

FARM FINANCIAL ASSESSMENT  
**STATEMENT OF WORK**  
for  
**FARM BUSINESS ADVISORS**

IN SUPPORT OF THE DELIVERY OF GROWING FORWARD BUSINESS DEVELOPMENT FOR FARM BUSINESSES

**SW1 Introduction**

Under Growing Forward Business Development for Farm Businesses, the farm business may choose a Farm Financial Assessment (FFA) - a five day service which includes up to four-days for an (FFA) and up to one-day of follow-up. Any farm business advisor selected by a client and receiving a service contract to complete a FFA shall be identified on the service contract and shall ensure all work associated with a FFA is completed, as described in this Statement of Work.

**SW2** If any farm business advisor, chosen by the client, works for a firm which receives a service contract to complete a FFA, the firm shall name the farm business advisor and both the firm and farm business advisor's name will appear on the service contract. The named farm business advisor shall ensure all work associated with a FFA is completed as described in this Statement of Work.

**SW3** There will be two options available to farm businesses to undertake the FFA (1) program-led and (2) producer-led.

- 1) **Program-led** – the farm business may choose an advisor from the approved FFA roster.
- 2) **Producer-led** – the farm business may choose their own advisor. This advisor is not required to be on the approved FFA roster but they must meet the same minimum requirements as the rostered advisors.

**SW4 Farm Financial Assessment Deliverables**

The farm business advisor shall be required to meet with the farm business on a when and as required basis over the period of the contract. At the request of the program administration, the work shall include, but is not limited to gathering information relevant to the farm's operation and its financial situation. This information will be used to complete a FFA as determined by the program administration.

SW4.1 The farm business advisor will be required to provide a written report and/or an electronic version of the report, which summarizes the work done on the FFA. The contents of the written report for the FFA are defined in SW4.2.6.

SW4.2 Each FFA undertaken by the farm business advisor shall be comprised of the following or as determined by the program administration:

SW4.2.1 A review of any information that may be requested by the program administration.

SW4.2.2 There will be a minimum one farm visit for data collection and preparation of the information required including, but not limited to, farm revenue and expenses, farm and other assets, supplier arrangements and payables, creditor arrangements and liabilities and review of the farm business's goals and objectives as set out in their Action Plan.

SW4.2.3 Prior to beginning work on the farm financial statement, income tax returns for a minimum of two consecutive years shall be obtained from the farm business as well as any other relevant financial statements.<sup>2</sup> In the case of First Nation Farmers and where Income tax records are not available the farm business advisor shall endeavor to collect any and all income and expense related information relevant to the completion of a financial statement.

SW4.2.4 The assessment shall include a review of the financial records of the farm business. The farm business advisor shall provide input to the farm business regarding the current market value of the farm assets and complete the following financial statements:

1. Opening current market value balance sheet (current and long-term assets and liabilities, and net worth) for the month of the initial farm visit by the farm business advisor. Detailed assets and liabilities worksheets supporting the balance sheet are to be included.
2. Revenue and expense statement for the previous two consecutive years<sup>1</sup> using filed income tax statement information (e.g. from T2042, T1, T2 or CAIS/AgriStability forms, this may not be available for some beginning farmers).
3. A current year<sup>2</sup> revenue and expense projections for 12 consecutive months (unless prior approved by the project authority due to extraordinary circumstances) as the base year statement for comparative purposes with the previous years' statements.
4. A financial ratio analysis using the six mandatory ratios<sup>2</sup> (asset turnover, current, operating profit margin, return on assets, debt to equity, debt repayment capacity; Refer to SW 4.2.6, Part (d) Farm Business Ratio Analysis), that are relevant to the farming operation and explained in a language that is easily understood. Additional ratios are optional and can be used at the discretion of the farm business advisor and farm business.
5. A current year revenue and expense statement<sup>1</sup> on an accrual basis for 12 consecutive months providing for accrual adjustments in revenues, sales, inventory changes and prices and accrual adjustments in variable and fixed expenses.
6. A financial plan including one of the following as a minimum:
  - a. A detailed cost of production analysis for the main farm enterprises including current year production<sup>3</sup> projection and analysis outlining the crop/livestock production, yield, costs, sales and expected returns
  - b. Financial projections for a minimum of one year (monthly or quarterly) to meet identified goals in the farm operation's Action Plan, including farm and off-farm cash inflows and variable and fixed cash outflows outlining the cash requirements of the operation and to the operating loan requirements of the operation.
7. A summary identifying the farm business, address, business profile, key objectives of the financial analysis, net worth, net farm income and interpretation and discussion of the results.

SW4.2.5 The farm business advisor and farm business shall discuss the farm business's objectives of the FFA and identify any possible options or conclusions that could be explored further in the financial plan.

#### SW4.2.6 **Farm Financial Assessment Report**

The farm business advisor shall prepare a written report for the farm business on each individual farm financial assessment in the language required by the program administration, which shall include the following:

##### **a) Business Overview**

The name and address of the farm business.

A brief description of the operation outlining the type (dairy, grains & oilseeds, grains & livestock, hog farrow to finish or weaner, poultry & fruit, quota holdings, etc) and size (total acres cultivated, size of herd) of enterprises. A short statement is to be included explaining the farm business's key objectives of enrolling in the program. The business overview should not be more than 1 page in length.

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<sup>1</sup> These requirements may be optional for beginning farmers.

<sup>2</sup> Current year – once a farm business is more than six (6) months into their current fiscal year at the time of the initial visit with the farm business advisor, a current year for the revenue and expense statement refers to a financial analysis and input beginning in the first month of their current fiscal year and running forward to the ending month of their current fiscal year. If the farm business is less than six (6) months into their current fiscal year at the time of the initial visit with the farm business advisor, the previous fiscal year will be accepted as the current year (unless otherwise agreed to and approved by the program administration).

**b) Financial summary of profitability/viability of the farm operation report (in plain language) including:**

- Net worth
- Net farm income
- Explain the significance of ratios to farm business and provide comments in narrative, include how these ratios relate to this farming operation in plain language to be understood by the farm business.
- Financial plan – COP analysis option - Assessment of present profitability/viability of the main enterprises of the operation; determination of breakeven levels of present enterprises
- Financial plan – Financial projections option - Assessment of the present profitability/viability of the operation; determination if the operation is sustainable to achieve the identified goals in the farm business's Action Plan

**c) Farm Financial Statements**

1. Opening current market value balance sheet (current and long-term assets and liabilities, and net worth) for the month of the initial farm visit by the farm business advisor. Detailed assets and liabilities worksheets supporting the balance sheet are to be included.
2. Revenue and expense statement for the previous two consecutive years<sup>2</sup> using filed income tax statement information (e.g. from T2042, T1, T2 or CAIS/AgriStability forms, this may not be available for some beginning farmers).
3. A current year<sup>4</sup> revenue and expense projections for 12 consecutive months (unless prior approved by the project authority due to extraordinary circumstances) as the base year statement for comparative purposes with the previous years' statements.
4. A current year revenue and expense statement<sup>1</sup> on an accrual basis for 12 consecutive months providing for accrual adjustments in revenues, sales, inventory changes and prices and accrual adjustments in variable and fixed expenses.

**d) Farm Business Ratio Analysis: Six (6) Required Ratios**

The six mandatory ratios are: Asset Turnover, Current Ratio, Operating Profit Margin Ratio, Return on Assets, Debt to Equity Ratio, Debt Repayment Capacity Ratio).

**Financial Efficiency: how effective the business is using its assets to generate income**

- Asset Turnover = Gross farm sales divided by Total farm assets

**Liquidity: assesses the business's ability to pay their bills as they come due**

- Current ratio = Current assets divided by Current liabilities

**Profitability: measures how well the business is able to generate a profit**

- Operating Profit Margin ratio = (Net farm income + interest expense - unpaid labour and return to management) divided by Gross farm sales
- Return on Assets = (Net farm income + interest expense – unpaid labour and return to management) divided by Total farm assets

**Solvency: determines how much the business is relying on debt to finance the business**

- Debt to Equity ratio = Total liabilities divided by Equity

**Repayment Capacity: measures the ability of a borrower to repay term farm debt from farm and non-farm income**

- Debt Servicing Capacity Ratio = Amount available to service debt divided by Debt payment requirements

Additional ratios are optional and can be used at the discretion of the farm business advisor and farm business.

e) **Financial Plan (choose one of the following, as a minimum)**

**Detailed cost of production enterprise analysis for main enterprises**

It will consist of the following:

- Identify main enterprises of the farm business as well as expected or historical production/yield results for each enterprise
- Allocate whole farm revenue and individual expenses to the enterprises (current year and past two years)
- Calculate main margins for each enterprise on per unit produced basis:
  - Gross margin = Gross enterprise revenue minus Total variable costs
  - Profit margin = Gross enterprise revenue minus Total costs
- Calculate breakeven points for each enterprise:
  - Breakeven price to cover variable costs = Total variable costs divided by expected (or historical) yield = \$ / unit produced
- This is the minimum price needed to cover variable costs.
  - Breakeven price to cover total costs = Total costs divided by expected (or historical) yield = \$ / unit produced
- This is the minimum price needed to cover all costs.
  - Breakeven yield = Total costs divided by Expected price = Unit produced
- This is the minimum yield needed to cover all costs
- Assessment and discussion of the profitability/viability of each enterprise; determination if each enterprise is contributing to the profitability/viability of the farm business

OR

**Financial projections for a minimum of one year (monthly or quarterly) to meet identified goals in the farm business's Action Plan.**

It will consist of the following:

- After changes have been incorporated, complete projected income and expense estimates for a minimum of one year (monthly or quarterly) of the business cycle.
- An assessment and discussion of the profitability/viability of the operation.
- Outline how the different areas of the farm business are impacted (address all applicable aspects):
  - Marketing
  - Production
  - Human Resources
  - Financial Management
  - Social Responsibility
  - Succession planning
  - Business Structure
  - Business Goals
- Projected statement of assets and liabilities taking into consideration any new investment in the business.
- Calculation of Financial Ratios for the projected period and comments. The ratios should include the ratios outlined in section (d) Farm Business Ratio Analysis of the Farm Financial Assessment Report.
- May include discussion of the benchmarking reports available to the farm business and their use/benefits.
- Cash flow – A projected cash flow (monthly or quarterly) for a minimum of one year will be required.

SW4.2.7 The farm business advisor meet with the farm business to provide the interpretation, discussion of the FFA results and ensure the objectives of the farm business for undertaking the FFA have been met.

**The farm business advisor shall have the Farm Financial Assessment claim form signed by the farm business.**

### **SW4.3 Follow - Up Services**

#### **Follow-up (up to 1 day):**

Farm businesses are also eligible for reimbursement of up to one (1) day of follow-up with a farm business advisor to a maximum of \$500.00 per farm business

Upon completion of the FFA, the farm business will receive information and a claim form regarding the option to have a one (1) day of follow-up, by January 15th of the following program year. The farm business activates a request for follow-up through the FFA program administration. The farm business advisor reviews file, plans, strategies.

Note: A farm visit is not required.

#### **Discussion with the farm business, depending on the farm business's needs, may focus on:**

- What is working
- what is not
- review financial performance
- review options
- changes and next steps

Deliverables to the program administration and the farm business:

- an updated net worth statement and detailed assets and liabilities used to generate it.
- A copy of the updated objectives, next steps and a narrative report on progress towards goals. (Up to 2 pages)

The farm business advisor prepares a written report on the above deliverables and provides a copy of the report to the farm business and to the program administration office.

**The farm business advisor shall have the Follow-up claim form signed by the farm business.**

### **SW5 Total Cost for a Farm Financial Assessment**

The program administration will indicate to the farm business advisor that the maximum financial support available to any farm business will be \$2,400.00 for up to four days of one-on-one consultation with the farm business advisor (to a maximum of \$1,900), as well as up to one day of follow-up (to a maximum of \$500). **GST/HST is not an eligible expense and is payable by the producer.**

#### **Program-led option**

The program administration will reimburse the farm business advisor directly up to a maximum of \$1,900.00. The farm business must provide a payment of \$100 as its cost-share contribution to the farm business advisor at their first meeting. Travel costs up to a maximum of two farm visits, under the program-led option only, will be paid by the program administration if there are no farm business advisors available within a 200km round trip radius.

#### **Producer-led option**

The program administration will indicate to the farm business that with proper proof of payment, the farm business will be reimbursed for services rendered by the farm business advisor up to a maximum of \$1,900.00 for undertaking any FFA. The farm business will be responsible for any costs incurred over and above the \$1,900.00 program cost share.

#### **Follow-Up**

The program administration will indicate to the farm business that they are also eligible for reimbursement of up to one (1) day of follow-up with a farm business advisor to a maximum of \$500.00 per farm business.

### **SW6 Follow-Up**

The farm business advisor may be requested to provide up to one day of follow-up in relation to a FFA. Please refer to SW 4.3 for details on the follow-up requirements.

**SW7 Other Duties**

The farm business advisor may perform any other duties deemed necessary by the program administration, and accepted by the farm business advisor, in relation to the FFA.

**SW8 Amendments**

Any change in a Service contract requested by the farm business advisor must be renegotiated and pre-approved by the program administration prior to the completion of incremental work. The service contract will be amended and issued to reflect the change.

**SW9 Financial Report Format Requirements**

The farm business advisor will be required to provide a written report and/or an electronic version of the report to the program administration, which summarizes the work done on the FFA.

**SW10 Required Equipment and Software**

There will be no prescribed or standard software required by the advisors or farm businesses to undertake a FFA. Any software used must be able to meet the reporting requirements of the FFA. It is the responsibility of the farm business advisor and farm business to select assessment software that meets the FFA reporting requirements.

**SW11 Other Similar Duties**

The selected farm business advisor may be requested to perform similar duties for other Growing Forward Programs as deemed necessary by the program administration, and accepted by the selected farm business advisor.

**SW12 Professional Associations**

Prior to a service contract agreement, the farm business advisor shall demonstrate that they belong to a professional association which has a code of ethics, or shall demonstrate successful completion of a course on professionalism and ethics within the last 5 years.

**SW13 Errors and Omissions Liability Insurance**

Prior to a service contract agreement, the farm business advisor shall demonstrate that they have a minimum \$ 1,000,000.00 Errors and Omissions liability insurance coverage.

**SW14 Conflict of Interest**

**14.1** The farm business advisor shall declare any conflict of interest or potential conflict of interest to the program administration prior to commencing work with the farm business. A situation deemed to be a conflict of interest will result in the termination of the service contract or the suspension of work issued to the farm business advisor against the service contract.

**14.2** The farm business advisor shall not create a conflict of interest while working with a farm business under Growing Forward Business Development for Farm Businesses; if a conflict of interest exists the farm business advisor must advise the farm business. The creation of a conflict of interest may result in the termination of the service contract or the suspension of work against the service contract.