of a deeper problem. Ask the question, “What is causing this problem?” See if you can determine the root cause of the problem. Will your action address it?

Weak Link (3 Tests in 1)

Social Weak Link—Are there any social concerns regarding this action? Is it possible that this decision will offend people? Who? If there are red flags, what can you do to address them

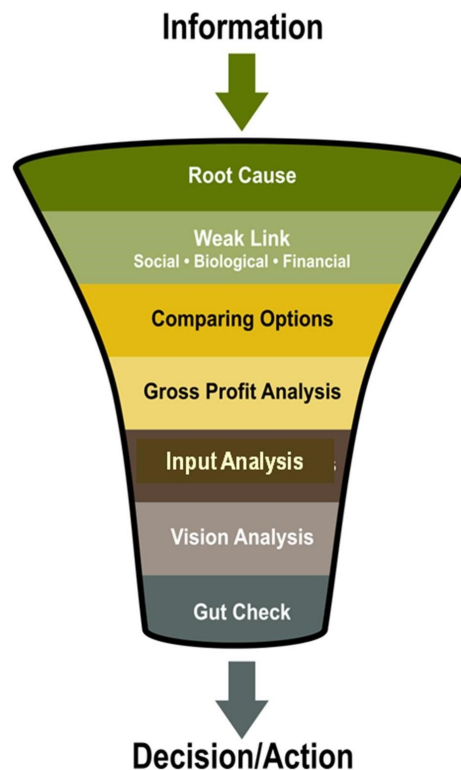
Biological Weak Link—Does this action address the weakest point in the life cycle of this organism? Is this organism a pest or something you want to protect? Is its weakest point at Germination/ Gestation, Infancy and Growth, Reproduction, or Maturity? If your action doesn’t address that weakest link, then it will not be effective at controlling the population of that organism.

Financial Weak Link—Does this action address the weakest link in the chain of production? In my enterprise, what single thing will have the greatest positive impact on my chain of production

Comparing Options—Which action gets the “biggest bang for the buck” toward your holistic goal? Where is your highest return? See more information below.

Gross Profit Analysis—Which enterprises contribute most to cover the overhead expenses of the business?

Input Analysis—Is the energy or money to be used in this action derived from the most appropriate source in terms of your holistic goal? Will the way the energy or money is to be used lead toward your holistic goal? See more information below.



How to Test Decisions

Vision Analysis—Does this action lead toward or away from the Vision articulated in your holistic goal? This question helps you keep in mind the long-term consequences of your actions and behaviors.

Gut Check—Considering all the testing questions and your holistic goal, how do you *feel* about this action or decision now?

You may test decisions individually on a day-to-day basis or you will make higher level decisions as part of your strategic plan that will be based on your financial planning, biological monitoring, land planning, or grazing, cropping, or production planning. Use the HMI Decision Testing Matrix to help you track your decisions.

Testing Financial Decisions

When making financial decisions, some of the testing questions that you may focus on more are:

Financial Weak Link Test

This test is covered in great detail in the *Holistic Financial Planning Manual*. The key point to remember is that an expense only passes this test if it actually does address the “weak link” in a given enterprise. If it doesn’t, it fails the test. Remember, this is only one test of seven.

In the Holistic Financial Planning process you identify the financial weak link in one of the three key links in the chain of production—**resource** conversion, **product** conversion, or **marketing**. You do this for each enterprise that you run. Then, you determine how best to address the weak link in any enterprise before considering any other investments. To spend dollars on any other link in the chain before the weak link is addressed would be a waste of your money. The strength of a chain is that of its weakest link. Address that weakest link, and you strengthen the entire chain. When you invest funds in addressing a weak link, it is considered to be a *top priority investment expense*.

Gross Profit Analysis Test

This test is only used when comparing two or more enterprises and is covered in great detail in the *Holistic Financial Planning Manual*. It is a simple enterprise analysis tool to determine the profitability of a particular enterprise.

After all the income and expenses directly associated with each enterprise have been determined, which enterprise is likely to produce the most income for the least additional cost? The income generated has to cover your overhead costs and generate some excess if the business is going to be profitable. In a **gross profit analysis**, you simply look at the income likely to be derived from each enterprise and deduct the additional money you will have to spend (direct costs) to bring it in. *The difference between money in and money out is the gross profit.*

Gross profit analysis is used any time you consider adding a new enterprise, dropping in an old

How to Test Decisions

one, or modifying an existing one. That generally occurs as part of a strategic planning initiative and frequently in creating your holistic financial plan. While this test tells you which enterprise contributes most to covering overhead costs and possible profit, only doing a full financial plan will tell you if the enterprise(s) you've selected will together cover all the overhead costs and return a profit. It's important to remember that new enterprises that pass this test still need to pass other testing questions as well to be considered.

Input Analysis Test

The Input Analysis test asks two questions:

Is the energy or money to be used in this action derived from the most appropriate source in terms of your holistic goal? Will the way the energy or money is to be used lead you toward your holistic goal?

With this testing question you consider both energy and money because both the use of energy and money are similar in that their modes of use can be addictive or cause dependence, and the sources of either can be inappropriate in terms of your holistic goal.

Energy

When it comes to **energy sources** and looking at the decision or action you're considering taking, you want to consider the consequences of **renewable** or **environmentally benign** sources of energy as compared to nonrenewable or environmentally damaging sources of energy. In terms of availability, energy sources fall into two categories: those that are **abundant** or unlimited, and those that are **limited** in supply. Solar energy that's used to grow the farmer's crops is unlimited and virtually inexhaustible; however, the diesel or other petroleum-based fuels used to run the farm machinery are not. Supplies of oil and other fossil fuels are limited and have a economic cost to consider as well.

In terms of the effects on the environment, energy sources also fall into two categories: benign sources or those that are potentially damaging. The environmental impact of various energy sources depends on the rate at which they are consumed, and the methods used to harness and distribute them. When you choose to walk or ride a bike instead of driving your car, you are choosing a benign source of energy rather than a potentially damaging one. So is the farmer who uses livestock to break down corn stubble in a field rather than using some type of machinery. Keeping in mind your holistic goal, you need to determine if the **source of energy** you plan to use in taking any action is an appropriate one for your present situation.

Money

The **money** used to implement any action can be derived from either **internal** or **external** sources. Internal money comes from what you earn or have in savings and/or what your business or land can generate. Any time you can rely on an internal source, you are likely to be better off; though there will be occasions when you'll need money external to your whole in order to move forward.

When the money to be invested is derived from an outside source, you need to be wary of any

How to Test Decisions

strings attached to it. Money from a bank or other lending institution has interest associated with it, and in most cases that interest is compound interest. External money can also be derived from government programs, such as subsidies and grants. A danger to receiving these funds is that over time you can become dependent on that source of money, and when it is suddenly cut off or withdrawn, it can end in financial disaster.

In the second part of the Input Analysis test you are looking at the way energy and money are used and whether or not their use takes you in the direction of your holistic goal. **Energy** and **money** that are used to build **infrastructure** (buildings, machinery, fencing, transport, trained staff, a specific knowledge base, etc.) are preferable, as are uses for a one-time investment that will sustain itself. What you want to avoid are uses that have no lasting effect, or that left unmonitored can put you at risk of becoming dependent on them. For example, if you continue with certain tillage practices that require many passes of a tractor across a field, that decision would probably fail the Input Analysis test because of all the fossil fuel use. However, if you were to consider investing in a seed drill that decreased your number of passes and was an investment that would pass the Input Analysis test.

Comparing Options Test

The Comparing Options test is used when comparing two or more possible actions. It asks the question: *Which action provides the greatest return, in terms of your holistic goal, for the time or money spent?* In other words, what action gets the "biggest bang for the buck?"

You are essentially asking yourself which of two or more actions will result in each **dollar** or **hour of labor** being invested where it provides the highest return in terms of your holistic goal. No two actions you take are going to give exactly the same return for each unit of effort (time, money, or physical energy exerted) you invest at that moment. So, when resources are limited, you want to select the one that gives you the best return. For example if you have a \$1,000 you can spend on fencing to increase animal impact and forage or on fertilizer, which expense will grow you more forage? This year? Subsequent years? The fertilizer will probably only have a beneficial life of 1-5 years, while the fencing will produce it for the life time of the fence (20 years). For this reason you need to consider **time** in the equation.

You can use the Comparing Options question to determine what your return is per dollar invested, as well as return for every hour of effort you invest. In the Holistic Management® Financial Planning process, you can also use this test in conjunction with the Financial Weak Link test to help you prioritize the actions you might take to strengthen a weak link in a particular enterprise. As in the example above, if soil fertility issues were the weak link in a livestock enterprise, then both the fence and the fertilizer would pass the weak link test. However, using the Comparing Options test as a second filter shows that the fence wins out over the fertilizer.

This test also helps you think about how you prioritize the amount of time you spend on any endeavor. Time is a finite resource. You want to make sure you maximize the return on every

How to Test Decisions

hour you spend. For example, you can use it in conjunction with the Gross Profit Analysis test. If two enterprises have a similar gross profit but one takes half the labor of the other, then you can add the labor analysis into your Gross Profit Analysis to fine tune your analysis and determine which one is really the better choice.

Helpful Hints for Using the Seven Testing Questions

- All actions must be tested toward your holistic goal. Be aware of any tendency to revert to prior ways and means for taking action and forgetting to use the aspects of this framework that enhance your decision making, especially during a crisis or situation that is stressful. Take actions to deal with the emergency, but test all actions toward your holistic goal, not toward the present problem.
- Not every decision requires all seven tests.
- If a decision fails one or more of the testing questions, you may need to modify the decision for it to work. Go back to the drawing board or abandon that decision.
- If you are uncertain about whether a decision passes one or more of the testing questions, you may need more information, be unclear about what you are testing, you may need to revisit your holistic goal, or that test may not apply to this particular decision.
- When you're dealing with a problem, go to the *root cause* test first. If an action doesn't address the underlying cause of the problem, you will not solve it. Realizing this will help you to be more creative in moving forward to look for a lasting solution.
- The *gross profit analysis* applies only when two or more *enterprises* are being compared. The *comparing options* test applies only when two or more *actions* are being compared.
- The *weak link test* applies in three different contexts: social, biological, and financial. Look for the *financial weak link* (in the chain of production) when engaged in Holistic Financial Planning then test subsequent decisions in light of that weak link. Consider a *biological weak link* only when an action is taken to increase or decrease a population of organisms. Look for a *social weak link* any time an action is contemplated that could affect people whose support you will need.
- The gut check test is based on the picture that emerges after passing through all other tests that apply, and thus is asked last.

Recordkeeping Worksheet

Who's Responsible?	Duties (give details of how)	When/Deadlines
	Hard Copy Filing System	
	Account Reconciliation (Checking Account/Accounts Payable/Accounts Receivable/Cash/Credit Card/Savings/Investments/Loans)—list accounts	
	Financial Planning / Management Decisions	
	Bookkeeping/Data Entry	
	Taxes	
	Production/Inventory Records	
	Monitoring/Reports (Income Statement, Cash Forecast, Net Worth, Enterprise Analysis)	
	Other	

Market Sales Log

Market Sales Log				
Venue _____	Date _____			
Item	Quantity Taken	Value/Item	Quantity Sold	Total Sales
Total				

[illegible]

Investments Worksheet Sample

Investments Worksheet													Worksheet No.
Date	January	February	March	April	May	June	July	August	September	October	November	December	Total
Logjam Expense - white board	\$ 35												\$ 35
Actual													\$
Logjam Expense - radios	\$ 55												\$ 55
Actual													\$
Adverse Factor Expense - web site	\$ 3,000												\$ 3,000
Actual													\$
Adverse Factor Expense - brochures	\$ 50												\$ 50
Actual													\$
CSA Start Up - crates	\$ 1,500												\$ 1,500
Actual													\$
CSA Start Up - hand Tools	\$ 500												\$ 500
Actual													\$
CSA Start Up - shed	\$ 1,000												\$ 1,000
Actual													\$
CSA Start Up - garden cart	\$ 300												\$ 300
Actual													\$
CSA Start Up - irrigation	\$ 1,800												\$ 1,800
Actual													\$
Ecos Start Up - hen house & fence	\$ 2,000												\$ 2,000
Actual													\$
Bees Start Up	\$ 3,000												\$ 3,000
Actual													\$
Total Plan	\$ 13,240												\$ 13,240
Total Actual													\$

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Planning Sheet
Column Reference _____

Worksheet No. _____

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Net Worth Statement Sample

Net Worth

	2012	2013	2014	2015	2016	Notes
Assets						
Cash & Checking	5000					2 accounts
Savings/Investments	9000					
Accounts Receivable	0					
Equipment	6000					tractor
Real Estate/ Buildings/ Improve-	50000					
Livestock	7000					cattle
Inventory	2000					hay
Supplies	1000					fencing
Other Assets	0					
Total Assets	80000	0	0	0	0	
Liabilities						
Accounts Payable	0					
Loan 1	10000					family
Loan 2	0					
Loan 3	0					
Line of Credit	0					
Taxes	0					
Other Liabilities	40000					mortgage
Accrued Expenses	0					
Total Liabilities	50000	0	0	0	0	
Net Worth	30000	0	0	0	0	

Net Worth Statement Worksheet

Net Worth

Date: _____

Assets	Amount	Notes
Cash & Checking		
Savings/Investments		
Accounts Receivable		
Equipment		
Real Estate/Buildings/ Improvements		
Livestock		
Inventory		
Supplies		
Other Assets		
Total Assets		
Liabilities		
Accounts Payable		
Loan 1		
Loan 2		
Loan 3		
Line of Credit		
Taxes		
Accrued Expenses		
Total Liabilities		
Net Worth		

Plan Income Sample

B13		Planned Income												Worksheet No.	
A		B	C	D	E	F	G	H	I	J	K	L	M	N	
1 Date		Planning Sheet Column Reference												Total	
2		January	February	March	April	May	June	July	August	September	October	November	December		
3 CSA		\$ 10,000	\$ 10,000	\$ 10,000	\$ 4,100									\$ 34,100	
4 Actual		\$ 8,000	\$ 9,000						\$ 350	\$ 350	\$ 350	\$ 175	\$ 175	\$ 17,000	
5 Eggs														\$ 1,400	
6 Actual														\$ -	
7 Bees											\$ 500	\$ 500	\$ 500	\$ 1,500	
8 Actual														\$ -	
9 Salsa									\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 6,000	
10 Actual														\$ -	
11 George's Off Farm Income		\$ 10,000												\$ 10,000	
12 Actual		\$ 10,000												\$ 10,000	
13 Plan														\$ -	
14 Actual														\$ -	
15 Total Plan		\$ 20,000	\$ 10,000	\$ 10,000	\$ 4,100	\$ -	\$ -	\$ -	\$ 1,550	\$ 1,550	\$ 2,050	\$ 1,875	\$ 1,875	\$ 53,000	
16 Total Actual		\$ 18,000	\$ 9,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,000	
17														\$ 993	
18															
19															



Planning Sheet
Column Reference _____

Worksheet No. _____

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Gross Profit Sample

Gross Profit Analysis Worksheet			
Enterprise _____ Milk Goats _____		Date _____	
Income		Notes	
Product: Milk			
Starting Units for Livestock	10		
Units Produced	10		
# of lbs	120	8 mths @ .5 gal/day	
price/unit or lbs	6		
Total	7200		
Product: Meat			
Units	15	150% birth	
# of lbs	75		
price/unit or lbs	1.5		
Total	1687.5		
Grand Total	8887.5		
Direct Expenses			
Feed	1750	3#/day @ \$8/bale/50# average = 50 cents/day or \$175/year/doe	
Supplements	\$50	\$5/year/doe	
Vet	\$50	\$5/year/doe	
Death	\$15	\$150 value 1% death loss = \$1.50/doe	
Depreciation	125	\$150 value-\$50 cull = \$100/8 years of service= \$12.50	
Utilities	0		
Insurance	0		
Interest	0		
Fertilizer/Soil Amendments	0		
Marketing	0		
Breeding	300	\$30/doe	
Seeds	0		
Seed stock	0		
Equipment (specifically purchased for this enterprise this year and life span of equipment)	0		
Pasture Rental	0		
Bedding	0		
Fuel	0		
Processing	0		
Materials/Supplies	0		
Trucking	30	\$2/kid	
Services	0		
Other	0		
Other	0		
Total	2320		
Gross Profit (Income - Expense)	6567.5		
Acres Used	30		
Gross Profit/Acre	218.91667		
Gross Profit/Unit	656.75		

Gross Profit Worksheet



Date _____

WORKSHEET

Planning Sheet
Column Reference _____

Worksheet No. _____

[illegible]

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Brainstorm Example

Brainstorm new enterprises for a farm in Connecticut with farmhouse, barn, one cabin, a 10-acre woodlot, small dairy herd, laying hen flock, 20 acres of pasture, and 5 acres of mixed vegetables. All products sold at farmer's market.

- CSA
- Buyer's club
- B&B
- Paintball
- Raw milk herd share
- Raw cheese
- Cut flowers
- Writer/artist retreat
- Sustainable Agriculture Intern program
- U-pick
- Firewood sales
- Rustic wood furniture
- Value-added salsas and chutneys
- Self-catered vacation home
- Mushrooms
- Haunted woods
- Adopt a calf/chicken program
- Farm tours
- Heirloom vegetables
- Restaurant sales
- Hoophouses, season extension
- Nursery sales
- Ice cream
- Skim milk/soil fertilizer
- Harvest wreaths
- Hayrides
- Broilers
- Goats to graze woodlot
- Farm skills workshops
- Fruit trees/sales

Planned Profit Example

If we have a planned profit of \$219,440, then we would subtract the amount of debt we owe in the coming year (\$50,000). This total would be \$169,440. To challenge ourselves, we have decided we will then put aside 20% of the remaining amount as our planned profit (\$33,888), thus making us figure out how to create our plan on a capped expense amount of \$135,552. We must pay all other expenses from that amount. The \$33,888 will be used to address any logjam, adverse factor, or top priority investments we feel are top priority for this year. We may not be able to fund them all, but we will have at least funded the most important ones. The alternate approach is to remove debt payments and then determine salary and investment totals and remove that amount to determine your expense cap for all other expenses.

Fill out the worksheet at the bottom of the page to determine your planned profit amount.

Planned Profit Example	
Income Total	\$219,440
Debt Load (Liabilities/ Payments Owed this Year)	\$50,000
Remaining Income	\$169,440
Profit Percentage	20% = \$33,888
Expense Cap	\$135,552

Planned Profit Example	
Income Total	\$219,440
Debt Load (Liabilities/ Payments Owed this Year)	\$50,000
Remaining Income	\$169,440
Profit for Investments	\$24,000 for salary + 9,888 for farm investments = \$33,888
Expense Cap	\$135,552

Planned Profit Worksheet	
Income Total	
Debt Load (Liabilities/ Payments Owed this Year)	
Remaining Income	
Profit Amount	
Expense Cap	

Financial Weak Link Example

Livestock Example

You have a dairy cattle farm/ranch where milk production is down despite good feed. Select (Underline) from the following list of expenses the ones that would be considered top priority investments.

Education

Seed
New fences
Fertilizer
Winter Feed
Herbicide
Land taxes
Loan payment
Lease fees
Worker's Compensation
Fuel
Utilities

Livestock Purchases

Wages
Vet treatment
Phone
Accounting
Salt, minerals, etc.
Buy more land
Insurance
Business travel
Repairs
Capital purchase (machinery)

Cropping Example

You have a corn/soybean farm where you have a problem with crop harvested due to equipment failure. Select (Underline) from the following list of expenses the ones that would be considered top priority investments.

Education

Seed
New fences
Fertilizer
Winter Feed
Herbicide
Land taxes
Loan payment
Lease fees
Worker's Compensation
Fuel
Utilities

Livestock Purchases

Wages
Vet treatment
Phone
Accounting
Salt, minerals, etc.
Buy more land
Insurance
Business travel
Repairs
Capital purchase (machinery)

Financial Weak Link Exercise

Livestock Exercise

You have a beef cattle farm/ranch where the daily weight gain is down. Select from the following list of expenses the ones that would be considered top priority investments.

Education	Livestock Purchases
Seed	Wages
New fences	Vet treatment
Fertilizer	Phone
Winter Feed	Accounting
Herbicide	Salt, minerals, etc.
Land taxes	Buy more land
Loan payment	Insurance
Lease fees	Business travel
Worker's Compensation	Repairs
Fuel	Capital purchase (machinery)
Utilities	

Cropping Exercise

You have a mixed produce farm where you have a problem with poor crop yields due to pests and wilts. Select from the following list of expenses the ones that would be considered top priority investments.

Education	Livestock Purchases
Seed	Wages
New fences	Vet treatment
Fertilizer	Phone
Winter Feed	Accounting
Herbicide	Salt, minerals, etc.
Land taxes	Buy more land
Loan payment	Insurance
Lease fees	Business travel
Worker's Compensation	Repairs
Fuel	Capital purchase (machinery)
Utilities	

Answers: Livestock: Education, Livestock Purchases, Croping: Education, Seed, Fertilizer.

Prioritize Expenses Example

Enterprise: Goat Dairy

Weak Link:

Resource

Product

Marketing

(circle one and explain key issues) Not enough feed, buying hay

List all business expenses in Expense Category Column (some have been filled in with common expense). Put an "X" in the column where you think that expense should be classified given the weak link you have circled above.

Expense Category	Top Priority Investment Expense	Liabilities	Maintenance
Utilities			x
Labor			x
Worker's Comp			x
Income Taxes			x
Feed	X bale grazing		
Seed	X seed pasture		
Fertilizer	X		
Fencing	X		
Herbicide			x
Land Taxes		x	
Loan Payment		x	
Lease Fees	X get more land to graze		
Veterinarian supplies			x
Accounting			x
Livestock purchases			x
Machinery Maintenance			x
Tractor Purchase			x
Land Purchase	X buy more land to graze		
Continuing Education	X learn how to graze		
Fuel			x
Supplies			x
Insurance		x	
Business Travel			x
Marketing			x
Dues			x
Trucking			x
Other			

Prioritize Expenses Worksheet

Enterprise:

Weak Link: Resource Product Marketing

(circle one and explain key issues)

List all business expenses in Expense Category Column (some have been filled in with common expense). Put an "X" in the column where you think that expense should be classified given the weak link you have circled above.

Expense Category	Top Priority Investment Expense	Liabilities	Maintenance
Utilities			
Labor			
Worker's Comp			
Income Taxes			
Feed			
Seed			
Fertilizer			
Fencing			
Herbicide			
Land Taxes			
Loan Payment			
Lease Fees			
Veterinarian supplies			
Accounting			
Livestock purchases			
Machinery Maintenance			
Tractor Purchase			
Land Purchase			
Continuing Education			
Fuel			
Supplies			
Insurance			
Business Travel			
Marketing			
Dues			
Trucking			
Other _____			

Cash Forecast Example

	Planned In- come	Misc. Income	Total Income	Planned Profit	Investment Expenses	Liability Expenses	CSA Expenses	Egg Expenses	Bee Expenses	Salsa Ex- penses	Overhead Expenses
January PLAN	\$ 20,000	\$ -	\$ 20,000	\$ 1,750	\$ 13,240	\$ -	\$ 2,000	\$ 266	\$ -	\$ -	\$ 130
- ACTUAL	\$ 18,000	\$ -	\$ 18,000	\$ -	\$ 3,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ (2,000)	\$ -	\$ (2,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (2,000)	\$ -	\$ (2,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
February PLAN	\$ 10,000	\$ -	\$ 10,000	\$ 1,250	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200	\$ 130
- ACTUAL	\$ 9,000	\$ -	\$ 9,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ (1,000)	\$ -	\$ (1,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (3,000)	\$ -	\$ (3,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
March PLAN	\$ 10,000	\$ -	\$ 10,000	\$ 1,250	\$ -	\$ 750	\$ 1,800	\$ 205	\$ -	\$ 1,055	\$ 130
- ACTUAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (3,000)	\$ -	\$ (3,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
April PLAN	\$ 4,100	\$ -	\$ 4,100	\$ 1,250	\$ -	\$ 300	\$ 600	\$ 100	\$ -	\$ -	\$ 2,330
- ACTUAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (3,000)	\$ -	\$ (3,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
May PLAN	\$ -	\$ -	\$ -	\$ 1,250	\$ -	\$ 300	\$ 3,284	\$ 100	\$ -	\$ -	\$ 130
- ACTUAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (3,000)	\$ -	\$ (3,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
June PLAN	\$ -	\$ -	\$ -	\$ 1,250	\$ -	\$ 300	\$ 4,884	\$ 130	\$ 330	\$ -	\$ 130
- ACTUAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DIFFERENCE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 330	\$ -	\$ -
CUMULATIVE DIFFERENCE TO DATE	\$ (3,000)	\$ -	\$ (3,000)	\$ -	\$ 16,400	\$ -	\$ -	\$ -	\$ 330	\$ -	\$ -

Cash Forecast Example

Continued from previous page

	On this page, only the three cells at right may be modified directly:		
	Start Balance =	Interest rate to =	Interest rate from =
	\$ 10,000	7%	1%
Net/Deficit	Bank	Interest to Bank	Interest From Bank
\$ 2,614	\$ 12,614	\$ -	\$ 11
\$ 14,840	\$ 24,840	\$ -	\$ 21
\$ 12,226			
\$ 12,226			
\$ 8,420	\$ 21,034	\$ -	\$ 18
\$ 9,000	\$ 33,840	\$ -	\$ 28
\$ 580			
\$ 12,806			
\$ 4,810	\$ 25,844	\$ -	\$ 22
\$ -	\$ 33,840	\$ -	\$ 28
\$ (4,810)			
\$ 7,996			
\$ (480)	\$ 25,364	\$ -	\$ 21
\$ -	\$ 33,840	\$ -	\$ 28
\$ 480			
\$ 8,476			
\$ (5,064)	\$ 20,300	\$ -	\$ 17
\$ -	\$ 33,840	\$ -	\$ 28
\$ 5,064			
\$ 13,540			
\$ (7,024)	\$ 13,277	\$ -	\$ 11
\$ -	\$ 33,840	\$ -	\$ 28
\$ 7,024			
\$ 20,564			
\$ (8,022)	\$ 5,254	\$ -	\$ 4
\$ -	\$ 33,840	\$ -	\$ 28
\$ 8,022			
\$ 28,586			
\$ (7,534)	\$ (2,280)	\$ (13)	\$ -
\$ -	\$ 33,840	\$ -	\$ 28
\$ 7,534			

Cash Forecast Bank Balance Directions

If you are not using HMI's Financial Planning Spreadsheet (Excel-based), then you will need to calculate how your bank balances will respond to monthly surplus and deficit. HMI's Financial Planning Spreadsheet (electronic) does those calculations for you. To fill out the HMI's Annual Income & Expense Spreadsheet, use three columns headed:

- Monthly Surplus/Deficit
- Bank
- Interest

Monthly Surplus/Deficit. Calculate this for each month separately and *do not connect any one month to the next*. Subtract the total expenses from the total income for the month and record the result in that month's *Plan* row. If it is a negative figure, i.e., more expenses than income, place brackets around the figure.

In the Bank Balance column do the following:

No overdraft to start: Record the amount of cash you estimate will be on hand to start the year just below the "Bank Balance" heading, above the "Plan" row. Then add or subtract from that amount the monthly surplus or deficit planned for the first month. Enter the resulting bank balance on the *Plan* row of the *Bank Balance* column. Then successively calculate and record the figures for the remaining months.

Overdraft at start or in subsequent months: Take the *Bank Balance* column figure of the last month of the previous year, or first amount in overdraft (this should always be in brackets to indicate a negative figure) and calculate the interest on the overdraft for that month by using the following formula: annual overdraft interest rate x planned overdraft divided by 1,200. For example, if the annual overdraft interest rate equals 13 percent, and the predicted overdraft at the end of the first month = (\$20,342), then interest on overdraft for the month would be calculated as follows:

$$\frac{13 \times \$20,342}{1,200} = \$220.37$$

Enter the interest calculated on the *Plan* row for the month in the *Interest Owed* column.

To calculate the interest for the next month start with the overdraft and interest predicted for the present month. *Add* this interest to the overdraft and then *add* the monthly deficit or *subtract* the monthly surplus for next month and enter the expected overdraft on the *Plan* row in the *Bank Balance* column.

For example, overdraft of month 1 = (20,342)

Add interest of month 1 of \$220 = (20,565)

Subtract surplus in month 2 of \$6,503 = (14,059)

This amount becomes the planned overdraft or Bank Balance column amount. Then calculate and enter the interest expense of \$152 for Month 2.

Cash Forecast Bank Balance Directions

Bank overdraft becomes a surplus.

- Assume that in month 3 the monthly income exceeds monthly expenditure by \$15,000. The month's surplus is thus \$15,000. In the example we have:

Overdraft end of month 2 = (14,059)

Add interest for month 2 of \$152 = (14,211)

Subtract surplus in month 3 of 15,000 = 789

The bank balance is now positive and is not entered in brackets, nor is any interest calculated once the balance is positive. From here you proceed with the calculations for the following months, but if you again go into overdraft you will once more calculate and add interest charges.

•COOPERATIVES AND SIMILAR FACILITIES

Since some businesses use credit facilities offered by cooperatives or other lending sources on which interest is charged, you have in fact the equivalent of overdraft facilities from more than one source. Although it's possible to predict the overdraft separately from each source, this complicates the arithmetic while not really improving the planning. We suggest you treat all similar credit facilities as one for cash management analysis, and that you use a single interest rate. Then use the same procedure you would for a simple overdraft.

•LOANS AND NOTES

In these cases use an additional three columns to the right of the Bank Balance and Bank Interest Owed columns headed as follows:

Loan Payments

Loan Balance

Loan Interest

Use the same procedure you would for a simple overdraft, adding to or reducing the note as you wish in particular months, to plan and calculate interest on the note balance. For example, if the opening debt is \$100,000 and the interest rate is 12% per annum, charged monthly, the repayment is \$2,000 per month.

When an adjustment down is made in any month to the principal amount of the loan, this payment also needs to be reflected in the *Bank Balance* column, because a reduction in the loan liability will usually be offset by a decrease in the funds available in the bank account.

Control Worksheet Example

Control Sheet

Name River Bend Ranch

Date: June 2005Sheet # 1[illegible]

Name: _____ Date: _____ Sheet#: _____



Livestock Production Worksheet Directions

Step One

Use a **separate** Livestock Production Worksheet for each different livestock enterprise (cattle and sheep or commercial cattle and registered cattle, etc.) *Are you sure, from a gross profit analysis, that the production policy is sound?*

Step Two

For each Livestock Production Worksheet draw up a standard worksheet with the **biological year** (calving, weaning, culling, breeding, and so on) clearly laid out. This helps ensure a clear picture so that you have no confusion on when animals change age, class, etc.

Note: It's easiest to start with the youngest animal class and follow it through its life as in the ex-ample below.

Step Three

Record in column A on the Livestock Production Worksheet **different classes** of livestock that will be on the ranch or farm at any time during the year, e.g., bulls (old and young), cows (mature), heifers (bred), heifers (open), male and female calves, steers, etc. If you keep the cate-gories in the same order as they appear on your biological year worksheet, you will reduce the chance of errors.

Step Four

Biological Year of a Cow Herd

Date 2006

WORKSHEET

Planning Sheet
Column Reference _____

Worksheet No. 3

	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	
Seasonal Year	← Calving →		← Bulling →						Weaning				
Mature Cows	← 3+ years of age →		← Bulling →										
Heifers 2	← 36 mo Calving →		← 2nd Bulling →										
Heifers 1	← 24 mo Calving →		← 1st Bulling →										
Heifers	12 mo	13 mo	14 mo										
Steers	12 mo	13 mo and sold somewhere from here to 18 mo depending on market											
Culls										For sale anywhere from Oct on			
Bulls	HAVE BULLS ALL YEAR LONG												
Months of age													
Transfers													
Total													

Livestock Production Worksheet Directions

Decide whether you are using the worksheet for one year or for more than one year. (If you are using the computer software developed by HMI you can only use the worksheet for one year). The paper worksheet can be used in several ways. As you see, in the example on page 54, it has three similar sections across it. One of these can be used for one year and the other two left blank. Three sections, or one whole worksheet, can be used for one year divided into three 4-month periods. Alternatively, where you are trying to estimate the rate of growth of a herd over a few years, one worksheet can be used to reflect three years.

Step Five

Record the number of animals in each class at the start of the financial year in column C. Look at the Biological Year worksheet for clarity. **Record the age in months for each class in column D.** If mature, you can record 36+. For a group of young animals you can use the average age.

Step Six

Decide on the actual birth percentages you anticipate for all bred females of different age groups. **Record these percentages in column B** opposite the appropriate females in column A.

Step Seven

Estimate the mortality percentage you anticipate with each class of stock and record in column J. If using the worksheet for three years you will do this for each year in column J. If using the worksheet for one year only, we suggest you use column J in the middle of the year for simplicity and record mortalities as though they all occurred mid-year.

Step Eight

Next, using the percentage birth estimates (column B) **calculate the births** expected in the financial year from each group of females bred. Check the Biological Year worksheet for each group. They may be bred this year but produce no offspring until the next financial year. They may not have been bred last year. When you estimate births from each group you can generally, for simplicity, group animals born and divide by two to provide an estimate of male and female calves/lambs, etc. **Record estimated births in column E opposite the rows for male and female calves/lambs, etc.** **Record the average month of birth in column F.**

Step Nine

Plan any livestock purchases necessary during the year and record them in column G. **Record the planned month of purchase in column H.** Do this in the appropriate row for any class of livestock to be purchased.

Step Ten

Next, take each class of livestock—it's usually easiest to start with the youngest—and follow them through the year (refer to your biological worksheet). Note their age at the beginning, add any purchases and calculate any deaths (from mortality esti-

Livestock Production Worksheet Directions

mates in column J). **Record the estimated number of deaths in column I. Decide if any of that class of animal will be sold and if so record the number in column K. Record the planned month of sale in column L.**

Decide if the group will change in age class during the year and if so record this change in the *shaded class transfer columns*. **Record the number passing OUT** of that class in the appropriate row. **Record the same number IN** in the row for the class of stock that they will become. **OUT number must always equal IN.** Remember that if you have already taken off deaths for those animals not to do so again in the class you have transferred them to.

After following each group through the year, **record the number you will close with in column M. Record their average age in months in column N.** This closing column also becomes the opening column for the next year planned. If using one worksheet for a year in three four-month periods, then you can close each four-month period in this manner.

Step Eleven

Check your plans by adding all the figures for livestock you started the year with. **Record the total in row 13 (Total Head) under column C. Add and record totals for columns E, G, I, K and M in row 13.**

Take the opening total (column C) and add to it the totals of columns E and G. Subtract from this the totals of columns I and K, and the answer should equal the total under column M. *If not, you have an error to find!* In the case of the shaded transfer columns, merely check that *IN and OUT* totals are equal. Otherwise leave them out of the totals in row 13.

Step Twelve

Next, analyze the sales. **In row 14 (Class of Stock), record each type of animal that will be sold** in one of the columns available. Next, look in column K and **transfer the number for sale in each class to row 15**, together with the month of sale (from column L). Note that you have a spare row—16—in case there is more than one group of a particular class sold.

For each class of animal to be sold:

Estimate the **weights** and note in **row 17**.

Estimate the **price per pound** and note in **row 18**.

Calculate the **income per animal** and note in **row 19**.

Add **wool, hair weights, and prices** if applicable, and note in **rows 20-22**.

Calculate **planned gross income for each class of livestock** and record in **row 23**.

These are the final planned INCOME figures that should be transferred to the main spreadsheet (which the computer program does for you).

Livestock Production Worksheet Directions

Step Thirteen

Analyze the planned purchases. First **record in row 24 the classes of livestock to be bought**, using as many of the available columns as necessary.

Next, estimate the **price per animal** and record in **row 25**.

Calculate the **total cost** and record in **row 26**. To the right of this, record the month of planned purchase taken from column H above.

These are the final planned livestock purchase (EXPENSE) figures that should be trans-ferred to the main spreadsheet columns dealing with the particular enterprise (again, the computer program does this for you).

Recording Planned Income on the Spreadsheet

Create income columns for each livestock enterprise—e.g., cattle sales, sheep sales, wool sales, etc.—and pencil in the figures in the **Plan** rows in the appropriate months. Remember, you are predicting actual cash income rather than the month of sale. Thus, for wool sales, estimate the month and amount of preliminary payments as well as the month and amount of supplementary payments. Generally, and to be conservative, **record income later than actual sales**.

Livestock Production Worksheet

Download the PDF file for the large format spreadsheet or the Excel spreadsheet at:
www.holisticmanagement.org.

[illegible]

Livestock Production Worksheet Sample

Livestock Production Worksheet, 3-Year Plan



RANCH River Bend
 ENTERPRISE Cattle
 REMARKS 3 year plot to see rate of herd growth

LIVESTOCK PRODUCTION

YEAR OR MONTHS <u>2006</u>																	
A CLASS OF STOCK (Cows, Heifers, Calves, Bulls, etc.)	B BIRTH % EST.	C OPEN NO.	D AGE	E BIRTHS	F MONTH	G BUY	H MONTH	I CLASS TRANSFERS IN OUT	J DEATH	K %	L SALE	M MONTH	N CLOSE AND OPEN NO.	O AGE	P BIRTHS	Q MONTH	R BUY
1. Bulls		20				5	2	1	0		5	10	20				7
2. Cows	90%	500						200 2	14	2	138	11	548				
3. Heifers - 2	70%	200						225 3 200	5	2	66	11	154	36			
4. Heifers - 1	90%	225						240 4 225	5	2	24	11	211	24			
5. Heifers		240						380 5 240	0		38	11	342	12			
6. F. Calves		0		396	2			6 380	16	4			0		395	2	
7. M. Calves		0		396	2			7	16	4	380	11	0		395	2	
8.								8									
9.								9									
10.								10									
11.								11									
12.								12									
13. TOTAL HEAD		1185		792		5			56		651		1275		790		7
NOTE: RECORD YOUR ESTIMATES OF PERCENTAGE ACTUAL BIRTHS FOR THE VARIOUS AGE CLASSES OF BRED FEMALES IN THEIR ROWS IN COL																	
14. CLASS OF STOCK																	
15. NUMBER SOLD/MONTH OF SALE																	
16.																	
17. AVERAGE LIVE WEIGHT																	
18. MEAT PRICE PER LB.																	
19. INCOME PER ANIMAL																	
20. WOOL/HAIR WEIGHT/MONTH OF SALE																	
21. WOOL/HAIR PRICE/MONTH OF SALE																	
22. WOOL/HAIR INCOME																	
23. PLANNED GROSS INCOME																	
24. NUMBER PLANNED TO BUY																	
25. ESTIMATED PRICE/ANIMAL																	
26. TOTAL COST AND MONTH																	

Quiz

- 1) True or False: Gross Profit is the Income generated from a given enterprise minus the direct expenses associated with that enterprise.
- 2) What makes Holistic Management Financial Planning so effective?

- 3) What is a logjam?
 - a) Any problem that causes a loss of income
 - b) Any problem blocking you from making significant progress toward your holistic goal
 - c) A problem that only those within the business can identify
 - d) An unexpected expense that puts you in debt
 - e) All of the above
- 4) An investment expense is any expense that
 - a) Addresses a logjam
 - b) Addresses an adverse factor that could reduce income
 - c) Addresses the weakest link in your chain of production
 - d) That addresses the next weakest link after the weakest link has been addressed
 - e) All of the above
- 5) The gross profit analysis test is used to help you
 - a) Determine the best enterprises to run
 - b) Weigh the effect of diverting assets from one enterprise to another
 - c) Assess risk
 - d) Bring in the most money for the least additional cost
 - e) All of the above
- 6) When brainstorming you should
 - a) Start with the most important problem first
 - b) Consider each option carefully as presented
 - c) Allow time for people to give feedback on each idea
 - d) Gather everyone who might have an interest in the task and some who don't
 - e) All of the above
- 7) True or False: A business always has a logjam
- 8) True or False: Every enterprise will have a weak link
- 9) True or False: Plan profit before expenses

Quiz

- 10) True or False: Holistic Financial Planning is used only for annual planning
- 11) You can invest your profit in
- a) Savings
 - b) Retirement
 - c) A wealth generating expense
 - d) Paying off debt
 - e) All of the above
- 12) When monitoring your financial plan make sure
- a) One person is in charge of overseeing the whole plan and holding others accountable
 - b) You wait to get the most accurate information from the previous month's records even if you have to wait two or three months for the numbers.
 - c) You hire an accountant or bookkeeper to ensure accurate numbers in your financial plan
 - d) At least your grand total for expenses and incomes are better than plan even if some of the individual columns are worse than plan.
 - e) All of the above.
- 13) True or False: The key to generating wealth is producing lots of income.
- 14) Wealth is
- a) Money
 - b) Time
 - c) Biodiversity
 - d) Clean Water
 - e) All of the above

Answers:
1) T; 2) Plan profit before expenses, test financial decisions toward your holistic goal, categorizing wealth generating expenses; 3) B; 4) C; 5) E; 6) D; 7) F; 8) T; 9) F; 10) F; 11) E; 12) A; 13) F; 14) E