

Maintaining Working Capital and Restructuring Debt



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Financial Performance

- The farm economy has deteriorated substantially from a net income position in the last 24 months
- Based upon current price expectations, it appears that this income situation will not increase dramatically over the next few years
- What resources should be examined and how does one position the farm for these difficult times.



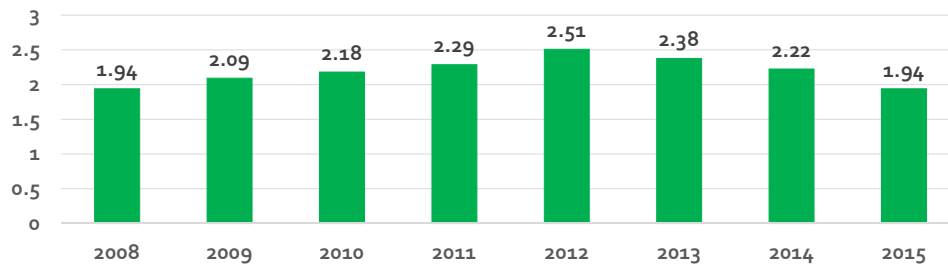
Liquidity

- The ability to pay expenses in the next year is measured by a concept defined as liquidity
- Can be measured in a number of ways
 - Current Ratio
 - Working Capital
 - Working Capital Percentage (function of income)
 - Working Capital Ratio (function of assets)
- The key is to understand the current position and prepare for the future



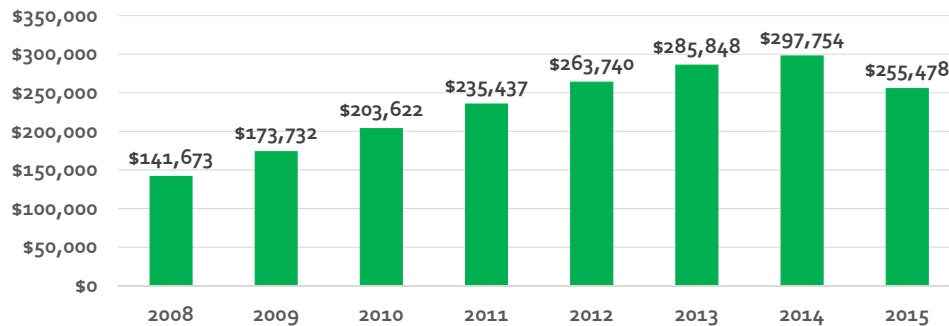
Current Ratio

- Current Assets / Current Liabilities
- Decreasing current ratios signify weakening liquid positions



Working Capital

- Current Assets - Current Liabilities
- Decreasing working capital signifies weakening liquid positions



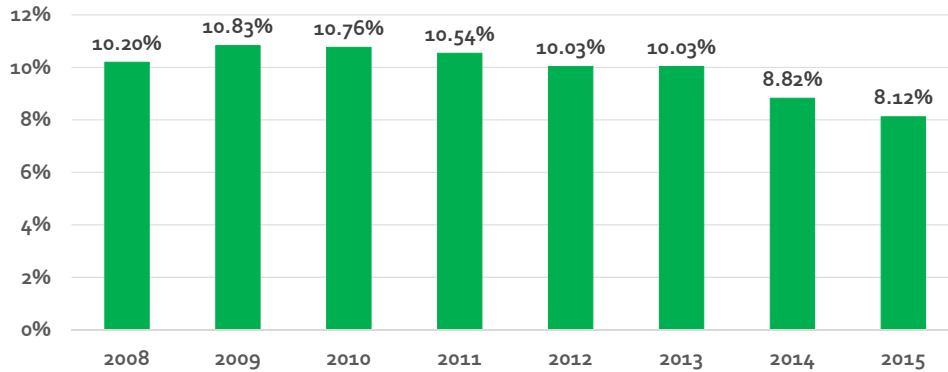
What is working capital?

- Working Capital = Current Assets – Current Liabilities
- Ability to cover current expenses with liquid assets
- Typically reported as working capital/gross revenue or working capital/assets when comparing in order to be scale neutral



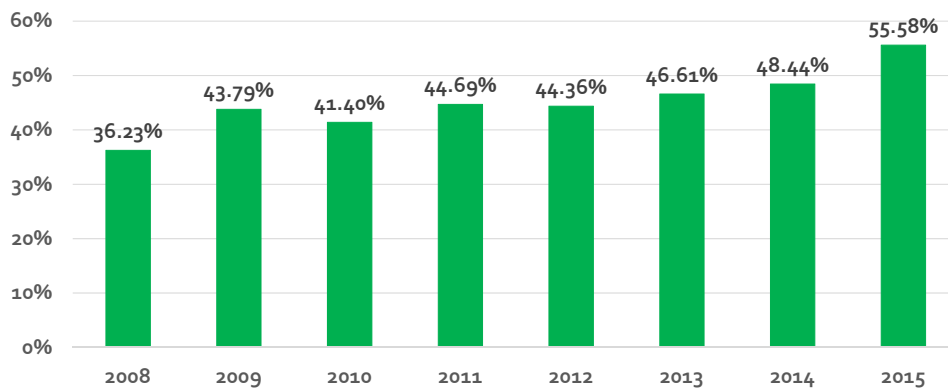
Working Capital/Assets

- Decreasing ratios signify weakening liquid positions



Working Capital/Gross Farm Income

- Decreasing ratios signify weakening liquid positions



Financial Statement Example

- See Printed Full Page Spreadsheet



Conclusions

- Looking at the long-term picture is critical regarding the future of your farming operation
- Looking at potential strategies can be helpful to the long term survival of your operation
- Have examined the long-term situation
- May need to examine the short-term situation by constructing a regular cash flow

