Managing Your Balance Sheet
Towards a Financially Healthy Food Hub

ROBIN MORRIS
MAD RIVER FOOD HUB L3C
About the Presenter: Robin Morris

- Founded the Mad River Food Hub L3C in 2011
- Located in Waitsfield, Vermont
- Food business incubator supporting farmers and value added processors
- Shared USDA meat & FDA vegetable processing rooms
- Processing – Storage - Distribution – Tech. Assistance

- 35+ years of business management experience
- 20 years in the Financial Software industry
- 15 years in CFO capacity
- 8 years as CFO at American Flatbread Company.

- Co-creator of UVM Food Hub Management Certificate Program at University of Vermont.
- Board of the Vermont Land Trust.

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"The Balance Sheet is your tool box"

Chapter 1
- What is a balance sheet
- Balance Sheet demystified

Chapter 2
- Your organization’s stage of growth

Chapter 3
- Peeling back the onion (Balance Sheet)

Chapter 4
- Using the Balance Sheet to accurately close the books
- Questions and Answers
What is a Balance Sheet
A snapshot of an organization’s Financial Condition

What is a 'Balance Sheet'?
- Balance Sheet – Profit & Loss – Statement of Cashflow
- Balance sheet = Statement of Assets in Non-Profits
- Summarizes what the organization owns and owes
- Must be in balance
- Requires accurate closing of accounts
- Snapshot of organizations financial health at a specific point in time
Balance Sheet or Statement of Assets

fundamental accounting equation $A = L + OE$
Balance Sheet - Categories

Assets
- Current Assets
- Fixed Assets
- Other Assets

Liabilities
- Current Liabilities
- Long-Term Liabilities
- Investment or Restricted Grants
- Earnings (Profit)

Equity/Net Assets

Assets Focus = Value
Liability Focus = Duration

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Balance Sheet – Sub Categories

Current Assets
- Bank
- Receivables
- Inventory
- Prepayments
- Equipment
- Leasehold
- Vehicles
- Computer
- Furniture
- Depreciation
- Other Assets

Current Liabilities
- Acct Payable
- Credit cards
- Line of Credit
- Grant Liability
- Capital Lease
- Loans

Long-term Liabilities
- Investment
- Restricted Funds
- Retained Profit
- CY Net Profit

Equity/Net Assets

CY = Calendar Year
**“Balance Sheet accounts are cumulative”**

Example: Fixed Asset Equipment Account

<table>
<thead>
<tr>
<th>Date</th>
<th>Tran. #</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1/13</td>
<td>1234</td>
<td>Double Convection Oven</td>
<td>$5,634</td>
</tr>
<tr>
<td>8/2/13</td>
<td>6543</td>
<td>Vulcan Oven Range</td>
<td>$8,236</td>
</tr>
<tr>
<td><strong>FY13 Balance</strong></td>
<td></td>
<td></td>
<td><strong>$13,870</strong></td>
</tr>
<tr>
<td>4/24/14</td>
<td>8765</td>
<td>Dishwasher</td>
<td>$5,213</td>
</tr>
<tr>
<td><strong>FY14 Balance</strong></td>
<td></td>
<td></td>
<td><strong>$19,083</strong></td>
</tr>
<tr>
<td>5/12/15</td>
<td>9293</td>
<td>Robot Coupe</td>
<td>$1,250</td>
</tr>
<tr>
<td>5/14/15</td>
<td>9294</td>
<td>Immersion Blender</td>
<td>$832</td>
</tr>
<tr>
<td>5/16/15</td>
<td>9285</td>
<td>Steam Kettle</td>
<td>$10,123</td>
</tr>
<tr>
<td><strong>FY15 Balance</strong></td>
<td></td>
<td></td>
<td><strong>$31,288</strong></td>
</tr>
</tbody>
</table>
Profit & Loss or Income of Statement

Balance Sheet
- Assets
- Liabilities
- Equity/Net
  Assets
  Includes: Summarized Profit & Loss:
  Net Profit = Income - Costs

Profit & Loss
- Revenue
- Expenses
- Net Profit
Statement of Cashflow

<table>
<thead>
<tr>
<th>Statement Cashflow</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>Net income for the period</td>
</tr>
<tr>
<td>+/- Net Cash from Operation Activities</td>
<td>Net change in receivables, bank, inventory</td>
</tr>
<tr>
<td>++ Net cash from Investing Activities</td>
<td>Net change in purchase of assets etc</td>
</tr>
<tr>
<td>++ Net cash from Financing Activities</td>
<td>Net change in loans &amp; investment</td>
</tr>
<tr>
<td>Increase or Decrease in cash for period</td>
<td>Cash at beginning less cash at end period</td>
</tr>
</tbody>
</table>
Balance Sheet – Profit & Loss - Cashflow

Balance Sheet end of last month

Assets

Liabilities

Equity incl. Net Profit

Statement of Cashflow

Net Income for Period

+ Net Cash – Operations

+ Net Cash – Investing

+ Net Cash – Financing

Increase/Decrease in Bank

Balance Sheet end of this month

Assets

Liabilities

Equity incl. Net Profit

Income

Less Costs

= Net Profit

Income

Less Costs

= Net Profit
Balance Sheet reflects your organization’s stage of growth
What is your organization’s stage of growth

**Stages of Food Hub Lifecycle**

<table>
<thead>
<tr>
<th>Development</th>
<th>Startup</th>
<th>Growth</th>
<th>Expansion</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viable Business Plan</td>
<td>Cash Liquidity</td>
<td>Scaling Revenue</td>
<td>New Markets</td>
<td>New Markets</td>
</tr>
<tr>
<td>Defining Market</td>
<td>Customers/Sales</td>
<td>Scaling Customers</td>
<td>New Products</td>
<td>New Products</td>
</tr>
<tr>
<td>Business Structure</td>
<td>Management</td>
<td>Growth Management</td>
<td>Expansion Management</td>
<td>Innovation Management</td>
</tr>
<tr>
<td>Funding</td>
<td>Market Presence</td>
<td>Competition</td>
<td>Increasing Competition</td>
<td>Increasing Competition</td>
</tr>
</tbody>
</table>
## Stage & Size of your balance sheet

<table>
<thead>
<tr>
<th>Business Stage</th>
<th>Development</th>
<th>Startup</th>
<th>Growth</th>
<th>Expansion</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges</td>
<td>Viable Bus. Plan</td>
<td>Cash Liquidity</td>
<td>Scaling Revenue</td>
<td>New Markets</td>
<td>New Markets</td>
</tr>
<tr>
<td>Sales</td>
<td>None</td>
<td>&gt; $0</td>
<td>&lt;$1m</td>
<td>&gt;$1m</td>
<td>&gt;$5m</td>
</tr>
<tr>
<td>Profit/(Loss)</td>
<td>Loss</td>
<td>Loss</td>
<td>Break Even (B-E)</td>
<td>Break Even/Profit</td>
<td>Profit</td>
</tr>
<tr>
<td>Increase Net Assets</td>
<td>Invest/Grant</td>
<td>Invest/Grant</td>
<td>Invest/Grant/B-E</td>
<td>Invest/Profitability</td>
<td>Invest/Profitability</td>
</tr>
<tr>
<td>Net Worth</td>
<td>None</td>
<td>None</td>
<td>Starting</td>
<td>Growing</td>
<td>Growing</td>
</tr>
<tr>
<td>Term Loans</td>
<td>No</td>
<td>No</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Line of Credit</td>
<td>No</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

---

**Equity/Net Assets**

- Development: No
- Startup: Possibly
- Growth: Yes
- Expansion: Yes
- Maturity: Yes

**Net Profit**

- Development: None
- Startup: None
- Growth: Starting
- Expansion: Growing
- Maturity: Growing
CHAPTER 3

Peeling back the Onion (Balance Sheet)
Net Worth or Owners Equity can be increased or decreased by:
- Current Years Profits or Losses (Surplus/Deficit)
- Previous Years Profits or Losses – Retained Earnings
- Owners investment – Paid-in Share capital
- Third Party Investment – Preferred Shares
- Restricted Grants, Donations or Gifts
Healthy or not?

Positive Equity
Healthy - Solvent

Negative Equity
Unhealthy - Insolvent
The argument for Inventory

For organizations that take **ownership** of produce or products in advance of sales
Inventory: 8 things to consider

1. Profit is distorted if inventory is not counted or valued correctly
2. Inventory is an asset of org.
3. Value = cost of purchase or processing + inbound freight + packaging costs
4. Value does not include markup
5. Inventory tracking systems work!
6. Physical count as backup
7. Adjust for spoilage and theft - shrinkage (reduces profit)
8. Measure Inventory turns
9. Requires Accrual Accounting
Net Current Operating Assets & Liabilities

Positive Net Assets
Healthy

Negative Net Assets
Unhealthy
4 ways to improve operating liquidity

<table>
<thead>
<tr>
<th></th>
<th>Reduce Customer Receivables</th>
<th>Turn Inventory more frequently</th>
<th>Increase Vendor payment terms</th>
<th>Line of Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Balance $</td>
<td>$40,000</td>
<td>$32,000</td>
<td>$20,000</td>
<td></td>
</tr>
<tr>
<td>Current days #</td>
<td>28 days</td>
<td>16 days</td>
<td>Net 15</td>
<td></td>
</tr>
<tr>
<td>New days #</td>
<td>21 days</td>
<td>14 days</td>
<td>Net 30</td>
<td></td>
</tr>
<tr>
<td>New Balance $</td>
<td>$30,000</td>
<td>$28,000</td>
<td>$40,000</td>
<td>$28,000</td>
</tr>
<tr>
<td>Working Capital Increase</td>
<td>$10,000</td>
<td>$4,000</td>
<td>$20,000</td>
<td>$28,000</td>
</tr>
</tbody>
</table>

Don’t purchase assets with working capital
Balance sheet can point to trends
## Traditional & Vendor Financing

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Purpose</th>
<th>Characteristic</th>
<th>Accounting</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of Credit</td>
<td>Working Capital</td>
<td>Interest only,</td>
<td>ST Liability</td>
<td>Short 1 year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>revolving</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-Term Loan</td>
<td>Construction or short term project</td>
<td>Balloon Payment</td>
<td>ST Liability</td>
<td>Short or project life</td>
</tr>
<tr>
<td>Credit Card</td>
<td>Operational expenses</td>
<td>Monthly Payments</td>
<td>ST Liability</td>
<td>Short 1 m to 1 year</td>
</tr>
<tr>
<td>Long-Term Loan</td>
<td>Purchase Assets</td>
<td>Monthly Payments</td>
<td>LT Liability</td>
<td>3-7 years</td>
</tr>
<tr>
<td>Capital Lease</td>
<td>Purchase Assets</td>
<td>Monthly Payments</td>
<td>LT Liability</td>
<td>3-7 years</td>
</tr>
<tr>
<td>Operating Lease</td>
<td>Purchase assets and maintenance contract</td>
<td>Monthly Payments</td>
<td>Expense</td>
<td>Useable life of asset</td>
</tr>
</tbody>
</table>

*Others: Convertible notes, slow money loans and royalty financing*
Line of Credit

How to increase working capital to pay vendors while waiting for customers to pay

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Acct Payable</td>
<td>Bank</td>
<td>Acct Payable</td>
</tr>
<tr>
<td>Receivables</td>
<td>Credit cards</td>
<td>Receivables</td>
<td>Credit cards</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>Inventory</td>
<td></td>
</tr>
</tbody>
</table>

Short term line of credit sample collateral calculation

<table>
<thead>
<tr>
<th>Receivables under 90 days</th>
<th>$50,000</th>
<th>70% (50-75%)</th>
<th>$35,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$20,000</td>
<td>25% (0-70%)</td>
<td>$5,000</td>
</tr>
<tr>
<td>Line of Credit</td>
<td></td>
<td></td>
<td>$40,000</td>
</tr>
</tbody>
</table>
Term Loan & Debt Service Calculation

### Debt service worksheet

<table>
<thead>
<tr>
<th>Example Loan</th>
<th>Amount</th>
<th>% / Length</th>
<th>Annual Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan 1</td>
<td>$10,000</td>
<td>6% 5 years</td>
<td>$2,374</td>
</tr>
<tr>
<td>New Loan/ Lease (Freezer Match)</td>
<td>$10,000</td>
<td>5% 4 years</td>
<td>$2,820</td>
</tr>
<tr>
<td>Total Annual Debt Service Payments</td>
<td></td>
<td></td>
<td>$5,194</td>
</tr>
<tr>
<td>EBITDA (Earnings before Interest, Taxes, Depreciation &amp; Amortization)</td>
<td></td>
<td></td>
<td>$7,350</td>
</tr>
<tr>
<td>Debt Service Ratio - minimum 1.25</td>
<td>($7,350 divided by $5,194 = 1.41)</td>
<td></td>
<td>1.41</td>
</tr>
</tbody>
</table>

Unencumbered Net Assets are collateral for Term Loan
Usually 50% to 90% of book value
Depreciation explained

Example: Fixed Asset Equipment account

<table>
<thead>
<tr>
<th>Date</th>
<th>Tran. #</th>
<th>Description</th>
<th>Cost New</th>
<th>Depreciation Years</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Net Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/1/13</td>
<td>1234</td>
<td>Double Convection Oven</td>
<td>$5,634</td>
<td>5</td>
<td>-$1,127</td>
<td>-$1,127</td>
<td>-$1,127</td>
<td>$2,253</td>
</tr>
<tr>
<td>8/2/13</td>
<td>6543</td>
<td>Vulcan Oven Range</td>
<td>$8,236</td>
<td>5</td>
<td>-$1,647</td>
<td>-$1,647</td>
<td>-$1,647</td>
<td>$3,295</td>
</tr>
<tr>
<td>4/24/14</td>
<td>8765</td>
<td>Dishwasher</td>
<td>$5,213</td>
<td>5</td>
<td>-$1,043</td>
<td>-$1,043</td>
<td>-$1,043</td>
<td>$3,127</td>
</tr>
<tr>
<td>5/12/15</td>
<td>9293</td>
<td>Robot Coupe</td>
<td>$1,250</td>
<td>5</td>
<td></td>
<td>-$250</td>
<td></td>
<td>$1,000</td>
</tr>
<tr>
<td>5/14/15</td>
<td>9294</td>
<td>Immersion Blender</td>
<td>$832</td>
<td>5</td>
<td></td>
<td>-$166</td>
<td></td>
<td>$666</td>
</tr>
<tr>
<td>5/16/15</td>
<td>9285</td>
<td>Steam Kettle</td>
<td>$10,123</td>
<td>5</td>
<td></td>
<td>-$2,025</td>
<td></td>
<td>$8,098</td>
</tr>
<tr>
<td>FY 15 Balance</td>
<td></td>
<td></td>
<td>$31,288</td>
<td></td>
<td>-$2,774</td>
<td>-$3,817</td>
<td>-$6,258</td>
<td>$18,439</td>
</tr>
</tbody>
</table>

Useful life is the estimated lifespan of a depreciable fixed asset, during which it can be expected to contribute to company operations.

Real Property
Leasehold improvements
Equipment
Furniture and Fixtures
Vehicles

39.5 years
3 to 39.5 years
5 to 7 years
5 years
5 to 7 years
Matching loans to lenders

<table>
<thead>
<tr>
<th>Collateral Risk</th>
<th>Collateral Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Real Property</td>
<td>Banks</td>
</tr>
<tr>
<td>Equipment &amp; Vehicles</td>
<td>State &amp; Federal Government</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>State &amp; national community based lenders</td>
</tr>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>Local community lenders</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>Investors – Angel/Venture</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>Grants</td>
</tr>
</tbody>
</table>

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Multi Year Projects & Construction

Example

- In October we start construction of a new freezer
- Collect all costs in a current asset Work in Progress (WIP) account
- The Freezer goes into service the following February
- All costs are transferred to a Fixed Asset account
- How do you finance the freezer?
- Short-term construction loan

End of Year 1
Assets

- Bank
- Receivables
- Inventory
- Project WIP
- Equipment
- Leasehold
- Vehicles
- Computer
- Furniture
- Depreciation
- Other Assets

End of Year 2
Assets

- Bank
- Receivables
- Inventory
- Equipment
- Leasehold
- Freezer
- Vehicles
- Computer
- Furniture
- Depreciation
- Other Assets

Current
Assets

Fixed
Assets
Multi Year Grants

Example

- In Oct we receive grant to cover 50% of the new freezer
- The grant received gets posted to Grant Liability
- Balance at Year end is part of following year budget
- As construction expenses booked, grant is decreased and net assets is increased.
- Note: Grant monies must not be included for operating cashflow

End of Year 1 Liabilities

- Accts Payable
- Credit Card
- Line of Credit
- Grant Liability
- Capital Leases
- Loans
- Investment
- Restricted Funds
- Retained Profit
- CY Net Profit

End of Year 2 Liabilities

- Accts Payable
- Credit Card
- Line of Credit
- Capital Leases
- Loans
- Investment
- Restricted Funds
- Retained Profit
- CY Net Profit increased net assets

Note: Grant monies must not be included for operating cashflow.
Budgeting Profit & Loss + Balance Sheet items

<table>
<thead>
<tr>
<th>Annual Budget Items</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$100,000</td>
</tr>
<tr>
<td>COGS</td>
<td>-$75,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$25,000</td>
</tr>
<tr>
<td>Expenses (excluding interest, taxes &amp; depreciation)</td>
<td>-$17,650</td>
</tr>
<tr>
<td><strong>Operating Cash inflows/outflows (EBITDA)</strong></td>
<td>$7,350</td>
</tr>
<tr>
<td>Non Operating Items</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets Purchase (New Freezer)</td>
<td>-$20,000</td>
</tr>
<tr>
<td>Grant Liabilities (USDA Freezer Grant 50% match)</td>
<td>$10,000</td>
</tr>
<tr>
<td>New loan for Freezer Match</td>
<td>$10,000</td>
</tr>
<tr>
<td>Debt Service – existing loan</td>
<td>-$2,374</td>
</tr>
<tr>
<td>Debt Service – new Freezer loan</td>
<td>-$2,820</td>
</tr>
<tr>
<td>Total Debt service</td>
<td>-$5,194</td>
</tr>
<tr>
<td><strong>Net Cash inflows/outflows</strong></td>
<td>$2,166</td>
</tr>
</tbody>
</table>
CHAPTER 4

Using the Balance Sheet to close the books
Closing – Balance Sheet Checklist

Balance Sheet

Assets
- Bank
- Receivables
- Inventory
- Prepayments
- Equipment
- Leasehold
- Vehicles
- Computer
- Furniture
- Depreciation
- Other Assets

Liabilities
- Acct Payable
- Credit cards
- Line of Credit
- Grant Liability
- Capital Lease
- Loans
- Investment
- Restricted Funds
- Retained Profit

Equity
- Net Profit

Net Assets

- Accounts Payable
- Credit Cards
- Line of Credit
- Grant Liabilities
- Long-Term Loans
- Capital Leases
- Investment
- Restricted Funds
- Net Profit/Surplus
Closing your books – Accurately!

Balance Sheet
- Bank
- Receivables
- Inventory
- Prepayments
- Equipment
- Leasehold
- Vehicles
- Computer
- Furniture
- Depreciation
- Other Assets

Profit & Loss
- Revenue
- Expenses

Net Profit

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Questions & Answers