

Virginia Cooperative Extension



Farm Business Management Update February – March 2007

To: Extension Unit Directors, Extension District Directors, Extension Program Directors, and Farm Management Agents, and ANR Specialists

Dear Co-Workers:

Farm Business Management Update is a joint effort of the Agricultural and Applied Economics faculty and the area farm management agents. Subject matter areas include timely information on farm management, marketing, tax management, finance, credit, labor, agricultural law, agri-business, estate planning, 4-H and economic education, natural resources, and CRD. Please use this information in your on-going Extension programs and circulate to all Extension staff. **Farm Business Management Update** is electronically accessible via the Virginia Cooperative Extension World Wide Web site (<http://www.ext.vt.edu/>). To see the articles listed in the reverse chronological order, select “News,” then select “Farm Business Management Update” listed under the heading “Periodicals.”

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Financial Analysis of an Agricultural Business – the Cash Flow Statement

By Alex White (axwhite@vt.edu), Instructor, Agricultural Finance and Small Business, Agricultural and Applied Economics, Virginia Tech

A cash flow statement is probably the most useful financial statement in the day-to-day management of any business. Cash flow statements have different formats, and they go by different names (statement of cash flows, cash budgets). The cash flow statement is a listing of all the cash inflows and cash outflows during a certain period (week, month, quarter). I tend to use either a quarterly or a monthly cash flow statement that lists all of the cash flows for each period, as well as a summary column for the entire year. For simplicity, I've shown a sample quarterly cash flow statement at the end of this article.

Sections of a Cash Flow Statement

A cash flow statement has three parts: Cash Inflows, Cash Outflows, and Summary. The Cash Inflows section lists all of the cash that is coming into the business each period. You'll notice on the sample cash flow statement that the cash inflows are grouped by major category (hogs sold, corn sold, etc.). For most farming operations, I will include cash inflows from off-farm jobs, custom work, and gifts, as well as the cash income from the farming operation. But **DO NOT** list any credit sales or accounts receivable on the cash flow statement **UNTIL** the cash is actually received.

The Cash Outflows section is also divided into the main cash expense categories for your operation. Using the same expense categories as on the IRS Form 1040 Schedule F (Profit or Loss from Farming) can be of great help in constructing your annual income statements! However, you should also include cash outflow categories that are not listed on the Schedule F, such as principal payments or family living expense. These are not actual expenses but they do represent cash that is leaving your business. Again, list only accounts payable or credit purchases when the cash **ACTUALLY LEAVES** your business, not when you incur the expense. Finally, don't include non-cash expenses such as depreciation and unrealized capital losses.

The Summary section shows your net cash flow (inflows minus outflows) for each period, as well as information on your operating loan (balance outstanding, principal and interest paid each period, etc.). The "bottom line" of a cash flow statement shows your ending cash balance for each period.

Uses of a Cash Flow Statement

Cash flow statements are a powerful management tool. From a financial analysis standpoint you can determine a lot of useful information from this statement. The main uses of a cash flow are

- clearly seeing when you have cash coming into or leaving your operation;
- easily identifying your top five cash outflows for cost control management;
- identifying potential surplus or deficit periods throughout your operating year;
- estimating the minimum operating loan that you should request from your lender;
- determining when you will need to borrow from or repay an operating loan;

- determining when to schedule your loan payments or insurance premium payments; and
- estimating whether you have enough cash to make capital purchases.

For example, examine the sample cash flow statement at the end of this article. By listing cash flows in the period that they occur, the cash deficit in Quarters 1 and 2 is easy to see as is the significant cash surplus in Quarter 4. You can clearly see that a majority of the cash inflows are occurring in Quarters 3 and 4, while over half of the cash outflows are occurring in Quarters 1 and 2. Now you can dig deeper into the financial condition of your operation to improve its cash flow. Here's a quick list of what this cash flow can tell you:

- Quarter 4 has the highest cash inflows, due to corn sales;
- Quarters 1 and 2 have the highest cash outflows for two main reasons:
 - ♦ Expenses related to crop production (seed, fertilizer, and chemicals);
 - ♦ Annual payments on term loans scheduled for Quarters 1 and 2;
- Due to the cash deficit, you would need an operating loan of just under \$100,000 cumulative operating loan balance in Quarter 2.

Having identified some key factors, you can take actions to improve the cash flow of your business.

- Match the term loan payments to the quarters with a cash surplus;
 - ♦ Schedule the loan payments for Quarters 3 or 4, or possibly quarterly payments;
- Move some of the cash inflows from crop sales to Quarter 1;
- Purchase some of the crop supplies in Quarter 4 when more cash is available;
- Reduce the top 5 expenses such as purchased feed, fertilizer, interest, chemicals, and labor; and
- Increase income from custom work during Quarters 1 and 2, if possible

Parting Shot

The last thing I'll mention about a cash flow statement is that your lender will absolutely love you if you provide him/her with historical and projected cash flow statements. These cash flow statements will help you and your lender structure your loans so that cash flow of your business' is not adversely impacted. They also show your lender that you are actively managing the financial condition of your business. If you only have time to construct one financial statement, I would recommend focusing on the cash flow statement. Remember, "cash is king," so be proactive in managing your cash flow.

If you would like to receive an Excel spreadsheet with a basic cash flow statement, please contact Alex White at axwhite@vt.edu, or call Jill at (540) 231-7727 and leave your contact information.

Cash Flow Statement

Category	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Cash Inflows:					
Hogs Sold	\$70,000	\$65,000	\$65,000	\$95,000	\$295,000
Culls Sold	\$12,000		\$12,000		\$24,000
Corn Sales				\$78,000	\$78,000
Custom Work		\$8,000	\$9,000		\$17,000
Non-Farm Income					\$0
Total Cash Inflows	\$82,000	\$73,000	\$86,000	\$173,000	\$414,000
Cash Outflows:					
Purchased Feed	\$38,000	\$38,000	\$38,000	\$48,000	\$162,000
Vet & Medicine	\$1,500	\$1,500	\$1,500	\$2,000	\$6,500
Seed & Fertilizer	\$39,000	\$22,000			\$61,000
Fuel & Oil	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000
Repairs	\$1,200	\$1,200	\$1,200	\$1,800	\$5,400
Hired Labor	\$5,500	\$5,500	\$5,500	\$5,500	\$22,000
Other Expenses	\$2,000	\$2,000	\$2,000	\$2,000	\$8,000
Supplies	\$4,000		\$4,000		\$8,000
Storage & Drying				\$6,400	\$6,400
Hauling				\$7,000	\$7,000
Chemicals	\$21,000	\$9,600			\$30,600
Income Taxes	\$550	\$550	\$550	\$550	\$2,200
insurance			\$9,000		\$9,000
Family Living Expenses	\$3,200	\$3,200	\$3,200	\$5,000	\$14,600
Principal Payments - Term Debt	\$3,965	\$5,451			\$9,416
Interest Payments - Term Debt	\$4,800	\$38,500			\$43,300
Total Cash Outflows	\$126,715	\$129,501	\$66,950	\$80,250	\$403,416
Net Cash Flow	-\$44,715	-\$56,501	\$19,050	\$92,750	\$10,584
Beginning Cash Balance	\$2,500	\$1,000	\$1,000	\$1,000	\$2,500
Unadjusted Cash Balance	-\$42,215	-\$55,501	\$20,050	\$93,750	\$13,084
Minimum Balance Desired	\$1,000	\$1,000	\$1,000	\$1,000	
Cash Avail. to Repay Operating Loan	\$0	\$0	\$19,050	\$92,750	
Operating Loan Needed	\$43,215	\$56,501	\$0	\$0	\$99,716
Cumulative Operating Loan Balance	\$43,215	\$99,716	\$99,716	\$87,945	\$0
Accrued Interest on Operating Loan	\$1,296	\$4,288	\$7,279	\$2,638	\$0
Interest Paid on Operating Loan	\$0	\$0	\$7,279	\$2,638	\$9,918
Cash Avail. to Repay Op Loan Prin.	\$0	\$0	\$11,771	\$90,112	
Operating Loan Principal Repaid	\$0	\$0	\$11,771	\$87,945	\$99,716
Ending Cash Balance	\$1,000	\$1,000	\$1,000	\$3,166	\$3,166

The Management Calendar

By Gordon Groover (xgrover@vt.edu), Extension Economist, Farm Management, Agricultural and Applied Economics, Virginia Tech

I've been on the road around the state over the last two months at dairy workshops, farm visits, and Virginia Forage and Grassland Council Conferences. The issue that all farmers face is how best to control costs and position the business to take advantage of opportunities for higher profits. In a number of cases, the decision to change or reposition the farm business, resulting in higher profits, was made not strictly for profits. The choice to change was driven by a desire to be a better steward of land and resources, to develop a connection with outside world and the people who buy products, to create a family focus business, and so on. These choices were backed up by a sound business plan with attention to management, yet they never lost sight of the underlying goal or mission that drove the change. So pay attention to the bottom line, but do not lose sight of the passions that helps us succeed.

Remember the first day of spring is less than two months away and federal taxes for most farmers are due to the IRS by March 1. Listed below are the items that need to be included on the farm business managers' calendar for the first quarter of 2007.

- Need to find out information of federal taxes? The Farmers Tax Guide IRS Publication 225 is online and can be found at: <http://www.irs.gov/pub/irs-pdf/p225.pdf>.
- A summary of changes information on tax management and basic federal income tax information is published annually by George F. Patrick in the Department of Agricultural Economics at Purdue University. Look for the publication titled "Income Tax Management for Farmers" at <http://www.agecon.purdue.edu/extension/pubs/taxplanning.asp>.
- Interested in finding a listing of all types of agricultural software? Then the best place to look is our neighbor to the north, Alberta Agriculture and Food. They have the most comprehensive listing of computer software designed for farm and agribusiness on the web [http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/econ4118?opendocument](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/econ4118?opendocument).
- Get the farm's 2006 financial records closed out: Post all income and expenses paid during 2006 in your record book or accounting software. You still have time to conduct an end-of-the-year inventory of all the farm assets and liabilities to provide data for the farm's net worth statement.
- Using your 2006 records, develop an itemized list of income and expenses. The categories found on the IRS Schedule F can serve as a starting point for estimating net income for the farm business. Compare your results to previous years, looking for both weakness and strengths.
- Decide how much you'll contribute to an IRA for 2006 and set goals for 2007. If you do not use a certified financial planner (CFP), consider his/her usefulness in helping plan for retirement, college, insurance coverage, and other items. Visit the web site for the CFP organization to get information on services and standards required for planners. You can also search for a CFP in your area at <http://www.cfp.net/>
- Seek assistance from Virginia Cooperative Extension's farm business management agents, lenders, or your accountant to develop a detailed financial analysis of your farm business, including the major 16 financial ratios. These ratios and a detailed financial

analysis can be generated by using the Center for Farm Financial Management program FINAN. FINAN and other computer programs can be purchased annually for approximately \$100 or the whole analysis and planning package of three computer programs for \$395. Details are at <http://www.cffm.umn.edu/Software/FINPACK/>

- Using last year's financial and production records, finalize your projected budgets, cash flow, and income statements for 2006. If you use Quicken® or QuickBooks® make use of the budget section to create a 2007 budget based on 2006 records. 2007 budget entries can all be modified to reflect anticipated changes in 2007, like higher feed costs.
- Take your 2006 financial records and 2007 projected whole-farm budgets and cash flow statements to your lender to discuss line-of-credit needs and plans for 2007. Using the FINPACK programs or your Quicken® or QuickBooks® can help with this process.
- Grain and livestock producers should have their marketing strategies/plans in place for 2007 marketing year. Be sure to check with your local Farm Service Agency for changes in government programs and signup deadlines. Be sure to visit Weekly Roberts Agricultural Commodity Market Report for market updates. The report is posted at <http://www.ext.vt.edu/news/periodicals/roberts/>.
- The end of February and March 15 are the cutoff dates for signing up for most crop insurance policies in Virginia (dates depend on insurance product and where you live). Details on crop insurance are best discussed with a local agent. You can locate a local agent by visiting the following web site <http://www3.rma.usda.gov/apps/agents/>.
- Make sure your federal taxes are mailed by March 1 unless you pay estimated taxes, then the deadline is April 15. Virginia income tax returns must be postmarked by May 1.

Ethanol and Corn

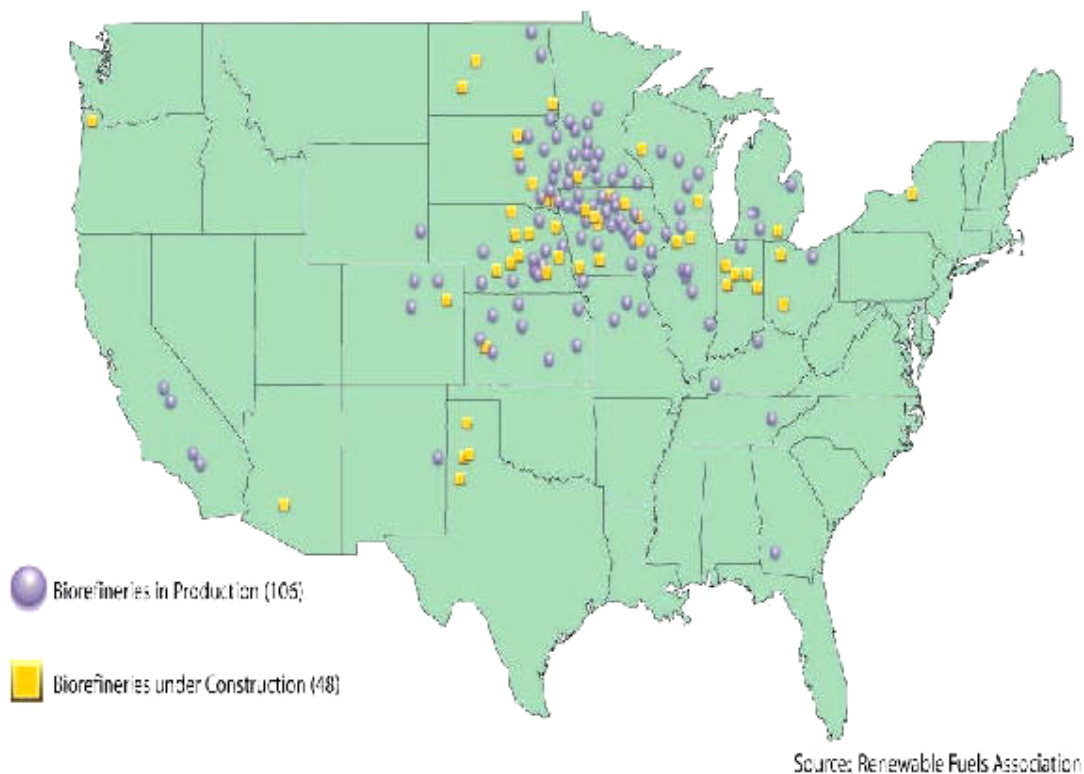
By Jim Pease (peasej@vt.edu), Extension Economist, Farm Management, Agricultural & Applied Economics, Virginia Tech

In his recent State of the Union address, President Bush called for reducing gasoline consumption by 20% in the next 10 years. One pundit noted that a reduction in gasoline consumption is a perennial goal set by every President since Nixon. In fact, US gasoline consumption has increased by double digits each of the past three decades: 1970-1980 (+13.7%), 1980-1990 (+10.0%), 1990-2000 (+17.1%). Given the nation's increasing dependence on imported oil, the federal and state governments have assembled an impressive array of incentives to stimulate production of biofuels, with special emphasis on production of ethanol.

President Bush also called for production of 35 billion gallons of alternative fuels by 2017, dramatically above the current Renewable Fuels Standard requirement of 7.5 billion gallons by 2012. This measure will practically guarantee profitable margins for the rapidly growing ethanol industry over the next decade. US ethanol production capacity increased by 1 billion gallons in 2006, and may increase by as much as 8 billion gallons over the next two years. From 2006 sales of approximately 5.5 billion gallons, sales may increase to as much as 13 billion gallons by 2009. The President's speech insures that demand will be waiting for the additional capacity to come on line.

There are approximately 118 ethanol plants in production across the US, most of these located in the upper Midwest. In addition, some 72 plants are currently under construction. Corn and sorghum make up nearly 95% of feedstock for the US ethanol industry. Farmer and locally owned refineries own approximately 40% of the ethanol production capacity, Archer Daniels Midland (ADM) owns about 25%, and other companies such as VeraSun, Aventine, Cargill, and U.S. BioEnergy own about 35%. Farmer-owned refineries have declined as a proportion of total ownership, since ADM and other large firms have increased their investment in the sector. Figure 1 indicates the location of current production facilities as recorded by the Renewable Fuels Association.

U.S. Ethanol Biorefinery Locations



Agri-Ethanol Products (AEP) is constructing a 108 million gallon per year corn-based refinery in Aurora, North Carolina and has announced construction of at least two more plants of the same size for the Virginia/North Carolina/South Carolina region. AEP has announced that these plants will consume 120 million bushels of corn per year. According to the USDA/NASS, these three states had average corn production of 166.3 million bushels over 2004-2006, and the announced plants would consume nearly three-fourths of corn production on current acreage.

The amount of the US corn crop used for ethanol production has risen from 12% in 2004, to 14% in 2005, and may reach 16-20% in 2006. Will the drive for renewable fuels production continue to drive corn markets upward? A.G. Edwards, a brokerage firm, contends in its ethanol industry outlook that ethanol demand has caused a structural shift in the corn market and has increased its 2007 corn price forecast to \$3.75 per bushel. Corn for ethanol may reach 4.8 billion bushels by 2009, with over 40 percent of corn acreage destined for ethanol refineries.

A recent Iowa State Center for Agricultural and Rural Development report (<http://www.card.iastate.edu/publications/DBS/PDFFiles/06bp49.pdf>) states that under current incentives policy, ethanol producers can break-even at corn prices of \$4.05 per bushel. Even at such a high input cost (all other prices remaining constant), ethanol refineries would be expected to produce 31.5 billion gallons per year. To provide corn for these refineries would require 15.6 billion bushels, up 4.6 billion bushels from current production and would require corn acreage to increase by 20%. The report suggests that soybean acreage may fall by as much as 8 million acres, as corn acreage increases.

Dried distilled grains with solubles will offset some of the impacts on the livestock industry. However, swine and poultry rations cannot utilize very much DDGS, and the primary livestock ration use of DDGS will be for cattle. Already there are plans for large-scale ethanol refineries in the Midwest located next to cattle feedlots, where complementarities abound.

For Virginia corn producers, high prices will encourage shifting acreage from soybeans, cotton, and peanuts to corn. The prospect of higher corn prices for poultry rations will send integrators scrambling for alternative feed ration choices. It's a wild ride on the ethanol bandwagon right now, and the impacts on different sectors of the agricultural economy are as yet unclear.

Directory of Marketing Regulations, Licenses, Permits, Taxes, and Insurance: Virginia

By Karen Mundy (karenm@vt.edu), Rural Economic Analysis Program, Communications Specialist, Agricultural and Applied Economics, Virginia Tech

Many aspects of direct marketing are regulated. What is regulated and who regulates it varies both within state and across states. The following list may not be complete. You need to ask questions of each agency as you work through their requirements to see if you also need to go to another agency for additional regulation, permitting, and licensing information. One of the best sources in Virginia for additional help is the Virginia Small Business Development Centers. You can download their guide at <http://www.virginiاسبdc.com/VASBDCPubs.asp>. To find the office nearest you, use <http://www.virginiاسبdc.com/>.

If you are doing business in other states as well as Virginia, check with the other states for any required permits, licenses, or taxes. North Carolina, for example, requires LLCs and Corporations to register if they are doing business in N.C., even if they are headquartered in another state. N.C. also requires sales tax be collected on applicable items sold in N.C., even if the business is headquartered in another state.

What's regulated/licensed	Regulatory/Licensing Agency		
	Federal	State	County/City
Aquaculture/shellfish Shellfish production and land-based aquaculture in tidal areas must comply with structure regulation. These regulations are found at the Va. Marine Resources Commission website. Land-based aquaculture G&IF requires permits to Propagate and Sell, Hold and Sell, Hold and Sell—Fee Fishing Ponds	U.S. Corps of Engineers USAED, Wilmington P.O. Box 1890 Wilmington, NC 28402-1890 General Information (910) 251-4625.	Dept. of Game and Inland Fisheries 4010 West Broad St. Richmond, VA 23230 (804) 367-1292 Va. Marine Resources Commission Habitat Management 2600 Washington Ave. Newport News, VA 23607 http://www.mrc.state.va.us/hmac/hmoverview.shtm (757) 247-2200 Dept. Conservation & Recreation 757-247-2243	Local Planning and Zoning Office
Bees		VDACS Virginia Pollinator 102 Governor St. Richmond, VA 23219 804/786-3515 http://www.vdacs.virginia.gov/plant&pest/pollinator.html	
Building codes/permits required to build or renovate structures			County Administration Office; Building permits
Business License/Peddlers License (Type required depends on jurisdiction). Must obtain within 75 days of starting the operation. May be required by both county and town or by neither			County Administration Office: Commissioner of Revenue, Planning and Zoning; Town Administration Office

What's regulated/licensed	Regulatory/Licensing Agency	State	County/city
Dairy Regulations dealing with dairy products	Federal	VDACS Food Safety & Security Office 102 Governor St. Richmond, VA 23219 Phone: 804-786-3520 http://www.vdacs.virginia.gov/regulatory/index.html	
Eggs Labeling, handling, and grading. If sold on-farm where produced, no grading or labeling required. Inspection at discretions of Food Safety & Security Office		VDACS Food Safety & Security Office 116 Reservoir Street Harrisonburg, VA 22801 Phone: 540-434-2585 http://www.vdacs.virginia.gov/poultry&egg/index.html	
Export—regulations are commodity and country specific. Check the USDA website for specifics and VDACS export specialists.	USDA Food Safety and Inspection Service, Regulations and Policy http://www.fsis.usda.gov/regulations_and_policies/export_information/index.asp	VDACS Regulatory Services Plant & Pest Services 102 Governor Street Richmond, VA 23219 Phone: 804-786- http://www.vdacs.virginia.gov/plant&pest/export.html/	
Facilities (including farmers' markets and roadside stands) building permits, parking, etc.			County Administration Office: Planning and Zoning, Building permits
Food Safety & Prepared Foods inspection of processing facility and high risk food processing school requirements		VDACS Food Safety & Security Office 102 Governor Street Richmond, VA 23219 Phone: 804-786-3520 http://www.vdacs.virginia.gov/regulatory/index.html	Local health department

What's regulated/licensed	Regulatory/Licensing Agency		
	Federal	State	County/city
Insurance: Vehicle; Liability; Casualty (fire, flood [need to request], theft, inventory, etc.); Business interruption; Life and disability for owners and partners; Group health, Food liability		State Corporation Commission Bureau of Insurance Attn: Consumer Services P.O. Box 1157 Richmond, Virginia 23218 800-552-7945 (Virginia only) http://www.scc.virginia.gov/division/boi/webpages/boiwhendisasterstrikeswhattodoafter2b5.htm	Local Insurance Agent Local Farm Bureau Agent
Interstate—check with state in which you plan to do business for what their requirements are			
Legal entity filing File documents related to legal entity other than sole proprietorship		Va. State Corporation Commission Document Control Center Office of the Clerk - SCC P.O. Box 2118 Richmond, Virginia 23218 (804) 371-9733 866-722-2551 (Virginia only) http://www.scc.virginia.gov/commission/contact.htm	
Mail order other than seed and live plant sales	Federal Trade Commission 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580 202-326-2222 http://www.ftc.gov/bcp/online/pubs/buspubs/mailorder.htm		
Meat Slaughter facility inspection, allowable sales at direct markets		VDACS Meat & Poultry Services 102 Governor Street Richmond, VA 23219 Phone: 804-786-4569 http://www.vdacs.virginia.gov/meat&poultry/inspection.html	
Nursery sales Inspection of nursery plants for pests and weeds. Required for all nurseries and garden centers	APHIS USDA, Animal and Plant Health Inspection Service, 4700 River Road, Riverdale, MD 20737 http://www.aphis.usda.gov/subjects/plant_health/	VDACS Plant & Pest Services 102 Governor Street Richmond, VA 23219 Phone: 804-786-3515 http://www.vdacs.virginia.gov/plant&pest/nursery.html	

What's regulated/licensed	Regulatory/Licensing Agency	State	County/city
Organic food/feed certification requirements	Federal USDA-AMS-TMP-NOP National Organic Program Room 4008 – South Building 1400 Independence Avenue, SW Washington, D.C. 20250-0020 Phone: 202-720-3252 www.ams.usda.gov/nop/	VDACS Marketing Services Certified Organic 102 Governor Street Richmond, VA 23219 Phone: 540/377-2564 http://www.vdacs.virginia.gov/organic/index.html	
Pet Food & Pet Treats licensing and registration		VDACS Product & Industry Standards 102 Governor Street Richmond, VA 23219 Phone: 804-786-2476 http://www.vdacs.virginia.gov/regulatory/index.html	
Product Labeling (format, weights, nutritional labeling, etc.)		VDACS Food Safety & Security Office 102 Governor Street Richmond, VA 23219 Phone: 804-786-3520 Weights & Measures Phone: 804-786-2476 http://www.vdacs.virginia.gov/regulatory/index.html	
Vendor's License required for some operations			Commissioner of Revenue, Dept. of Finance; Town/County Administrator
Virginia certified seed Certifies agricultural and vegetable seed and potato tubers. Laboratory tests done by VDACS.		Virginia Crop Improvement Association 9142 Atlee Station Road Mechanicsville, VA 23116 Office: 804-746-4884 http://www.virginiacrop.org	
Weights & Measures calibrates scales		VDACS Weights & Measures 102 Governor Street Richmond, VA 23219 Phone: 804-786-2476 http://www.vdacs.virginia.gov/	

What's regulated/licensed	Regulatory/Licensing Agency	State	County/city
WIC & Senior Nutrition Programs WIC is overseen by the local health department and the Senior Nutrition Programs by the local agency on aging. VDACS provides training, stamps, and posters for a limited number of local markets	Federal USDA Food and Nutrition Service Richmond Field Office (637) Food and Nutrition Service, USDA 1606 Santa Rosa Road, Suite 129 Richmond, VA 23229 Phone: 804-287-1705 Fax: 804-287-1726	VDACS Direct Marketing Services 102 Governor Street Richmond, VA 23219 Phone: 804-786-4046 http://www.vdacs.virginia.gov/	
Taxes			
Register with tax office for a variety of taxes	IRS http://www.irs.gov/businesses/index.html go to "Starting a Business" for help with various taxes to be paid; select either "Farmer" or look at individual selections presented for "Starting a Business."	Va. Dept. of Taxation Office of Customer Services Post Office Box 1115 Richmond, VA 23218-1115 Combined Registration Application Form (Form R-1) (888) 268-2829 or (804) 367-8037	Local Commissioner of Revenue
Corporate and franchise income tax required of all corporations and franchises.		Va. Dept. of Taxation Office of Customer Services Post Office Box 1115 Richmond, VA 23218-1115 (804) 367-8037 http://www.tax.virginia.gov/site.cfm?alias=Contacts	
Employer Income Tax Withholding required of all business with employees.		Va. Dept. of Taxation Office of Customer Services Post Office Box 1115 Richmond, VA 23218-1115 (804) 367-8037 http://www.tax.virginia.gov/site.cfm?alias=BusinessFAQ	
Litter Tax: retailers of food for humans or pets, groceries, sort drinks/carbonated water		Va. Dept. of Taxation Office of Customer Services Post Office Box 1115 Richmond, VA 23218-1115 (804) 367-8037 http://www.tax.virginia.gov/site.cfm?alias=Contacts	

What's regulated/licensed	Regulatory/Licensing Agency		
	Federal	State	County/city
Miscellaneous assessments: commodity and excise taxes: Sheep, forest products, corn, cotton, eggs, soybeans, small grains vending machine sales, peanut, sort drinks		Va. Dept. of Taxation Commodity and Excise Tax Post Office Box 1115 Richmond, VA 23218-1115 804-786-2450 http://www.tax.virginia.gov/site.cfm?alias=Contacts	
OSHA you must post OSHA information		Virginia Department of Labor and Industry Powers-Taylor Building 13 South 13th Street Richmond, Virginia 23219 (804) 786-2377 OSHA information to post http://www.doli.state.va.us/infocenter/publications/req_posters/Job%20Safety_english_web.pdf	
Retail Sales and Use Tax: applies to use/consumer tax for any tangible personal property used, consumed, stored that was purchased outside Va. and would be subjected to sales tax if purchased within Va.		Va. Dept. of Taxation Office of Customer Services Post Office Box 1115 Richmond, VA 23218-1115 (804) 367-8037 http://www.tax.virginia.gov/site.cfm?alias=Contacts	
Unemployment tax you are required to post information about unemployment eligibility		Va. Employment Commission Poster for unemployment eligibility http://www.vec.virginia.gov/pdf/vecb29eng.pdf	
Workers' Compensation: you must post workmen's comp information	Workforce Compliance & Oversight Information Compilation of federal legislation, rules, regulations, and provisions impacting workforce compliance http://www.vec.virginia.gov/vecportal/docs_toc.cfm	Virginia Workers' Compensation Commission 1000 DMV Drive Richmond, VA 23220 Phone: 1-877-664-2566 http://www.vwc.state.va.us/employers_guide.htm Workmen's compensation information to post: http://www.vwc.state.va.us/forms/vwc1_form.pdf	

Department of Agriculture and Consumer Services - (804) 786-2372 Licenses anyone involved in the production, marketing or distribution of agricultural or food products. Registers every pesticide manufactured, distributed, sold, offered for sale, used or offered for use in Virginia.

Department of Conservation and Recreation - (804) 786-1712 Regulates, manages and licenses state parks and outdoor recreational facilities. Issues permits for concessionaires in state parks. Approves and inspects floodwater structures.

Department of Environmental Quality - (804) 762-4570 Issues pollution control permits for any business that emits particles or gases into the air, water discharge, management of solid and hazardous waste materials.

Department of Forestry - (804) 977-6555 Licenses and regulates the use of state forests, forest reserves including mineral exploration; develops and administers forest management plans for state owned lands.

Department of Game and Inland Fisheries - (804) 367-1000 Regulates the taking, possession and sale of wild animals, birds and freshwater fish and endangered species of any form of wildlife. Licenses shooting preserves, fur farming and dealing, hunting dog trails, commercial trout rearing, fishing, seine hauling, breeding and raising game birds and animals, game bird and animal exhibits, and stuffing and mounting of birds and animals. Also titles and registers motorboats, licenses watercraft dealers, regattas and boat races, and drilling and dredging in the Back Bay area.

Department of Health - (804) 786-3561 Licenses emergency medical agencies, vehicles and attendants, bedding and upholstery service businesses and commercial blood banks; inspects businesses to certify health standards; prescribes standards governing planting, taking and marketing of fish, crustaceans and shellfish; licenses hospitals, nursing homes and related institutions, home health agencies, hotels, summer camps, campgrounds and other lodging facilities, restaurants, milk processors, radiation materials, equipment and construction waterworks serving the public, water supply systems, sewage disposal systems, sewage treatment works, and migrant labor camps; regulates sanitation facilities at public gathering places, septic tanks, construction of private wells, and the production and use of toxic substances.

Marine Resources Commission - (757) 247-2200 Licenses the taking of various fish, shellfish and organisms below the fall line on tidal waters; licenses the exportation of oysters, purchasers of shellfish and the conversion of oysters shells to lime; assigns and leases oyster and clam planting grounds; designates certain public grounds closed and open areas; fixes and alters open seasons; restricts methods of taking; fixes minimum size and maximum size and maximum quantity of catch; makes other regulations for the conservation and promotion of the seafood industry; inspects records and vessels; prescribes guidelines for the use of wetlands; issues general permits for the use of state-owned underwater beds; and establishes bulkhead and private pier lines on or over waters under state jurisdiction.

Milk Commission - (804) 786-2013 Supervises, regulates and controls the production, transportation, processing, storage, distribution and sale of milk; licenses and audits distributors of milk; established prices paid to producers and prohibits sales of fluid milk products at less than cost; allocates marketing areas; establishes accounting system for distributors.

Potomac River Fisheries Commission - (804) 224-7148 Licenses and regulates the taking of seafood from the Potomac River; and licenses boats, vessels and equipment used to take seafood from the Potomac River.

Virginia Workers' Compensation Commission (formerly Industrial Commission of Virginia) - (804) 367-8600 Collects the taxes imposed to finance the Workers' Compensation Act from insurers and self-insured employers; adjudicates claims by workers and their dependents for death and disability awards arising from occupational diseases or injury.

Cost of Production as a Management Tool

By Bill Whittle (wwhittle@vt.edu), Extension Agent, Farm Business Management, Page County

The production unit of a farming enterprise is a weaned calf, 100 pounds of milk, one bushel of grain, one ton of silage, one quart of strawberries, a dozen ears of sweet corn, one ticket for the corn maze, or any other end product of your labor. Often the unit of production is what you sell, but it can be an intermediate step such as silage that will be fed to cows. Profitability and sustainability of your farm is determined by what it costs to produce that unit. Cost of Production (COP) of your unit is the basis for virtually all management decisions. Without knowing your COP, most financial management and marketing decisions are relegated to hopes and wishes. Decisions to expand or shrink the farm, hire labor, use custom operators, buy or raise feed, purchase equipment, or even spend money on maintenance are dependent on knowing the COP. Hobby farmers may not need to worry about their cost of production.

Determining your COP could be as simple as dividing your farm expenses by the number of units you produced. Unfortunately this simple calculation is often muddled by the way we typically farm in the Virginia. Most farmers have multiple enterprises that use similar inputs; consequently, you seldom have an accurate record of production. An example is a dairy that raises its own silage. The farmer knows what the seed corn costs, but when fertilizer is delivered it often will be spread on corn ground, small grain, beans, and pasture. The farm gets one bill, but to determine COP, each intermediate enterprise must be assigned its share of the expense. The same is true for the time a tractor is used. Another often overlooked item is labor costs including management costs. Decisions need to be made to assign each enterprise its fair share of expenses. At harvest, you know that you have a full silo or X loads, but harvest quantity is often a guess even if it is a good guess. A ballpark figure of expenses and production is useful, but in today's tough competitive climate of infinitesimally small profit margins, close is not good enough. For the typical family farmer, who handles your own record keeping, assigning inputs to an enterprise can be both difficult and time consuming until you develop a plan for such allocations.

One potential plan would be to decide which enterprises you are going to track, then assign each a percentage of usage: labor, management time, fertilizer, and farm overhead such as maintenance of the roads, etc. The percentage used would probably be different for each input and should be viewed as a number that is refined over time. An example using corn silage would be to assign it 15% of farm labor for planting and harvesting, 65% of the fertilizer bill, and 30% of tractor expenses. At harvest you need to weigh several wagonloads and then use your experience to calculate total production. This process will provide a better COP for your corn silage and will allow you to make an informed decision whether to raise it yourself or purchase silage from the farm down the road. On a more comprehensive scale, if you, as a dairy farmer,

determine the COP of each enterprise, you will have a basis for decisions such as expansion, contracting heifer-raising, or even changing enterprises. Without knowing the COP, too many decisions are decided on an “I’ve got to do something” philosophy.

Determining COP is not easy, but it is a solid management tool that will assist with the sustainability of the family farm. Whether you use a shoebox or computer, records are the key for calculating COP. Without financial and production records, COP will be next to impossible to calculate. For 2007 resolve to become a better record keeper, and then do the hard work to determine your farm’s COP and the profitability of your farm.

Direct Marketing Workshop Summary

By Karen Mundy (karenm@vt.edu), Rural Economic Analysis Program, Communications Specialist, Agricultural and Applied Economics, Virginia Tech

Direct Answers for Direct Marketing is one of several outputs of SSARE grant ES05-079, a regional project including North Carolina, South Carolina, and Virginia. Gary Bullen from N.C. State was Principal Investigator.

Direct Answers for Direct Marketing is a resource guide to help Extension Agents and other trainers work with clients interested in marketing their farm products or services or both directly to the consumer. The purpose of this manual is to provide agricultural professionals with a hands-on way to help their clients answer the questions that other direct marketing manuals say must be answered before entering the direct market. While the manual focuses on fruit and vegetables, many of the principles apply to any agricultural product, whether fresh or processed.

Chapter 1 “What is ‘Direct Answers for Direct Marketing’?” provides an overview of direct marketing. It provides keys to success and an overview of business, marketing, and financial plans.

Chapter 2 “What should you produce?” walks you through setting goals, determining resources, considering if a market exists for a product, and finding out if customers exist for that product.

Chapter 3 “Which direct marketing outlet is right for you?” covers the characteristics of different direct market outlets, criteria impacting your success, resources needed for the market, and tax, liability, and other legal issues.

Chapter 4 “Who will be your customers?” walks you through selecting a target market, obtaining demographic and lifestyle data, and how to use this information.

Chapter 5 “What do your customers want?” addresses trends in foods, food safety, packaging, convenience, quality, and so forth.

Chapter 6 “How will you reach your customers?” covers farm image, promotion, merchandising, advertising, and evaluating what you’ve done.

Chapter 7 “How do you plan for profits?” talks about fixed and variable costs, start-up costs, different types of budgets, and how to use them.

Chapter 8 “How do you set your price?” is about break-even pricing and cost plus pricing as well as a some do’s and don’ts for pricing.

Chapter 9 “Directory of marketing regulations, licenses, permits, taxes, and insurance” provides contact information, by state, for various agencies your clients will need to contact as they establish or expand their direct marketing operations.

The remaining sections of the manual include farmer profile case studies, feasibility case studies, tools, and supplemental readings.

One of the goals of the SARE project was to have 75 Extension Agents and other agricultural professionals complete a two-day training in direct marketing. This training was held November 13-14, 2006, in Raleigh, N.C. Those who attended the Raleigh workshop were pleased with the information they received and excited about using it with their clientele. A second goal is to have some of those Extension Agents conduct direct marketing workshops in their counties. Since space at the workshop was limited to 25 people from each state, the hope is that other training sessions can be held in Virginia. As the logistics of having another training session—or more than one—are worked out, we’ll keep you informed. If you would like a copy of the manual, contact Karen Mundy at karenm@vt.edu.

Calendar of Events

February

- 8 2007 Virginia Forage and Grassland Council Winter Conference: Forages for Horses: Maintaining a Healthy Animal, Pasture, and Environment. Virginia Horse Center, Lexington, VA. Contact Margaret Kenny at (434) 292-5331 or by email at makenny@vt.edu.
- 9 2007 Virginia Forage and Grassland Council Winter Conference: Forages for Horses: Maintaining a Healthy Animal, Pasture, and Environment. Fair Grounds, Warrenton, VA. Contact Margaret Kenny at (434) 292-5331 or by email at makenny@vt.edu.
- 10 2007 Virginia Forage and Grassland Council Winter Conference: Forages for Horses: Maintaining a Healthy Animal, Pasture, and Environment. New Kent High School, New Kent, VA. Contact Margaret Kenny at (434) 292-5331 or by email at makenny@vt.edu.
- 21 Virginia Agricultural Outlook Meetings. Paul D. Camp Workforce Center. Franklin, VA. Contact Mike Roberts at (804) 733-2686 or by email at mrob@vt.edu.
- 23 Virginia Agricultural Outlook Meetings. Germanna Community Workforce and Technology Center. Fredericksburg, VA. Contact Mike Roberts at (804) 733-2686 or by email at mrob@vt.edu.
- 28 Virginia Agricultural Outlook Meetings. Southwest Virginia Higher Education Center. Abingdon, VA. Contact Mike Roberts at (804) 733-2686 or by email at mrob@vt.edu.

March

- 1 Virginia Agricultural Outlook Meetings. Blue Ridge Community College, Workforce Services and Continuing Education Center. Weyers Cave, VA. Contact Mike Roberts at (804) 733-2686 or by email at mrob@vt.edu.