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Cash - Where it Comes from, Where it Goes

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Market Report	Yr Ago	4 Wks Ago	9/28/01
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$65.92	$69.98	$66.47
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	85.72	96.75	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	97.67	104.21	97.68
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	102.16	107.75	106.67
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	45.25	44.00	43.63
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	43.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	118.55	115.70	114.90
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	68.80	*	46.42
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	158.00	*	123.22
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.13	2.99	2.88
Corn, No. 2, Yellow Omaha, bu	1.63	1.92	1.83
Soybeans, No. 1, Yellow Omaha, bu	4.57	4.63	4.20
Grain Sorghum, No. 2, Yellow Kansas City, cwt	2.93	3.68	3.47
Oats, No. 2, Heavy Minneapolis, MN , bu	1.15	1.43	1.88
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	120.00	102.50	110.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	75.00	67.50	75.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	82.50	105.00	105.00

* No market.

The *Statement of Cash Flows* is an important financial statement for the farm or ranch business manager. While an accrual income statement explains the difference in net worth from one balance sheet to the next, the statement of cash flows explains the difference in cash and cash equivalents from one balance sheet to the next.

Generally Accepted Accounting Principles (GAAP) began to require a statement of cash flows, in addition to the balance sheet and income statement in 1988. It replaced the statement of changes in financial position, often referred to as the source and use of funds, or funds flow statement. The statement of cash flows focuses on three basic activities of a business; **Operating**, **Investing** and **Financing**. It provides insights into such questions as:

M What did the manager do with cash obtained from financing or from the sale of investments?

M Where did the cash for new investments originate S from operations, debt financing or the sale of investments?

M Where did the cash for repaying debt originate S from operations, sale of investments, refinancing or other debt financing?

The statement of cash flows is one of the four financial statements recognized as the minimum set of financial statements by the Farm Financial Standards Council (FFSC). Two of the four statements, the Balance Sheet and Income Statement are commonly used by producers and lenders. The remaining two statements are the Statement of Cash Flows and the Statement of Owner Equity. The statement of cash flows, which is completed after the end of a year's business, should not be confused with the cash flow plan, or budget, which most producers prepare at the beginning of each operating year.

The statement of cash flows shown below is the average of 156 Nebraska farms for the year 2000. These farms were in the Nebraska Farm Business Association (NFBA) and the Nebraskaland Farm & Ranch Management Educational Program. They use the FINPACK financial analysis software (University of Minnesota Center for Farm Financial Management) for year-end farm analysis. The statement of cash flows is a part of each producer's business analysis. While the statement of cash flows is most valuable to the manager of the business, the group average is presented here to show an example statement. The "Investing Activities" section was condensed to conserve space in this article. The statement that a producer receives shows detailed purchases and sales of farm assets in five categories.

The top section of the statement shows the net cash provided by operations, after deductions for family living and income and social security tax. The middle section deals with investing activities, and shows the sales and purchases of capital items. The net cash provided by investing activities is calculated. The bottom section shows loans received and loan principal payments. The net cash provided by financing activities is calculated.

Business owners should plot the key figures from their statement of cash flows on a trend sheet, to provide a benchmark for analyzing the latest year's statement. For the year 2000, the net cash from investing activities was a negative $50,138 for this group of 156 farms. To meet this deficit, $41,460 was generated from operations, and $8,880 came from financing (the cash balance increased by $202). The percent of the deficit that came from financing was 18%. This was the lowest percentage from financing in the six-year history of using the FINPACK analysis (1995-2000). The highest percentage required from financing was 52% in 1996. The average for the six years is 37%. The average debt to asset ratio for these farms for the same six years is about 38%. As you would expect, when the investing activities were funded by financing at a level higher than the debt to asset ratio, this ratio tended to increase. The low percentage of investing activities in the year 2000 that required financing will lower the debt to asset ratio. Thus, 2000 was an above average year for this group of producers, on average, based on the statement of cash flows.

Statement of Cash Flows
Average of 156 Nebraska Farms, 2000

Beginning Cash Balance		$26,617
Cash from Operating Activities		
Gross cash farm income		(+)343,779
Net non-farm income		(+)16,833
Total cash farm expense		(-)270,222
Apparent family living expense		(-)38,630
Income & social security tax		(-)10,300
Net Cash from Operating Activities		(=)$41,460
Cash from Investing Activities		
Sale of farm assets	(+)	7,020
Sale of non-farm assets		(+)6,203
Purchase of farm assets		(-)50,745
Purchase of non-farm assets	(-)	12,616
Net Cash from Investing Activities		(=)($50,138)
Cash from Financing Activities		
Money borrowed		(+)261,011
Cash gifts & inheritances		(+)4,575
Principal payments	(-)	256,415
Dividends paid		(-)21
Gifts given	(-)	270
Net Cash from Financing Activities		(=)$8,880
Net Change in Cash Balance		$202
Ending Cash Balance		$26,819

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