

NET WORTH

Due to numerous factors such as commodity prices, region, debt load and outsourcing, many farmers are being forced to re-evaluate the future or sustainability of their businesses. While there are many things to consider when assessing the vitality of any business, conducting a net worth statement can provide farmers with additional information to assist with their evaluation process.

What is a net worth statement?

- A net worth statement is a financial tool that compares current and fixed assets and liabilities at a given point in time.
- This statement provides a financial snapshot.
- The formula is: $\text{Assets} - \text{Liabilities} = \text{Net Worth}$.

Tip: When conducting a net worth statement for the farm business, you can include nonfarm or personal assets and liabilities in a separate section to better assess all debt repayment options.

Why is a net worth statement important?

- Shows the difference between what you own and what you owe
- Helps to assess financial health
- Viewed as a financial report card when done periodically (often annually)

How can a net worth statement be helpful?

- Can identify financial trends
- Helps to confront current financial realities
- Helps to identify if spending too much (consider a spending plan)
- Helps to identify debt (consider debt repayment strategies)
- Can help farmers assess if their farm operation can pay off current debts, take on additional debt or both



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What should be included in a net worth statement?

- Examples of *current assets* include “cash, bank accounts, crops, livestock and supplies that will normally be sold or used with a year,” (Edwards, 2017) supplies (corn, chemicals medications, fuel and other supplies), prepaid expenses and accounts receivable.
- Examples of *fixed assets* include items “used in farm production but not intended to be sold or converted directly into marketable products during the year (except for breeding livestock to be culled)” (Edwards, 2017). Additional fixed assets could include land, buildings and other property.
- Examples of *current liabilities* include debts that *will* be paid off within the next 12 months such as feed or livestock notes, open lines of credit, unpaid wages, taxes or machinery leases. Also, “calculate the amount of unpaid interest accrued on all liabilities as of the date of the statement” (Edwards, 2017) to be included in current liabilities.
- Examples of *fixed liabilities* include debts that *will not* be paid off within the next 12 months such as loans for the farm operation (loans for breeding stock, land, machinery and other items) and a mortgage.

To learn more, visit msue.msu.edu/managingfarmstress.

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What will I learn from a net worth statement?

- “The difference between total farm assets and total farm liabilities is the net worth, or equity, at the time the statement is made. It is the current value of your own investment in the farming operation” (Edwards, 2017).
- A completed net worth statement can also assist with making financial decisions, financial goal setting (for expansion or paying down debt) and can even assist with loan applications since many lenders will solicit the information found on a net worth statement. Even a positive net worth statement may unveil some financial concerns, such as low liquidity. This is the inability to convert assets into cash in the event of an emergency or unplanned decreased income. Consider completing your net worth statement today!

RECOMMENDED RESOURCES

- eXtension Financial Security for All: <http://articles.extension.org/pages/9451/financial-security-for-all-contents>
- Michigan State University Extension: Understanding Credit and Debt
- MI Money Health financial tools and resources: <http://www.mimoneyhealth.org>
- USDA Sustainable Agriculture: <https://www.nal.usda.gov/afsic/sustainable-agriculture-definitions-and-terms>

REFERENCES

Edwards, W. (2017). Your net worth statement. *Ag Decision Maker* (C3-20). Ames: Iowa State University Extension and Outreach. <https://www.extension.iastate.edu/agdm/wholefarm/html/c3-20.html>

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NET WORTH STATEMENT

ASSETS

Monetary Assets

Cash on hand \$ _____
Checking account \$ _____
Money market accounts \$ _____
Savings account \$ _____
Certificates of deposit \$ _____
Tax refund due \$ _____
Cash value of life insurance \$ _____
Money owed to you \$ _____
Other \$ _____

Sub Total \$ _____

Property Assets

Automobiles \$ _____
Home \$ _____
Household furnishings \$ _____
Personal property \$ _____
Other \$ _____

Sub Total \$ _____

Investment Assets

Stocks/bonds \$ _____
Mutual funds \$ _____
Retirement plan. \$ _____
IRA or Keogh \$ _____
Other \$ _____

Sub Total \$ _____

Total Assets \$ _____

LIABILITIES

Liabilities (Outstanding Balances)

Home mortgage \$ _____
Auto loan \$ _____
Installment loans \$ _____
Business debts \$ _____
Education loans \$ _____
Credit/charge acct. bal. \$ _____
Overdue taxes/bills \$ _____
Other loans \$ _____

Total Liabilities \$ _____

NET WORTH CALCULATION

Subtract your total liabilities from your total assets to determine your net worth.

Total Assets \$ _____
(What you own)

Total Liabilities \$ _____
(What you owe)

NET WORTH \$ _____
(What's left)

Adapted with permission from *Money* 2000, by Joan Witter, 1999, East Lansing: Michigan State University Extension.

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