

Accounting – What Growers Need to Know to Succeed in 2009 (And Beyond)



By Curtis Burr, CPA/ABV, CVA
June 2, 2009



HISTORICAL FINANCIAL STATEMENTS

- Balance Sheet
- Income Statement
- Cash Flows
- Footnotes

Prepared in accordance with GAAP

Separation of Winery operations from Vineyards

Importance of timely financial information

Vineyards – importance of accumulating growing costs against forecasts



IMPORTANCE OF MEETING LOAN COVENANTS

- Purpose is to provide early warning signals to a lender of a deterioration in financial condition and performance, which **might** jeopardize repayment obligations
- Lenders require reporting on a periodic basis
- Vineyard Operation Information
 - Multi-year Comparisons
 - Budget, Budget-to-Actual
- Personal Financial Statements

IMPORTANCE OF MEETING LOAN COVENANTS (cont'd)

- Coverage ratios – measure cash flows available for debt service. Normally a ratio of 1.25 to 1.00; however in this economic environment lenders may restrain their customers from significant additional borrowings by requesting coverage as high as 1.45 to 1.00
- Funded Debt to EBITDA/Debt to Net Worth/Loan to Value – all these ratios are more restrictive in the current economic environment

NON-COMPLIANCE WITH LOAN COVENANTS

- Proactive approach to solving issues – discuss compliance issues with Bank sooner rather than later
- Management is implementing a well thought out and realistic plan of action and has a clear idea of when and how things will improve



NAPA VINEYARD ANNUAL OPERATIONS

NAPA VINEYARD Annual Vineyard Operations

<u>Budget Items</u>	<u>Acres</u>	<u>Annual Operations</u>				
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Current Year</u>	
					<u>Budget</u>	<u>Actual</u>
Revenue						
Sauvignon Blanc	14.00	\$ 92,500	\$ 170,500	\$ 132,225	\$ 182,500	
Operating Expenses						
Soil Analysis		\$ 8,800	\$ 9,890	\$ 9,050	\$ 9,000	
General Maintenance		\$ 500	\$ 2,000	\$ 400	\$ 400	
Soil Amendments / Fertilizer		\$ -	\$ 7,350	\$ 400	\$ 7,000	
Disc & Plow		\$ -	\$ 625	\$ 150	\$ 600	
Cover Crop		\$ 200	\$ 2,850	\$ 1,250	\$ 1,200	
Weed Control		\$ 400	\$ 1,750	\$ 5,000	\$ 2,500	
Prunung		\$ 5,800	\$ 12,900	\$ 13,050	\$ 13,000	
Cultivation (Mowing & Chopping)		\$ 1,135	\$ 1,050	\$ 2,390	\$ 2,400	
Irrigation		\$ 1,830	\$ 1,915	\$ 3,900	\$ 2,500	
Sulfur		\$ 10,305	\$ 13,450	\$ 8,540	\$ 9,000	
Canopy Management		\$ 11,200	\$ 40,060	\$ 20,890	\$ 25,000	
Pest Control		\$ 2,360	\$ 1,261	\$ 1,340	\$ 1,500	
Replanting			\$ 1,095	\$ 1,620	\$ 1,400	
Tying & Training		\$ 5,040	\$ 14,975	\$ 8,450	\$ 9,000	
Frost Expenses		\$ 2,598	\$ 1,905	\$ 1,082	\$ 2,000	
Trellis & Irrigation Repairs		\$ 1,900	\$ 2,300	\$ 2,000	\$ 2,400	
Harvest / Haul		\$ 16,650	\$ 30,690	\$ 23,801	\$ 32,850	
Utilities		\$ 800	\$ 4,750	\$ 1,550	\$ 1,800	
Lease Payments						
Other		\$ 1,800	\$ 1,250	\$ 500	\$ -	
Total Expenses		\$ 71,318	\$ 152,066	\$ 105,363	\$ 123,550	\$ -
Net Operating Cash flow		\$ 21,182	\$ 18,434	\$ 26,863	\$ 58,950	\$ -
Capital Expenditures						
Replanting		\$ 36,450				
Well equipment					\$ 10,000	\$ 10,000
Other						
Total Capital Expenditures		\$ 36,450	\$ -	\$ -	\$ 10,000	\$ 10,000

NAPA VINEYARD ANNUAL PRODUCTION



NAPA VINEYARD								
Annual Vineyard Production								
		Annual Production (tons)						
							Current Year	
	<u>Varietal/Block</u>	<u>Acres</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Budget</u>	<u>Actual</u>	
	Sauvignon Block 1	2.44	6.40	10.79	13.20	18.00		
	Sauvignon Block 2	2.50		11.36	11.02	19.00		
	Sauvignon Block 3	3.40	23.80	25.04	16.50	22.00		
	Sauvignon Block 4	2.80		21.95	16.30	19.00		
	Sauvignon Block 5	2.68	29.51	29.52	15.51	18.00		
	Sauvignon Block 6	0.00						
		13.82	59.71	98.66	72.53	96.00	-	

WEALTH PLANNING OPPORTUNITY

- Now is the time to review estate plans. Lower values increase gift opportunities.
- IRS Farmers Audit Guide:
“If this is all done correctly, the farmer is able to avoid substantial gift taxes by discounting the value of the limited partnership interest.”
- Litchfield v Commissioner
(T.C. Memo 2009-21 Judge Swift, January 29, 2009)

WEALTH PLANNING OPPORTUNITY (cont'd)

- Valuation of minority interests in two family corporations as of October 17, 2001
 - S Corporations holding farmland, marketable securities and closely held subsidiary
 - C Corporations holding marketable and investment securities
- Court held:
 - Substantial discounts for:
 - Tax on Appreciated Assets
 - Discount for Lack of Control
 - Discount for Lack of Marketability