FINANCIAL MANAGEMENT GUIDE FOR CATTLE RANCHERS

AKIPTAN

A Native Community Development Financial Institution

DEVELOPED BY AKIPTAN, INC.

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I'd definitely recommend visioning and planning – we didn't do that. From the get-go, we probably did everything wrong… It was all about doing what we wanted to do – not thinking about it in business terms – and hoping it turned out alright. We almost did go broke and we'd build back slowly.

- Elsie Meeks, Native rancher, Oglala Lakota Nation, and former State Director, USDA/Rural Development

INTRODUCTION

Akiptan has developed this guide to support our borrowers and Native ranchers working to start a new operation, enhance an existing operation, or strengthen their business practices. While we realize that there are other materials out there, we wanted to tailor these materials to the issues and realities we see every day. We also recognize how busy ranchers are, and wanted to develop materials that you can pick up and work on here and there in the time that you have.

Why this guide?

In working with our borrowers, we see the tremendous impact of financial decisions on ranching operations. Making a small change can create a huge difference. That's why we designed a guide that will support your operations as a Native rancher. We also wanted to make sure that these materials include valuable tips for ranchers with a range of experience – from folks just starting out to folks that have been ranching for years. We wanted to stick to the nuts and bolts – key and practical information.

So this guide is for you if you'd like to…

- ✓ Start a ranching operation
- ✓ Expand your current ranching operations
- ✓ Look at strategies to make your current operations more profitable
- ✓ Look at ways to make your ranching a full-time job
- ✓ Hear tips from other ranchers

What does this guide cover?

This guide covers the different components of ranching that impact the finances of your operations. You'll find sections on:

- Where you're headed: visioning and planning
- Key financial decisions that impact your operations
- Taking a look at your numbers: income, expenses, and financial statements
- What your numbers are telling you, and the importance of record keeping
- Accessing and managing credit
- Professional support to mitigate risk and support your assets
- Programming and resources to support your operations

What this guide isn't…

We've designed this guide based on the input of experienced Native ranchers and lenders. These materials were not created to provide professional legal or financial advice, and we cannot take responsibility for individual choices. We strongly urge you to work with qualified professionals to support your operations, and we go into this more in Module 6. If you're not already, we encourage you to work closely with an attorney and a bookkeeper or CPA, and develop a good working relationship with your lender.

Who are we?

Based in Eagle Butte, South Dakota on the Cheyenne River Reservation, Akiptan is a community-based lender. We're a certified Native community based financial institution (CDFI) created to serve Native ag producers. While we're based on Cheyenne River, we serve tribal members and member-owned entities around the country. 'Akiptan' is the Lakota word for 'working together, in a cooperative effort', which inspires Akiptan's philosophy of working with producers to find solutions that work for their operations and allows them to grow capacity and begin operating to their full potential.

MODULE 1

WHERE ARE YOU HEADED: VISIONING AND PLANNING

Visioning and planning are inherently part of Native communities, and a Native way of life. Traditionally, we've always had to plan, and have been master planners, planning around the four seasons, the weather, and the appropriate times for planting, growing, harvesting, hunting, and fishing.

Akiptan and experienced ranchers believe that planning is an essential part of your overall ranching business. In order to reach your goals, it's important to know where you're going, and plan how to get there.

With your current ranching business – the visioning and planning is the foundation:

If you don't know where you're going, how are you going to get there? It's important to look at your starting point, and where you're headed – just like using a map – or your GPS navigator… In the words of one rancher:

> *This is how we've always done it – I tried to step myself out of that box. When I started, I started like we always done it. I allowed 3.5 – 4 acres per cow. I got to reading, studying – stepping outside of the box – cross fencing and rotating. It allowed me to increase my herd by 35% right off and took my expenses down 27% the first year. That allowed me to stockpile my forage – not have to feed hay until mid-January, and then plant more cool season grasses, so I would have them start coming up March 15.*
>
> *- Porter Holder, Native rancher, Choctaw Nation, Oklahoma*

Different types of enterprises:

- Commercial cow/calf operation
- Registered cow/calf operation
- Feeder yearling operation
- Bull seller
- Replacement developer
- Live commodity or direct to consumer

Your starting point: where are you now?

Take a look at the sections in the chart below. These sections represent various parts of your ranching business. This exercise looks at how comfortable you are now in each area.

For each of the components, indicate your comfort level by writing a number between 0 - 10, with 0 being the least solid and 10 being the most solid. When filling out the box with a number, think of what you currently have in place, what you might need, where you might start – and write the corresponding number. Once you have done that, you will do the first column now, and the second column upon completion of the guidebook.

	Pre Score	Post Score
Infrastructure		
Land		
Finances		
Taxes		
Herd Management		
Goal Setting		
Business planning		
Loan products		
Succession planning		

Where are you headed?

Now that you have evaluated where you are today, we'll focus on where you see yourself (and your operations) in the coming years. Where do you want to be in the next year? Where do you want to be in the next 5, 10 and 20 years?

Video 1: Module 1 - Vision Planning
https://qrco.de/bcfd87

When we were ranching and farming and haying, I wish we would have sat down and really looked at what our goals were – a lot of these ranching families are working two and three jobs. I was working basically to provide health insurance. Maybe you need to look at these up front and streamline, so you don't kill yourself, trying to do it the way you've always done it.

- Tawney Brunsch, Executive Director of Lakota Funds and former rancher

Keeping in mind where you rated yourself in the diagram, we'll take a look at where you're headed. Take a look at the questions below, and jot down/circle your responses. There's definitely no right or wrong answer – the questions are just meant to be food for thought as you think about where you'd like to be.

Do you or your spouse have non farm income to support your operation or living expenses? Yes / No
If so, do you want your ranch income to be your only income? Is this a future goal for you? Yes / No

Do you have all the infrastructure and equipment in place that you need? Yes / No/ Not Sure

This could include a barn, corrals, garage/shop, haying equipment, four wheeler/side by side, horse trailer, panels, chute, etc.

If no, what equipment/infrastructure do you need? Please list below:

How many head of cattle do you have now? How many could you potentially run with your current acres?

How many head do you envision in 1 year, 5 years, 10 years, 20 years?

1 year:	5 years:	10 years:	20 years:

Are you a family operation or do you employ other folks? Family Operation/Employ People

If you don't employ other folks now, do you anticipate that you'll need to hire help as you grow? Yes/No/Not Sure

Seasonal or full time? Seasonal / Full Time / Not Sure

Do you have any supplemental sources of income or side hustles that are related to agriculture?
For example do you sell hay or break horses? Yes / No/ Something to consider

Do you want and/or need supplemental sources of income? Yes / No /Something to consider

Have you considered who you will pass your operations on to in the future or any succession planning?
Yes / No/ Something to consider

If yes, are you working with an attorney to take the legal steps to make this happen? Yes / No

Do you have a retirement plan? Yes / No

Other than herd numbers or equipment, what are other goals you have? Please write them down with an approximate timeline.

Pulling it together

We'll build on this information as your foundation through this guide, taking a look at the different pieces of making your vision happen. Maybe you'll need more equipment. Or maybe you could add supplemental income to save some cash to be able to hire some staff. And we'll plan to visit your vision again at the end of the guide, to see what might have shifted.

We also want to note that you don't have to take all the steps at once to meet your goals. While you may come up with a bunch of ideas or recommendations, they can be implemented over time. We also recognize that your goals and vision may change over time. You might be able to achieve a five-year goal much more quickly, or it may take longer. These are planning tools, sort of like posts to guide your work.

> *The first five years is going to be super tough. You really need to dot your i's and cross your t's. Not putting money in your pocket, but investing back in. Tough game to start in.*
>
> *- Porter Holder, Native rancher, Choctaw Nation, Oklahoma*

MODULE 2

KEY FINANCIAL DECISIONS THAT IMPACT YOUR OPERATIONS

In this section, we'll discuss key financial decisions that impact your operations. As you know all too well, any decisions made will have some sort of effect on your goals. Timing, resources, natural resources, and professional support all tie directly to your overall goals. What do you need to do to achieve the one, five, ten, and twenty-year goals that you jotted down? We also recognize how much external factors and unforeseen events can impact your operations. The more prepared you are for these events, the better your operations will fare in the long run.

We also recognize that each rancher is faced with different questions and decisions. Some ranchers may have a variety of options about where to keep their cattle, while others may be working on leased or allotted land your family has worked for generations. Some operators may be able to grow all of the hay needed to feed their cattle, while others need to purchase it. With this in mind, we recommend that you focus on the questions and decisions that are relevant for your operations.

> *I'm a grass farmer with [a bunch of] little combines so to speak. You have to take the mindset on – 10% cowboy, the other 90% is producing grass, food. You're a grass farmer, is what you are. Your money is in your grass. If you can't do anything else, spray and cross fence.*
>
> *- Porter Holder, Native rancher, Choctaw Nation, Oklahoma*

In looking at different key decisions, we've grouped them into different categories that tie to different aspects of your operations. Here is an overview of the categories of decisions we'll be exploring:

- HERD PLANNING
- HERD HEALTH
- FEEDING YOUR STOCK
- INFRASTRUCTURE/ EQUIPMENT
- TRADE/BARTER
- KNOW YOUR MARKET
- LAND

(1) Herd planning

Cattle are at the center of your operations, and it's critical that you know what you have, and know your herd. Some key questions here are:

- **Should you buy back cows or home-raise?**
  Some of the pros and cons of these options include:

	Pros	Cons
Buy heifers	• Can introduce new genetics • Create income right away	• More expensive • Don't always know what you're getting
Home raise heifers	• Know your genetics from day 1 • Often cheaper option	• Have to pay for them for 2 years before producing income • Need infrastructure

Quick Harvest: please write down your current answers to these questions

- Where are you on the home-raised or buy-back question?
- What else do you need to consider to make a decision?
- Do you need to make a decision now or can this wait?
- Who can you talk to, to learn more?
- Do you have the extra space to keep back heifers? Do you have the infrastructure and knowledge to develop replacements?

I started out growing my own. I like to retain my own because I know what I have – what the genetics are what to expect of her. But the downside is that for two years she's a dead expense. And keep in mind that every year, you got to figure that you need to replace 10% - 12% of your producing herd. Whether you're retaining or buying. That goes back into that management. It goes with buying back or retaining – to grow your herd, you need to bring more in.

- Porter Holder, Native rancher, Choctaw Nation, Oklahoma

- **Should you buy a bull or AI or rent one? What about AI?**
  There's another set of questions about breeding – should you buy or rent a bull? Or should you look at AI, instead?

	Pros	Cons
Buy a bull	• You get to pick what you want • They are yours for as long as they live • Keep using good genetics	• Can be costly • If they get hurt or test bad, you have to buy a new one • Feed and care for bulls year round • Testing expenses
Rent a bull	• Always getting new genetics • If they get hurt, the lessor will usually replace them • Fixed expense	• Never get equity • Can be more expensive in the long run
AI	• Introduce new genetics for cheap • Top quality	• Not 100% effective – will need a bull to clean up • Will need to hire someone or go to AI School

Quick Harvest: please write down your current answers to these questions

- Where are you on the bull and AI question?
- What else do you need to consider to make a decision?
- Do you need to make a decision now or can this wait?
- Who can you talk to, to learn more?

Buy the best quality you can afford. Buy good quality, start out with the best you can. Buy the best bull you can afford, always – or lease the best bull you can possibly afford. That's the quickest way to upgrade your cattle. Before long, you have some top-notch stock.

- Porter Holder, Native rancher, Choctaw Nation, Oklahoma

- **What type of cows should you raise?**
  Terrain and weather will inform what breed of cows you want, and what's appropriate for your area. Buyers might also affect what type of cattle you run – since certain buyers will only buy certain types of cattle. Different types of cows to consider include red angus, black angus, charolais, limousine, etc. You'll also want to consider whether you should or should not cross-breed your herd.

Quick Harvest: please write down your current answers to these questions

- Where are you on the question of what type of cows to raise?
- What type of cows are you raising now?
- Are there reasons to consider looking at other breeds?

- **When is the best time for calving?**
  You can also evaluate calving time and when you breed your cows. If you calve in March in the Northern Plains, for example, you'll need to feed more and might have more death loss.

Quick Harvest: please write down your current answers to these questions

- When are you currently breeding and calving?
- Do you have calving facilities?
- Would it make sense to look at calving earlier or later?
- What's currently working for you?

(2) Herd health

Investing in your herd's health is a critical upfront investment, and shouldn't be a place to cut corners. It's important to consider the expenses you'll incur if you don't invest preventatively in herd health.

Vaccines are a critical part of successful ranching operations. According to Janie Hipp, former CEO of the Native American Agriculture Fund and a national lead in Native agriculture, it is important to any producer to reach markets and to be able to access markets. Knowing federal, state and tribal laws is critical. In the area of animal health and disease, knowing vaccination requirements and complying with those requirements can mean the difference between accessing markets or having no markets to access.

Quick Harvest: please write down your current answers to these questions

- Are your working facility/corrals in good enough condition?
- Where will you do your herd health?
- Will the vet come out and look at your cows?
- Could you explore having a vet who does tele health for animals?
- What does your vaccination and preventative health program look like?

(3) Feeding your stock

How you feed your stock is also an important question, but one that may already be made for you. If you have the ground, most ranchers will typically grow their own hay, but may need extra hay in the case of drought. You'll also want to keep the grazing capacity of your land in mind. If you're on leased land, the carrying capacity will be predetermined by the BIA. If the land is not leased, you'll have to determine the carrying capacity based on what the land can safely sustain; you don't want to over-graze. You'll also want to look at the cost of a feed program – cake, corn, and salt blocks.

Quick Harvest: please write down your current answers to these questions

- What will you feed each season and in different moisture conditions?
- Will you supplement hay with anything?
- What barrels/salt blocks/minerals will you use, if any?

(4) Infrastructure/equipment

Whether to buy or lease certain equipment is also an important decision. When you're building assets for your ranching business, you want to make sure that the value of your investments outweigh their costs. The main question is – is it worth it in the long run? It may not make sense to buy a new planter to plant one alfalfa field, for example. In this case, it might make more sense to rent a planter, instead of spending tens of thousands of dollars to buy one for this one project. It's also important to keep in mind that bigger isn't always better, and the size of your equipment should match the scale of your operation or project. For example, there's no need to buy a brand new semi-truck and cattle pot if you only have 20 head of cattle – a pick-up and stock trailer would better fit your needs.

Quick Harvest: please ask yourself these questions when buying equipment/infastructure

- Will you be using the equipment for years, or do you have a one-time job (like rebuilding your corrals)?
- What is the cost of buying vs. leasing?
- Would additional infrastructure increase the productivity of the operation?

(5) Trading and bartering

Looking at your operations' finances, it may be possible to reduce your costs by trading or bartering non-cash items or services. In addition to paying cash for operating needs, there may be creative ways to access other financial needs. Bartering and trading is still in style! You just want to make sure that what you're bartering or trading is equivalent in value or time.

Example: We often see ranchers trading labor to support their operations. Jo Rancher might help Mo Rancher for two days building corrals, for example, and in exchange for her labor Mo will give Jo 10 hay bales.

Quick Harvest:

- Are you currently trading or bartering?
- Are there ways that you could trade or barter non-cash items to save costs in the future?
- If you're working for another rancher, could you use their equipment for your operations (so you don't have to buy or rent)?
- As you're growing hay, could you put up extra bales that could be traded for goods for services throughout the year?

(6) Knowing your market

Key decisions about your market can also impact your operation's finances, including:

- **Should you sell cattle through a sale barn or private treaty?**
  While a private treaty would guarantee a set price, be less of a gamble, and wouldn't charge a commission, the sale barn might bring in a higher price.
- **What are the concrete costs of selling through the barn?**
  How far is the sale barn from your operations? What is the cost of fuel and/or trucking to get to the barn? What kind of commission are you looking at with the sale barn?
- **Are you able to sell directly to the consumer, producing organic, grass-fed, or hormone free products?**
  While these products can bring a higher price, they require a place to process and the safety and legal pieces in place.

Quick Harvest: please write down your current answers to these questions

- Are you currently selling through a sale barn or private treaty?
- Would it make sense to explore other options?
- Have you mapped out your costs in selling through the barn?
- Do you have a market for organic, grass-fed, or hormone-free products?
- Who could you talk to about developing this market?

Don't fall into the get rich quick scheme. Set a plan and stick with it. If your plan is, I'm going to wean these calves and sell them in February – stick with your plan, if you've done your research and there's a reason – stick with your plan. Stick with your plan, do what you know. It will work. Don't bail – play to your strengths.

- Porter Holder, Native rancher, Choctaw Nation, Oklahoma

KEY LAND DECISIONS

Decisions and questions revolve around land. Our Native culture prioritizes being stewards of the land, and our deep connections to it. For many Native ranchers, land is your largest expenditure, and what type of land you're working on has a tremendous impact on the finances of your operations, affecting costs and taxes. At the same time, we recognize that some ranchers may not be faced with land decisions. Working on land that your family has worked on for generations may be the sole option for you.

Some of the questions around land include:

How much land is needed to support your current operations?

What kind of land are you using, or do you plan to use (fee simple, individual trust, tribal trust, restricted fee, or leased)? How much do you own and/or lease? If you own, what percentage of ownership do you have?

Looking at your future goals, will this require additional land? Yes/No

If yes, how could you access additional land? (purchase/lease/trade)

Where is the land located? Close to your home base or further away?

Can the land you're working on or envision accessing produce hay or other feed grains?

- **What are the differences between trust land, fee land and restricted fee?**
  What type of land you are working will also have a significant impact on your operations. The highlights of different types of land are outlined below:

  a) **Tribal trust land:** Trust land is held in trust by the federal government for the benefit of current and future generations of tribal citizens. This land is typically leased by tribal members for use.

  b) **Allotted trust land:** Under the Dawes Act, communal tribal land was divided up and allocated to individual families. The land remained intact but the title divided through inheritance. Over time, multiple generations may have inherited a fraction of the title to the original 160- or 320-acre allotment. Title to trust land is held by the federal government and requires permission by the Secretary of Interior for most actions.

     If an individual tribal member wants to use a parcel of allotted land, this individual must obtain the permission (signature) of a certain percentage of the allottees who have an ownership interest in the the allotment and a lease. The percentage of signatures required for "highly fractionated" allotments is reflected in the table below.

     As an example, for "highly fractioned" allotments with more than 20 owners, you need 50%+ of the ownership interests to approve of a lease. In this example, 30 people hold an interest in a trust allotment, 6 owners hold undivided interests that total 51% of the ownership, so they can vote to approve the action; the other 24 owners (49%) don't have a say in the outcome. As you can see, when you get down to 11 owners, it's likely that they have bigger ownership interests and therefore it only takes 1 or 2 to veto actions on the land.

     We should note that while highly fractionated interests will require many signatures, not all land is highly fractionated.

Number of owners with an interest in trust allotment	Percentage of ownership interests required for approval of lease (or other action affecting the land)
5 or fewer	90 % of ownership interests
6 – 10	80 % of ownership interests
1 – 19	60 % of ownership interests
20 or more	51% (majority) of ownership interests

c) **Fee land:** Fee land is not held in trust, and may be 100% owned by individuals holding a deed to the land.

d) **Restricted fee land:** Restricted fee land is generally the same as fee land but with specific government-imposed restrictions on use and/or disposition.

Some of the key differences between the different types of land are outlined in the table below:

	Trust	Fee Simple	Restricted Fee
Taxation	No taxes on income derived from individual trust land, not tribal trust land	Pay taxes on anything that comes off fee land	Generally no taxation but it varies
Control	Limited control	All of the control	Control with some restrictions
Animals	Assigned AUMs on tribal trust land	Can control the number of animals you're holding	Varies. Leases generally set the AUM limits
Improvements	Improvements on the land are treated as fee property	You own the land and everything on it	Permanent structures are part of the real estate
Succession planning	More complicated	More straight forward	More complicated

Video 2: Module 2 - Key Financial Decisions
https://qrco.de/bclhuP

MODULE 3

TAKING A LOOK AT YOUR NUMBERS: INCOME, EXPENSES, AND FINANCIAL STATEMENTS

Thinking about the decisions you just explored, it's important to take a look at what your operation is costing you – what is each cow costing you every year? That's your starting point, and from there you can say -- what income do you need your cows to generate? This loops back to your visioning and planning – where are you now, and where do you want to be? What's your break even point? Some questions here are:

- Do the cows just have to pay for themselves?
- Do the cows need to pay for a new trailer, or ensure you can make loan payments?
- Do the cows need to cover your entire livelihood – all the bills on the ranch, the employees, your production costs?

In some ways, you can view the budget for your ranching operations like your household budget, looking at what's coming in and out. But, budgeting for your operations also looks different, since it's harder to "cut back" on expenses. With your operations, you don't have a lot of wiggle room. You may not be able to budget for new equipment or infrastructure (like the new fence) unless you make extra income.

The term "budgeting" in a cattle operation – it's really more about operating costs—hard to budget that – you're going to have to buy this much hay, this much in vaccine costs, vets, repairs and maintenance debt service on pick-ups, trucking – we'd have to buy a new pick up, because ranching is hard on them, lease expense, land payment, what other equipment do you need that you have debt service on?

- Elsie Meeks, Native rancher, Oglala Lakota Nation, and former State Director, USDA/Rural Development

Taking a look at your income and expenses

In looking at your finances, we'll start by looking at annual income and expenses for your operations: what funds are coming in, and what funds are going out? The income and expenses are the foundation of your finances, and you want to do your best to have accurate records of them. In the end, the practice of tracking will help immensely during tax season, show if you have a profit or loss, and help determine whether you can expand or may need to scale back your operation. Every dollar will affect your production cost!

In looking at your income and expenses, it's important to separate out "on farm" and "off farm" income and expenses:

- **On Farm Income**
  On farm income is any income that is earned from the business, farm, or ranching activities. This can be from selling animals or products, custom hire jobs, ag program payments or any other income that is derived from farm and ranching activities.

- **On Farm Expenses/Operating Expenses**
  These expenses keep the operation going. They can be feed or seed expenses, land rent, equipment rent, employee salaries, gas and fuel, insurance, repairs and maintenance, along with many others. We are not including loan payments here – these come later when we look at the cash flow summary.

- **Off Farm Income & Expenses**
  The off-farm income and expenses account for all personal living costs and income. This can include income from a job in town as well as personal loans, utilities, and other living costs. It is important to capture these to be able to determine whether the off-farm income is covering the on-farm expenses or the on-farm income is covering the off-farm expenses, or neither.

Before diving into your numbers, we'll take a look at a sample schedule of on farm income and expenses:

Sample On Farm/Operating Income and Expenses

On farm/operating income	2019
Calf sales (main income source)	$50,000
Cull sales	$10,000
Ag program payments	$15,000
Custom hire income?	$0
Other income	$0
Total income	**$75,000**

On farm/operating expenses	2019
Car and truck	$0
Conservation	$0
Custom hire (Ex: hiring someone to plant a field)	$0
Feed supplement	$2,000
Feed, grain, and roughage	$8,000
Freight and trucking	$1,500
Gas and fuel	$3,000
Insurance (Ex: farm/ranch, equipment, etc. not health)	$1,000
Land rent	$20,000
Equipment rent	$0
Repairs and maintenance	$5,000
Seeds and plants	$0
Supplies	$2,000
Taxes (Ex: property)	$0
Vet, breeding, and medicine	$3,000
Utilities	$0
Other	$500
Operating interest	$1,000
Total expenses	**$47,000**

In the form below, you can jot down your current on farm income and expenses. If you are just starting out, please fill in your first year's projections:

Your On Farm/Operating Income and Expense Schedule

On farm/operating income	Year _____
Calf sales (main income source)	
Cull sales	
Ag program payments	
Custom hire income	
Other income	
Total income	

On farm/operating expenses	Year _____
Car and truck	
Conservation	
Custom hire (Ex: hiring someone to plant a field)	
Feed supplement	
Feed, grain, and roughage	
Freight and trucking	
Gas and fuel	
Insurance (Ex: farm/ranch, equipment, etc. not health)	
Land rent	
Equipment rent	
Repairs and maintenance	
Seeds and plants	
Supplies	
Taxes (Ex: property)	
Vet, breeding, and medicine	
Utilities	
Other	
Operating interest	
Total expenses	

Now, you can jot down your off farm income and expenses:

Your Off Farm Income and Expense Schedule

Off farm income	**Year _____**
Job	
Other	
Spouse income	
Total income	

Off farm expenses	**Year _____**
Living expenses	
Bank payments	
Other	
Total income	

Cash Flow

Now that we have a sense of your income and expenses, we can use this information to develop the summary of your cash flow and balance sheet. What are the numbers telling you? How can you use them?

We'll first take a look at the Cash Flow Summary. This financial statement shows the cash inflows and outflows of a business over a given period of time. It provides a picture of what's happening with your operation's cash during a specific period, and shows your operation's ability to operate in the short and long term.

Now, you'll build on your income and expense schedules to develop your Cash Flow Summary:

Cash Flow Summary (please complete)

	Year _____
On Farm Income	
Off Farm Income	
Total income	
Operating Expenses	
Operating Interest	
Loan Payment #1	
Loan Payment #2	
Loan Payment #3	
Total Expenses	
Cash on Hand After Ranching	
Off Farm Expenses	
Ending Cash on Hand	

Quick Harvest: please write down your current answers to these questions

- Are there ways you can decrease my expenses?

Video 3: Module 3 - Cash Flow
https://qrco.de/bclhvG

Balance Sheet

Now, we'll take a look at the second key financial statement, the balance sheet. The purpose of the balance sheet is to show what an operation owes (liability) and owns (assets) for a specific date and time. The statement looks at three points in time: current, intermediate, and long-term. Overall, the balance sheet shows the amount of equity that a person or business has. It's referred to as a balance sheet because each side must equal the other. The balance sheet is created from the following information:

- **Current Assets:**
  Current assets are things that can quickly be turned into cash, if they are not already. Examples of current assets are cash in a bank, bonds and certificates – anything that will/can be converted into cash in a year. This does not include breeding livestock, but can include feeder livestock, calves and crops.

- **Intermediate Assets:**
  Intermediate assets are things that will be used up within the next ten years, or less. On farm examples of this can be breeding livestock, machinery, and equipment. Off farm examples of this can be retirement accounts, household goods, and cash value life insurances.

- **Long-term Assets:**
  Long-term assets are things that are more permanent. Examples of this are land, houses, barns, corrals, buildings, etc.

- **Current Liabilities:**
  Current liabilities are debts that are due within the next year. This can be one-year notes such as an operating loan, charge accounts and the current portion of long term debt.

- **Intermediate Liabilities:**
  Intermediate liabilities are debts that are due within the next 2 to 10 years. This can include breed livestock notes, machinery and equipment debts.

- **Long-term Liabilities:**
  Long-term liabilities are notes that are due in more than ten years.
  Examples of this are real estate, home mortgage,
  and other long-term infrastructure loans.

Video 4: Module 3 - Balance Sheet Basics
https://qrco.de/bclhwQ

Before completing the balance sheet, it's helpful to complete the asset schedule and liabilities schedule. First, take a look at the sample, and then you can fill in your own numbers.

Sample Asset Schedule

Category	Quantity	Year Purchased	Value	Worth
Ranch Machinery & Equipment				
Tractor – New Holland	1	2000	$25,000	$25,000
Raised Breeding Stock				
Black Angus Cattle	150	N/A	$1,200	$180,000
Black Angus Bulls	8	N/A	$4,000	$12,000
Real Estate				
N/A				
Total				**$217,000**

Your Asset Schedule (please complete)

Loan	Quantity	Year Purchased	Value	Worth
Ranch/Farm				
Cash & Cash Equivalents				
Bank Account				
Crop Inventory				
Hay (bales)				
Crop 1				
Crop 2				
Crop 3				
Subtotal				
Market Livestock				
Calves				
Machinery & Equipment				
Subtotal				
Farm Vehicles				
Vehicle 1:				
Vehicle 2:				
Vehicle 3:				
Subtotal				
Raised Breeding Stock				
Bulls				
Heifers				
Replacements				
Breeding Cows				
Subtotal				
Real Estate				
Subtotal				
Infrastructure				
Barn				
Corrals				
Subtotal				
Total				

Non Ranch/Farm				
Cash & Cash Equivalents				
Subtotal				
Vehicles				
Subtotal				
Real Estate/House				
Subtotal				
Retirement				
Cash Life Insurance Policy				
Other				
Total				

In the sample below, you'll see how the balance sheet pulls from the assets schedule and liabilities schedule:

Sample Summary Balance Sheet

Ranch/Farm				
Current Assets			**Current Liabilities**	
Cash & Equivalents	$4,000		Current Portion Due at FSA	$20,000
Total	**$4,000**		Current Portion Due at Bank	$30,000
			Operating Interest	$2,000
				$52,000
Intermediate Assets			**Intermediate Liabilities**	
Machinery & Equipment	$25,000		Due at FSA	$55,000
Raised Breeding Stock	$180,000		Due at Bank	$500
Total	**$205,000**		**Total**	**$55,000**
Long Term Assets			**Long Term Liabilities**	
Total	**$0**		**Total**	**$0**
Personal				
Current Assets			**Current Liabilities**	
Cash & Equivalents	$100		Current Personal Liabilities	$500
Total	**$100**		**Total**	**$500**
Intermediate Assets			**Intermediate Liabilities**	
Household Goods	$3,000		Intermediate Personal Liabilities	$2,500
Car, Recreational Vehicles	$10,000		**Total**	**$2,500**
Total	**$13,000**			
Long Term Assets			**Long Term Liabilities**	
Long Term Assets	$0		Long Term Personal Liabilities	$0
Total	**$0**		**Total**	**$0**
TOTAL ASSETS	**$222,100**		**TOTAL LIABILITIES**	**$110,500**
			TOTAL EQUITY	**$111,600**

Now, you can pull from your assets schedule and liabilities schedule to develop your balance sheet:

Summary Balance Sheet (please complete)

Ranch/Farm				
Current Assets			**Current Liabilities**	
Cash & Equivalents			Current Portion Due at FSA	
Total			Current Portion Due at Bank	
			Operating Interest	
			Total	
Intermediate Assets			**Intermediate Liabilities**	
Machinery & Equipment			Due at FSA	
Raised Breeding Stock			Due at Bank	
Total			**Total**	
Long Term Assets			**Long Term Liabilities**	
Real Estate			FSA Loan	
Infrastructure			Bank Loan	
Total			**Total**	
Personal				
Current Assets			**Current Liabilities**	
Cash & Equivalents			Current Personal Liabilities	
Total			**Total**	
Intermediate Assets			**Intermediate Liabilities**	
Household Goods			Intermediate Personal Liabilities	
Car, Recreational Vehicles			**Total**	
Total				
Long Term Assets			**Long Term Liabilities**	
Long Term Assets			Long Term Personal Liabilities	
Total			**Total**	
TOTAL ASSETS			**TOTAL LIABILITIES**	
			TOTAL EQUITY	

Quick Harvest: please write down your current answers to these questions

- Did you have the information needed to complete the cash flow and balance sheet?
- Have you been reviewing financial statements regularly?
- Do you need to find a bookkeeper or accountant to run these statements for you regularly?
- According to the cash flow and balance sheet, is more income needed?

WHAT YOUR NUMBERS ARE TELLING YOU AND THE IMPORTANCE OF RECORD KEEPING

Once you input your data, your cash flow and balance sheet can provide important information about your operations. They can show if you have a profit or loss, for example, and let you know if you're able to expand operations or may need to scale back.

Building on your financial statements, your financial ratios can also provide key information about the financial health of your operation at a glance. While these ratios are typically calculated on an annual basis, some operations calculate them monthly. Some of these key financial ratios include:

Key financial ratios:

- **Debt to Asset Ratio = total debt/total assets**
  Example: $65,000 / $90,000 = .72
  This shows if you have any equity in your operation, meaning you own more than you owe. Anything below 1 is good, but the closer to 0 the better. Below 1 means that you have a positive net worth.
- **Debt Service Capacity = total income/total debt payments**
  Example: $125,000 / $85,000 = 1.47
  This is your ability to pay ALL of your ranch related debts. In this example, this rancher has a healthy debt service capacity. Anything above 1 is good, but the higher the better.
- **Break even point (all costs per calf sold) =**
  all expenses (operating and debt payments)/# of calves projecting to sell
  Example: $110,000/150 = $733.33
  This shows what you need to average per calf sold to break even with all of your operating expenses and debt payments for the year. This is your bottom dollar. Anything above this is profit and anything below means you will be short. This doesn't take into consideration other "side hustle" income you may have coming in, like selling hay, custom work, etc.
- **Operating costs per cow = total operating costs/# of cattle owned**
  Example: $70,000/200 = $350
  This shows how much it costs you in operating expenses that year per cow. This doesn't take into consideration tractor payments, land payments, etc. Ideally, this is below $400 per cow, but that varies depending on region and operation.

Example: Rancher Jo was figuring out his annual financials. When looking at his balance sheet he discovered that his Debt to Asset Ratio was .95, which he wasn't very happy with. However, he also discovered that his Debt Service Capacity was 2.25. This means that he had plenty of excess profit at the end of the year. Rancher Jo decided to use some of that extra profit to pay down his other debts to decrease his Debt to Asset ratio.

Based on your financial statements, what are your ratios?

Debt to Asset Ratio	total debt/total assets
Debt Service Capacity	total income/total debt payments
Break Even Point (all costs per calf sold)	all expenses (operating and debt payments)/# of calves projecting to sell
Operating Costs Per Cow	total operating costs/# of cows owned

Diversifying your income: side hustles

Now that you've developed your income and expense schedules and developed your cash flow and balance sheet, you will have a sense if you may need to consider a side hustle (don't forget to think about what your finances look like during different seasons, what is happening in your community during certain times of year, etc..).

In this business, there may be unforeseen events that affect how much income you are generating and you may need to think about having a backup plan or side job. While it may take up additional time and resources, it can provide increased income, expand your network, or even help you develop a new skill set (depending on what your hustle is).

What are some ways you're supplementing the income from your operations, or could think about supplementing it in the future? Will you need a side hustle?

Ways to supplement ranching income:

Some side hustles to consider include:

- Selling hay
- Learning a skill like preg testing or AI-ing
- Working at a local sale barn
- Running cattle for someone else

Agri-tourism is also a side hustle to consider, which is becoming more and more popular. Some Native ranchers have set up side businesses where tourists and guests have the opportunity to ride horses, go on guided hunts, or even try ranching. Many producers don't think of their operations as "business centers" and therefore never consider whether they should form an LLC or a small corporation or something that would create a business entity that could identify the business in the marketplace. There are scores of state and federal laws that can impact ag producers. We now have Native specialists in these areas and we need to take advantage of their unique knowledge. Business entity formation, liability laws, protections that are afforded to ag enterprises - all of these are important.

And we want to note that while these side hustles can bring in extra income, they shouldn't distract you from your main goals – you need to keep your eye on the prize!

Importance of record-keeping

As you've seen from working on your income and expenses and financial statements, you need the information to put in them! Record-keeping is vital for accurate financial statements and successful operations. Even though it may seem like you don't have the time, and you can piece together your records when you need to, we strongly recommend having a record keeping system to track your numbers.

> ***Manage them cattle. You need to keep records on each head of cattle. Every night, you need to open those books, write down what happened that day. That's your bottom line – you need to pay attention to that.***
>
> *- Porter Holder, Native rancher, Choctaw Nation, Oklahoma*

Looking at your current record-keeping, what are you currently tracking? What is your record keeping system?

Ideally, you should be keeping track of the following financial paperwork:

- Every receipt reflecting payments and purchase
- Loan and bank documents
- Any income – from selling hay, calves, etc.
- Calving records
- Breeding records
- Death/Loss records

You can find a comprehensive listing of all of the documents that you should be track of, including lease and land documents and estate planning documents, in the last section of this workbook.

We need to stress the importance of record keeping. Here's a true example – if you enroll or get into one of the conservation programs, they're going to give you a bunch of money and you, the rancher, will need to write that off. How do you do that if you don't have the records? If you don't write it off, you'll wind up paying taxes on the $8,000 the government gave you, or even these Covid checks these ranchers are getting. You'll need to pay taxes. You've got to have the expenses to back that out of your tax filing.

- Ross Racine, Native rancher, Blackfeet Nation, Montana
Former Executive Director, Intertribal Agriculture Council

Tax Preparation

In addition to having an accurate snapshot of your operation's finances as a key to successful operations, record keeping is critical for tax preparation. Filing taxes is an important business practice, and is required to qualify for a loan and many federal ag assistance programs, as well as the Earned Income Tax Credit.

> *Agriculture tax is critical to any functioning ag operation - both within Indian Country and outside Indian Country. There are countless Native agriculture producers who have learned the ropes on agriculture taxation and have seen an improvement of their bottom line by being willing to understand and utilize agriculture tax specific provisions. This area ties back into your business entity choice and is intertwined with producer success.*
>
> *- Janie Hipp, Chickasaw Citizen, lawyer and former NAAF CEO*

While we encourage working with a professional accountant to prepare your tax filing, it's also important have a solid understanding of key tax terms and concepts:*

- **Ordinary Farm Income**
  "Ordinary farm income" is revenue generated from the sale of commodities, livestock or possibly custom services provided as part of the farming operation. Ordinary farm income is taxable to producers and is also subject to self-employment tax.

- **Capital Assets**
  Anything the taxpayer purchases that cannot be deducted at the time of purchase. Examples of these assets include: machinery, breeding livestock or buildings. The cost of some Capital Assets are put on a shelf until disposition (i.e. you do not get a tax deduction when you purchase bare land). Capital assets are subject to long or short-term capital gains treatment or depreciation recapture upon disposition.

** These desscriptions are provided by Rob Holcomb, Extension Educator, Agriculture Business Management, University of Minnesota Extension*

- **Depreciation**

  The main idea of depreciation is to spread the cost of a capital expenditure out over the useful life of the asset.

  - Depreciation is a cost recovery system which allows the taxpayer to take a portion of the purchase cost of a qualifying capital asset incrementally over the tax life of the asset.
  - Qualifying capital assets (machinery, breeding livestock, buildings and drainage tile) cannot be deducted as an ordinary farm expense in the year they are purchased. The expense must be spread over a period of years.
  - EXCEPTION: Purchases that fall under the new Tangible Property (Repair) Regulations, which call for recapture upon subsequent sale.

ACCESSING AND MANAGING CREDIT

Credit is an integral part of nearly every rancher's life. It's not uncommon for a rancher to have their banker's phone number memorized because agriculture operations are so dependent on financing to carry them through to the next year. Ranchers will often need to take on a loan to buy new equipment, or cover operating costs until calves can be sold. In order to access credit from a lending institution, you'll need to build your own credit – since lenders often look at your credit in making their decisions. Credit and borrowing decisions can also greatly impact the financial health of your operations.

Working with a lending institution

There are different types of lending institutions that you can approach to access the capital that you need: FSA, community development financial institutions (CDFIs), and private lenders. There are benefits and challenges with each. FSA often has lower interest rates, but may require a lengthy application and paperwork and a longer timeline for approval. CDFIs are community-based lenders, which typically provide technical assistance and support for borrowers and can provide more flexibility since they are not regulated like banks. Rather than denying a loan application, many CDFIs have a "not yet" approach. Native CDFIs understand and are willing to work on trust land, and may also be able to partner with another lender. On the other hand, Native CDFIs may not have enough capital to meet the needs of potential ag borrowers, and may have higher interest rates to cover the cost of their funds. Private lenders tend to have more capital available but interest rates often vary. These lenders often follow strict underwriting guidelines and are often less willing to take risks.

Akiptan is a Native CDFI created to support Native ag producers. Our loan products are tailored to the needs of Native producers, and are described in further detail on the last page of this workbook.

A banker has regulations – he has to lend within that framework. He's not saying no because he's a tightass – he's saying no because his regulations say that we can only lend this much of your assets, and we'll discount your assets.

- Elsie Meeks, Native rancher, Oglala Lakota Nation, South Dakota, and former State Director, USDA/Rural Development

Quick Harvest:

- Where have you accessed a loan in the past?
- Thinking about the different lending options, would it make sense to consider another option moving forward?

What do lenders look at?

In determining whether to approve or deny a loan application, many lenders work with the "5C's":

- **Character** – what's on your credit report
  - Sweat equity: time in the industry (work experience)
- **Capital** – savings, reserves, retirement
  - Inflow and potential to start a savings account
- **Collateral** - physical assets (herd, equipment)
  - Most lenders require 100% collateral match
  - Most lenders discount the value of the collateral
- **Capacity**
  - Do you have the cash flow and debt service capacity to successfully repay the loan you're requesting?
  - Lenders will often look at the financial ratios described above to help determine whether you have the capacity to repay your loan
- **Conditions** (any unforeseen possibilities, part time, economy)
  - Weather and market prices

Beyond the numbers and 5C's, some other red flags that may jeopardize loan approval include:

- Incomplete application
- No tax returns (for established operations)
- No financial records (for established operations)
- Not knowing how much capital you really need (for established operations)
- Spotty repayment history on previous loan

Questions for ranchers to ask lenders

[All financial institutions are different, and may respond differently to the questions below]:

- ✓ What do you need to take out a loan? What's required for an application?
- ✓ What types of loans do you offer?
- ✓ What debt to income ratio are you looking for?
- ✓ How much will my credit score impact your loan decision?
- ✓ What is the interest rate on the loan?
- ✓ How long will it take to get money once the loan is approved?
- ✓ How long is the loan approval process?
- ✓ Are there any fees?
- ✓ Will the loan require a co-signer?
- ✓ How does the loan repayment work?
- ✓ What else do you need to know about this loan?

Be the banker: would you approve these loan requests?

Scenario #1

Rancher Flo is Rancher Jo's daughter. She has been working on the ranch since she could walk, and has come to your bank for a loan to start her own ranching operations. She doesn't have any assets, or managerial experience. Her cash flow is very tight, with a 1:1 debt to asset ratio, and she doesn't have a lot of cushion with her finances. Her assets are going to be the bred cows that she's purchasing, and she has a used pick up. She is planning to use her dad's equipment and infrastructure, including his barn and tractor.

- **What would you do? Would you approve this loan? Why or why not?**

Looking at the facts of the scenario, because this loan fits with Akiptan's mission, Akiptan would probably approve Rancher Flo's loan application. A traditional bank would most likely not approve the loan, but if they did, the lender would probably look at a higher interest rate to offset their perceived risk or require her dad or someone else to co-sign the loan.

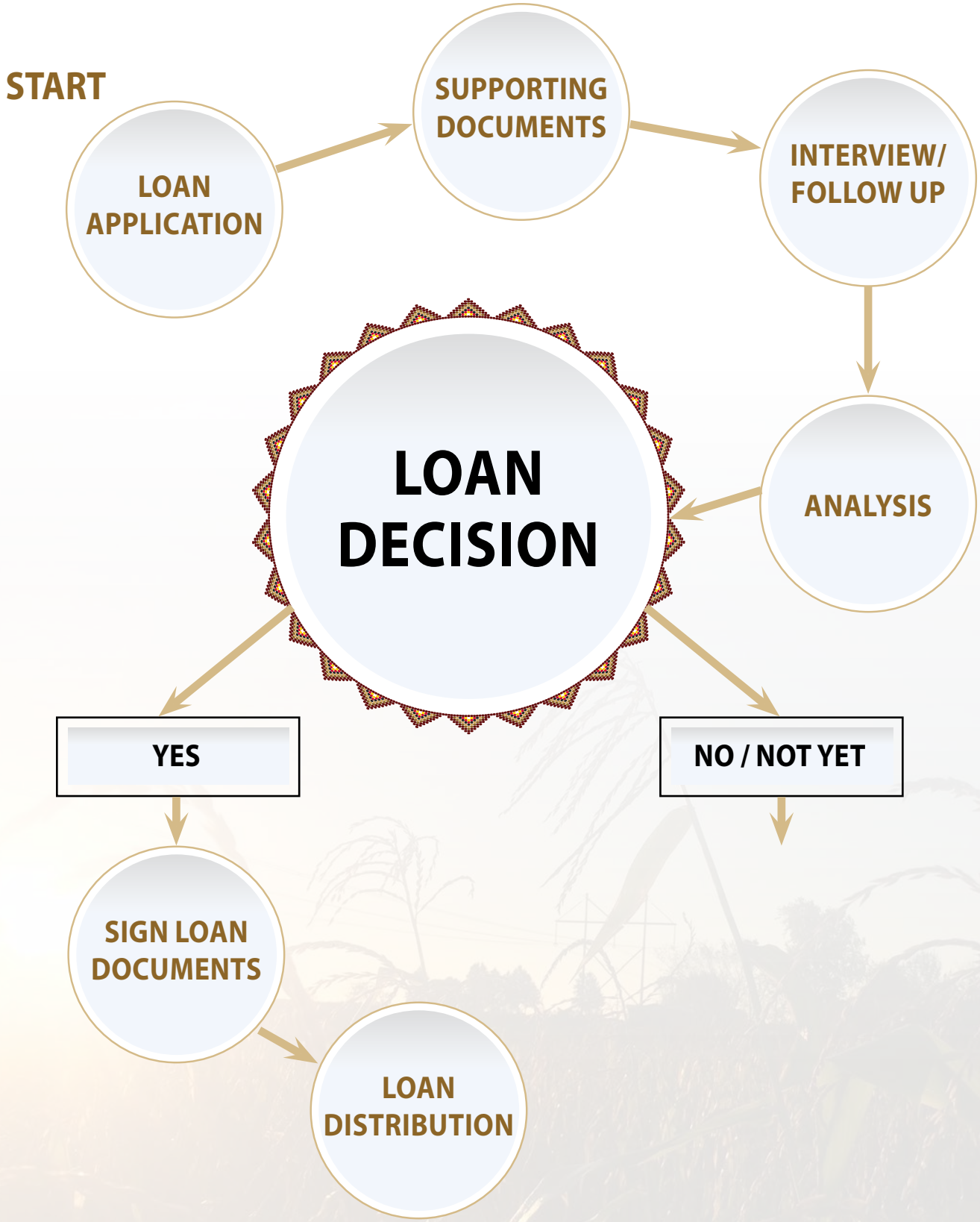
Scenario #2

Rancher Jo has been ranching for over 30 years. He's looking to improve his cash flow and save more for retirement, but his debt service capacity is low and his cash flow is very tight. He's built up significant assets and equity though. Your loan would be in a second or third lien position, behind other lenders.

- **What would you do? Would you approve this loan? Why or why not?**

Looking at the facts of the scenario, because this loan fits with Akiptan's mission and vision and meets its minimum lending guidelines, Akiptan would probably approve Rancher Jo's loan request. More traditional lenders would be more likely to deny the request because they don't like being in the second or third lien position and would be concerned about Jo's tight cash flow.

Flow chart of the loan approval process



Once your loan has been approved…

Once your loan has been approved, it's important to have a solid understanding of language in your loan agreements and security agreements, as well as the codes impacting your loan:

- **Key parts of your loan agreements**
  It's very important to have a clear understanding of the loan terms that are reflected in your loan documents, and that you make sure that the terms are what you'd thought they'd be, looking at:
  - Length of the loan
  - When payments need to be made - make sure they fit your operation
  - Payment amounts
  - Interest rate

Video 5 - Loan Agreement

https://qrco.de/bclhxn

Key elements of a loan agreement are highlighted in the sample below

Client's Name
Business Name
Address
City, State Zip

Type of Loan:
Amount:
Payment Start Date:
Loan #

LOAN AGREEMENT & PROMISSORY NOTE

This Loan Agreement & Promissory Note made on XX/XX/XX between Akiptan, Inc., a non-profit located on the Cheyenne River Sioux Reservation at PO Box 858, Eagle Butte, SD 57625, and XXXXX, Address, City, State Zip.

Akiptan, Inc. will be referred to as the "**Lender**" for the purposes of this document.

XXXXX will be referred to as the "**Borrower**" for the purposes of this document.

Any chattel or property that the borrower authorizes for the collateral as described in the Security Agreement entered into between the parties will be referred to as "**Collateral**" for the purposes of this document.

"**Acceleration**" means the loan becomes due in full at the time the lender chooses to invoke any acceleration clause of the note.

The Borrower desires to borrow funds from the Lender and the Lender agrees to loan the funds according to the terms and conditions set forth below. Failure to comply can result in the acceleration of the loan:

A. PAYMENT OBLIGATIONS

1. The Lender agrees to loan $XXXXXX ("Loan") to the Borrower for a term of XXX years/months at X% fixed annual rate.
2. _____ For the value received, the Borrower agrees to pay to the order of Lender the principal sum equal to the Loan.
3. _____ Borrower agrees to submit payments to the Lender, in person or mail. Payments will vary depending on time borrowed, an updated schedule will be sent out as needed. Payments can be made to the following:

Akiptan, Inc.
412 S Main Street, Suite E
PO Box 858
Eagle Butte, SD 57625

4. _____ The Borrower agrees to use these loan funds solely for the purposes described in the loan application/narrative and business plan, which documents are attached hereto as Exhibit A.
5. _____ The Borrower has the right to prepay the principal of the Loan at any time without penalty.
6. _____ If the Borrower makes a partial payment of the amount due, it will first be applied to the interest and the remaining amount will then go to the principal.
7. _____ To secure the performance of all agreements contained herein and the payment of any and all of Borrowers' obligations to Lender for this Loan, the Borrower has pledged the assets

Akiptan, Inc.
PO Box 858 Eagle Butte, SD 57625
1-605-964-8081

Initial_____
Date_____

LOAN AMOUNT, TERM, and INTERSTATE RATE

WHERE PAYMENTS ARE MADE

PURPOSE OF LOAN

PREPAYMENT ALLOWED

Client's Name
Business Name
Address
City, State Zip

Type of Loan:
Amount:
Payment Start Date:
Loan #

described in the Security Agreement dated XX/XX/XX. The Borrower hereby agrees to inform the Lender of any removal, destruction, conversion, assignment, intentional diminishment or sale of the property set forth in the Security Agreement.

8. _____ The Loan becomes delinquent ten (10) days after the due date. After the ten (10) days the Delinquency Policy will begin to take effect.
9. _____ This Agreement and any related loan documents, including the Security Agreement, and attachments constitute the entire agreement between the Lender and the Borrower, and supersedes all prior agreements, oral or written, related to this loan. Any modification to this Agreement will be effective only by written amendment signed by the Lender and Borrower.

B. DEFAULT EVENTS/REMEDIES

10. _____ Each of the following constitutes a default by Borrower under this document:
    a. the failure of Borrowers to perform any warranty or agreement contained in this Agreement or in any instrument securing payment of this Loan or related to this Loan;
    b. a default by Borrowers under any other promissory note executed by the Borrowers, or any one or more of them, and payable to the Lender;
    c. if any statement or report furnished by the Borrowers to the Lender is false in any material respect;
    d. if any Collateral is lost, stolen, substantially damaged, destroyed, or, without the Lender's prior written consent, sold or encumbered;

LOAN AMOUNT, TERM, and INTERSTATE RATE

PURPOSE OF LOAN

- **Security agreements and blanket liens**
  Security agreements secure your loan for the lender, and detail what you're signing over as collateral for your loan. It's critical that you pay attention to what you're signing over – just because you're purchasing cows doesn't mean that this is the only thing that the lender is taking. A blanket lien covers EVERYTHING you own in relation to your operation, and a "hereinafter acquired" clause covers property that you acquire AFTER you close your loan (such as calves born to the cows you purchased and new equipment). The security agreement also outlines what you need to do if your property gets damaged, and how you need to notify the lender if anything detrimentally affects your operations – since the lender has a lien on this property.

Video 6 - Module 5 Security Agreement

https://qrco.de/bclhz0

Key elements of a security agreement are highlighted in the sample below:

SECURITY AGREEMENT

This Security Agreement, entered into this 19th day of November, 2020, by and between Akiptan, Inc., PO Box 858, Eagle Butte, SD 57625 and XXXXXXX XXXXXXX, Address, City, State Zip, describes the Security for Loan #XXX.

For the purposes of this Agreement, "**Lender**" will be Akiptan, Inc.
For the purposes of this Agreement, "**Borrower**" will be XXXXX XXXXX.

Pursuant to a certain Loan Agreement dated (XX/XX/XX), the Lender has agreed to loan the Borrower $XXXXXXX for the benefit of Borrower. In exchange for loan made and/or to be made, by the Lender to the Borrower and for other good and valuable consideration, and as security for the performance by the Borrower of its obligations under the Loan Agreement and as security for the repayment of the loan amount under such agreement and all other sums due from Borrower to Lender, the Borrower does grant the Lender a security interest in and to the following goods (now referred to as the "**Collateral**"):

a. All crops, livestock, farm products, equipment, certificates of title, goods, supplies, inventory, accounts, deposit accounts, supporting obligations, payment intangibles, general intangibles, investment property, crop insurance indemnity payments, and all entitlements, benefits, and payments from all state and federal farm programs.
b._____; and
c. All proceeds, products, accessions, and security acquired hereafter.

As more further described below:

Must include make, model, VIN, amount, breed, weight, style, etc. or any other information that is necessary to describe the property.
XXXXX
XXXXX
XXXXX
XXXXX

In addition, the security interest listed herein is given to secure the Borrower's performance of the covenants, conditions, warranties and agreements contained in the Loan Agreement, as well as to secure all indebtedness now owing or which may become owning by the Borrower to the Lender.

The Borrower agrees that:

1. _____ The Security is owned out-right by the Borrower and is not subject to any security interest (excluding this Agreement) or to any liens. The Borrower has lawful ability to grant this item as security.
2. _____ The Borrower will not sell, lease, mortgage, pledge or encumber the Security, permit its identity to be lost, permit it to be levied upon or attached under any legal process, create any security interest therein (excluding this Agreement), or otherwise dispose of the same

1

Initial _____ Date _____

or any of the Borrower's rights to the Collateral. The Borrower will not remove the Collateral from the place of operation without prior written consent of the Lender.

3. _____ The Borrower will maintain the Collateral in good condition, will pay all taxes, levies and other impositions, and will keep the Collateral insured in the form and amount acceptable by the Lender. If the Borrower fails to do so, costs will be paid by the Lender and then added to the loan principal balance of the Borrower secured by this Agreement. Failure to comply can lead to the Lender acting upon any and all rights and remedies as provided under the Loan Agreement, including acceleration of the loan..
4. _____ This Agreement will be for the benefit of the Lender and all purchasers, holders and assignees of any of the indebtedness secured in this Agreement.
5. In the event of a death, loss, theft or destruction of the Collateral the Borrower will give the Lender written noticed within ten (10) days of the event.
6. _____ Borrower agrees to sign, deliver and file any additional documents or certifications

which Borrower hereby agree may be by private sale. The rights granted in this Section are in addition to any and all rights available to Lender under applicable law.

11. The proceeds derived from the sale of the property shall be applied to the costs of securing the Collateral, selling the Collateral, attorney fees, interest and the loan amount, in that order. Any money left over will go to the Borrower. In the event all indebtedness is not paid the deficiency will be immediately due by the Borrower paid to the Lender.
12. _____ This Agreement shall be deemed to be entered into in Eagle Butte, South Dakota, within the reservation of the Cheyenne River Sioux Tribe. Thus, this Agreement and any related loan documents, including the Security Agreement, shall be governed, construed,

PROMISE TO SECURE LOAN WITH COLLATERAL

HEREINAFTER CLAUSE PLEDGING FUTURE PROCESS AND ACQUISITIONS

DETAILS ABOUT COLLATERAL

AGREEMENT NOT TO CHANGE COLLATERAL (INCLUDING SELL, MOVE, OR USE AS COLLATERAL FOR ANOTHER LOAN)

NOTIFY LENDER OF DEATH, LOSS, THEFT OR DESTRUCTION OF COLLATERAL WITHIN 10 DAYS

PROCEEDS MUST GO TO PAYING OFF THE LOAN

- **Codes (UCC, EFS)**
  In making your loan, your lenders will typically file two codes with the state, to notify the state of their liens on your property:

  - **Uniform Commercial Code (UCC)**
    This shows that the lender has a legal stake in your assets, and ensures that you can't sell what you've pledged as security for your loan. This is filed online with your state.

  - **EFS (Effective Financing Statement)**
    This is related to ag lending, and means that the lender's name will be on the check that you get from the sale barn. Because the lender has a legal interest in your property, you will need their endorsement to cash these checks.

MODULE 6

PROFESSIONAL SUPPORT TO MITIGATE RISK AND SUPPORT YOUR ASSETS

In this industry, relationships are essential. It takes time to find the right support system for your business as well as to cultivate the relationships you need. As you begin to seek the right attorney, bookkeeper, accountant or lender, you want to prepare yourself in terms of knowing what you need, as well as set some defined expectations, pay for your services on time, and add a special touch like a thank you card or small gifts throughout the year.

As we've discussed in the previous modules, working with experienced professionals who understand ag can make a tremendous impact on your operations. Thinking back to the goals and vision that you laid out, these professionals can help to analyze your operations and provide advice to help you get to where you're going. They can help keep accurate records, advise you on write offs to decrease your taxes, and prepare the estate planning documents to help ensure that the heirs that you designate can inherit your operations. We recognize that it takes time (and resources) to work with these folks, but in the long run, we strongly believe that with the right professionals –it's worth the investment.

Here are the professionals that we'd recommend you consider working with:

1) Attorney for succession planning

One key question for ranchers is who you'd like to inherit your operations. An attorney can help you transfer your assets without going through probate (which can be a lengthy process and can't guarantee the results that you'd like to see). The attorney will develop a will or estate plan with you to make sure that your operations are passing to who you want to inherit them. Without the will or estate plan, the distribution of your trust assets will be governed by the American Indian Probate Reform Act (AIPRA), which is not considered favorable to farmers and ranchers.

Case study: Rancher Jo and Rancher Mo's Estate Planning

Rancher Mo worked on 2,000 acres of fee simple land, and owned 50 head of cattle. She also owned a barn and a John Deer tractor. She had two children, Elaine, who had always helped out on the ranch, and Jon, who went off to med school and lived in Phoenix. Mo met with her attorney, Ed Estate Planner, and explained that she wanted to leave the ranch and her property to Elaine. Ed explained that she'd need two wills – one for the land and one for the structures that she owned. When Ed asked about Jon, Rancher Mo replied that she'd like to make him the beneficiary of her life insurance. When Mo passed away in January 2020, the documents were in place and by April 2020, Elaine held the deeds to the land and structures.

Rancher Jo worked on 8,000 acres of trust land and owned 300 head of cattle. He had five children, Mike, Mark, Miles, Manny, and Melvin. Mike and Mark worked on the ranch full time, Melvin owned a store in town, Miles was a professor in upstate New York, and Manny lived in Mexico with his wife. Rancher Jo thought about making plans for when he passed, but he didn't know how to divide his property evenly, and he didn't want the boys to fight over the land. While he planned to meet with his attorney each year, he'd heard bad things about attorneys in town, and didn't really trust them. When he passed away in April 2019, his boys assumed that he'd left the ranch to Mike and Mark, and left his investments to Melvin, Miles and Manny. They were surprised to learn that Jo hadn't prepared any will, and the estate would have to go through probate. Finally, in August 2021, Rancher Jo's estate went to probate and was divided evenly between the five boys. While Melvin was willing to sell his share back to Mike and Mark for a reasonable price, Manny and Miles insisted on selling to the highest bidder – making it impossible for Mike and Mark to buy their shares. Since Rancher Jo didn't have a will, 40% of the ranch was sold off, harming Mike and Mark as ranchers and making it virtually impossible for them to run a sustainable operation in the future.

Because it's uncomfortable to think about and takes time and planning, it's easy to push succession or estate planning to the future, especially for young ranchers. But the repercussions of delaying estate planning can be significant, and avoiding it will often make the situation worse. And recognizing that situations change, it's important to remember that the documents can always be amended or revised – the main thing is to have them in place.

Aside from the will, some important estate planning terms include:

- **Gift Deed** – literally a gift of an undivided interest in an allotment
- **Life Estate** – property that an individual does not own but retains use for their lifetime
- **Transfer on Death Deed** – Department of Interior to consider in the future, allows property owner to pass assets, land and/or real estate to a designated beneficiary outside the probate process; assets transfer immediately at death
- **Power of Attorney** – allows someone else to act on your behalf
- **Health Care Directive** – allows you to specify, in writing, your health care preferences when you no longer have capacity to provide consent

Different jurisdictions have different requirements for estate documents, and we recommend working with an attorney who is familiar with local requirements on these documents.

Questions to ask when you're searching for an attorney:

- ✓ How long have you been practicing?
- ✓ What type of law do you focus on?
- ✓ How familiar are you with my industry?
- ✓ How familiar are you with Indian Country? Trust land?
- ✓ Have you received training in the provisions of the American Indian Probate Reform Act?
- ✓ Who's your typical client?
- ✓ What are your fees and costs?
- ✓ What's your billing process?
- ✓ How will you let me know what's going on with my needs?
- ✓ Can you provide references or names of past clients that I can contact?
- ✓ Does your tribe offer free estate planning?

Quick Harvest: please write down your current answers to these questions

- Have you prepared estate documents? Yes/No
- If not, have you identified an attorney you can work with? Yes/No
- Do you know who you'd like to pass your operation on to?
- What does your land ownership look like? Do you lease or own?
- Is the land owned by multiple owners? Is the interest undivided or divided?

2) Bookkeeper or Accountant for Record Keeping and Tax Preparation

Building on the records that you keep, your bookkeeper or accountant can also play an important role in developing your statements and managing the finances of your operations. A bookkeeper typically records and classifies an operation's transactions, such as sales and bills. They focus on accurate record-keeping. An accountant focuses more on financial analysis, reviewing financial statements, analyzing the cost of operations, and completing tax returns.

There are different options in working with these professionals:

- You can work with two separate professionals, a bookkeeper and an accountant
- An accountant can do bookkeeping and the tax preparation
- You can do your bookkeeping yourself at home, and then take your records to your accountant at tax time

As you're hiring a bookkeeper or accountant, keep in mind that ag experience is vital, especially for an accountant. Often, word of mouth is the best way to find the right professional.

Find you a really good CPA and keep good books. I've got a really good one. A really good CPA – he can make you a lot or cost you a lot. Find a CPA with experience in farming or ranching. A lot that have done other business don't understand the farming and ranching business and the write offs. Make sure you get a good bookkeeper that has farm and ranch experience. Others can cost you. I trust him. If he tells me what do , I trust him – I don't question him.

-Porter Holder, Native rancher, Choctaw Nation, Oklahoma

Questions to ask when you're searching for a bookkeeper/accountant:

- ✓ Are you currently working?
- ✓ What kind of services do you offer?
- ✓ How familiar are you with my industry?
- ✓ How familiar are you with Indian Country? Trust land?
- ✓ What is your level of expertise in my industry?
- ✓ What credentials do you have?
- ✓ What is your technical background?
- ✓ Where is the work performed?
- ✓ What would I need to provide for you?
- ✓ How often would you recommend that we meet?
- ✓ What security practices do you follow?
- ✓ What are your fees?
- ✓ Can you provide references or names of past clients that I can contact?

Quick Harvest: please write down your current answers to these questions

- Are you currently working with a bookkeeper, an accountant, or both?
- If not, would your operations benefit from hiring professional support? Or hiring additional professional support?
- Based on your needs, who would it make sense to hire?
- Who can you reach out to for advice and recommendations on hiring?

3) Loan Officer or Lender

While ranchers may see their relationship with a lender as an "us vs. them," we encourage you to have a strong working relationship with your lender. According to Elsie Meeks, "Your lender is your best friend and your biggest coach, not someone you need to hide things from." Ross Racine agrees, "Invite your banker out to your branding… You want that kind of relationship – you want that guy to understand who you are, where you are, and where you're going." Part of developing this relationship means being transparent, and really sharing what's going on with your lender.

Quick Harvest: please write down your current answers to these questions

- How is your relationship with your lender?
- Could you be more transparent with your lender, especially about your challenges?
- Are there opportunities to strengthen your relationship with your lender?

Something always comes up… we had borrowed a lot, and then we had a huge blizzard in April, which almost annihilated our calf herd, plus some cows. This is where our banker was our friend – he really helped us think through our situation, advising that we'd better not do this or that, he'll re-write our loan, but this is what that means.

-Elsie Meeks, Native rancher, Oglala Lakota Nation, South Dakota, and former State Director, USDA/Rural Development

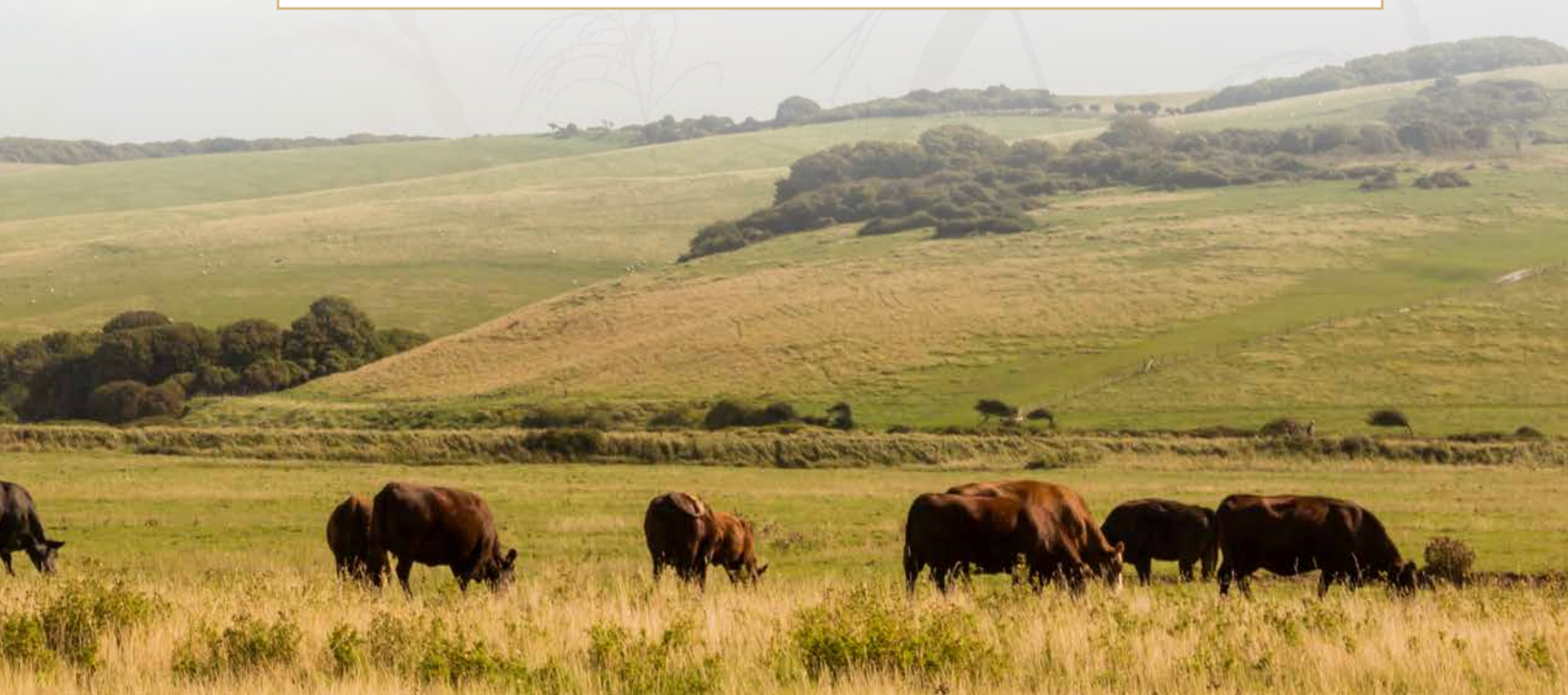
4) Mentor

We also encourage working with a mentor, depending on where you are in your ranching career. For start up operations, a mentor's advice can be invaluable. Some questions to ask a mentor include:

- What should I stay away from?
- What's going to fail me?
- And what's the best way?

Quick Harvest: please write down your current answers to these questions

- Are you currently working with a mentor? Yes/No
- If no, can you identify someone that could serve as a mentor?
- Who could you follow-up with for ideas about potential mentors?



PROGRAMMING AND RESOURCES TO SUPPORT YOUR OPERATIONS

In addition to professionals, there are also valuable programs and resources that can support your operations. We encourage you to explore working with the following:

- **Intertribal Agriculture Council (IAC)**
  Founded in 1987, IAC works through a network of experienced technical assistance providers around the country to support Native producers, with staff in each BIA region. Technical assistance providers have a wealth of knowledge about available programs and resources for Native ag producers, and can review financial statements, support loan applications, and make referrals for programming and additional support. (www.indianag.org)

- **U.S. Department of Agriculture (USDA)**
  USDA has a number of programs that support producers. In order to access these programs, you can reach out to the contact person your county. Some USDA programs to check out include:

  - **Farm Services Agency (FSA)**
    FSA can provide loan capital to support or expand operations, and has disaster relief programming available to address losses and damage caused by natural disasters. For example, the Livestock Forage Program (LFP) provides assistance to purchase hay in the case of severe draught. To find your contact person, you can go to the FSA's website (https://www.fsa.usda.gov/state-offices/index), and click on your state. From there, you can click on your county to find contact information.

  - **Natural Resource Conservation Service (NRCS)**
    NRCS provides resources to support conservation planning and better practices to increase forage production and livestock production. For example, NRCS operates the Environmental Quality Incentives Program (EQIP), which provides financial support and technical assistance to ag producers for natural resource improvements. For more information, you can reach out to your state's contact person at the NRCS website (https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/contact/states).

- **Bureau of Indian Affairs (BIA)**
  Ranching operations may involve working with the BIA on land management and leasing issues. The BIA has also offered programs to support estate and succession planning for tribal members.

MODULE 8

PULLING IT ALL TOGETHER

Now that we've covered different aspects of the finances of your operations – from key decisions, to financial statements and record-keeping, to different professionals and programming – it's important to pull these all together.

First, we'd like you to go back to the chart you completed at the outset on page 4, where you indicated your comfort level with the different components that we covered. Do you feel differently about any of the pieces? Feel free to jot down any changes you'd like to note.

Now, we'd like to look at next steps. Based on what we've covered, are there things about your operations that you'd like to tackle? Are there some pieces you'd like to address sooner rather than later? Taking a look at the next steps listed below, check the ones that you'd like to address, and note when you'd like to start tackling these items:

Check to tackle	Potential next step	Timeframe (circle one)
❒	Start keeping records or beef up your record keeping system	3 months, 6 months, 1 year, 1 year +
❒	Start reviewing your cash flow and balance sheet on a monthly basis	3 months, 6 months, 1 year, 1 year +
❒	Identify bookkeeper	3 months, 6 months, 1 year, 1 year +
❒	Find accountant	3 months, 6 months, 1 year, 1 year +
❒	Work with attorney on estate planning	3 months, 6 months, 1 year, 1 year +
❒	Identify a mentor	3 months, 6 months, 1 year, 1 year +
❒	Explore potential bartering opportunities	3 months, 6 months, 1 year, 1 year +
❒	Explore side hustles	3 months, 6 months, 1 year, 1 year +
❒	Connect with IAC TA provider	3 months, 6 months, 1 year, 1 year +

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Check to tackle	Potential next step	Timeframe (circle one)
❒	Connect with USDA contact person in your region	3 months, 6 months, 1 year, 1 year +
❒	Connect with BIA contact person in your region	3 months, 6 months, 1 year, 1 year +
❒	Other:	3 months, 6 months, 1 year, 1 year +
❒	Other:	3 months, 6 months, 1 year, 1 year +
❒	Other:	3 months, 6 months, 1 year, 1 year +

As a rancher, we recognize how busy you are – either managing a full time operation, or balancing your ranch work with another job. We believe that it's important to be realistic in making changes or implementing new practices. It's probably unlikely that you can start estate planning, implement a new record-keeping system, reach out to your NRCS contact, and find a mentor in the next month! But we hope that some of the issues we've covered are now on your radar, and you'll come back to this workbook periodically to review the information that's covered.

We also recognize that younger ranchers, or those just starting out will probably have more items on their checklist than experienced ranchers that have been doing this for a while. But we hope that no matter how long you've been doing this, you've identified some potential ways to strengthen the financial health of your business and boost your bottom line.

Being realistic, we'd like to ask you to jot down your three priorities to focus on over the next six months. Based on your checklist, what are your top items to tackle immediately? This is your starting point:

(1)
(2)
(3)

Video 7: Module 8 - Pulling it all together

https://qrco.de/bcli28

IMPORTANT DOCUMENTS

LEGAL IDENTIFICATION DOCUMENTS

- ☐ Social Security Cards
- ☐ Birth Certificates
- ☐ Enrollment documents
- ☐ Marriage Licenses
- ☐ Articles of Incorporation
- ☐ ByLaws
- ☐ Business Licences
- ☐ Employer Identification Number (EIN)

TAX DOCUMENTS

- ☐ Tax Returns
- ☐ W-2s and 1099 Forms
- ☐ Any Tax-Related Forms,Receipts and Records

EQUIPMENT, INFRASTRUCTURE AND LAND

- ☐ Vehicle Registration and Titles
- ☐ Mortgages, Deeds and Titles
- ☐ Bills of Sale
- ☐ Leases/Contracts (land and equipment)
- ☐ List of VIN & Serial Numbers
- ☐ Insurance Policy (home, auto, personal, ranch, etc.)

FINANCIAL DOCUMENTS

- ☐ Loan Agreement
- ☐ Security Agreement
- ☐ Amortization Schedule
- ☐ Updated Cash Flow and Balance Sheet
- ☐ Bank Statements
- ☐ Pay stubs/Calf Checks
- ☐ Receipts
- ☐ Cancelled Checks
- ☐ Retirement Records
- ☐ Investment Statements
- ☐ Accounts payable

OTHER

- ☐ Health Insurance Policies
- ☐ Wills, Powers of Attorney or Living Will
- ☐ Medical Bills
- ☐ Other Contracts (NRCS, FSA Program
- ☐ Sign Up, Tribal Programs etc.)

AKIPTAN

A Native Community Development Financial Institution

WWW.AKIPTAN.ORG

AKIPTAN'S REPAYMENT APPROACH

When we talked to different Native ranchers, they often mentioned how the traditional lending system – with high interest rates and short repayment terms – doesn't allow for successful operations. Many Native producers are caught up in a debt cycle where they need to sell what they produce to make an annual loan payment, which means they can never get ahead or make a profit.

Akiptan's lending program was created to address these issues. Akiptan is looking to transform finance in order to set producers up for success through terms that work for them. A common saying is to not recreate the wheel, but when the ag finance wheel is broken, it is time to create a new one. Akiptan's goal is to create beneficial solutions and services from the producer's viewpoint, specifically when it comes to the realities of on-the-ground agricultural cycles. The philosophy behind Akiptan's values is patient capital over extractive capital, fair and flexible financing, building a solid relationship with the borrower, and innovation in lending. Akiptan offers two patient capital products, one that is termed the "Traditional Loan Option" and another that is called the "Investment Option."

The traditional loan option is something that one would find at a bank where the money is borrowed at a set rate over a set period of time and regular payments are made on a predetermined schedule. However, even Akiptan's traditional option is different than a traditional lender's, where the bank typically tries to keep these repayment periods short due to the perceived high risk of most ag operations. Akiptan believes that in reality, a lower risk option would extend terms of the loan longer than what one would receive at the bank so that the client has time to grow their operation, make easier payments, and earn a profit. Akiptan firmly believes that agriculture is not an inherently risky industry – it is only made risky through terms that are not aligned with agricultural production cycles and ecological realities. While the traditional option works for some operations, the investment option is what allows for the most innovation, capacity building and flexibility.

The investment option truly reflects Akiptan's values. The investment option allows Akiptan to "invest" with a business, enabling the ag business to get up and running while making small, manageable "return on investment" payments for up to five years. After five years or earlier if the client so chooses, they will start paying back the "investment" in order to "buy Akiptan out" of their business. This "investment option" can simply be seen as a loan with an interest-only period. This option demonstrates the patient capital and innovative financing concept that Akiptan was founded on, and it makes a measurable impact for the producer. This smaller, interest only payment allows for upfront capacity growth, cash operating, innovation, and many other opportunities. Most agriculture financing is designed in a way that all of the product has to be sold to make the bank payments, but this allows for the operations to reinvest their profits to grow their operation. Some examples include keeping heifer calves to get a replacement program started so that they always have homegrown replacement cattle coming up instead of buying new cows every year. Another example is a small garden that was scaled up because the profits were reinvested back into the business to buy greenhouses and equipment. By the time that the five-year interest only payments are complete, the operation has been able to increase in size, making the once-daunting principal payments significantly easier to manage.

SEVEN SISTERS COMMUNITY DEVELOPMENT GROUP, LLC

Seven Sisters Community Development Group, LLC is a national, for-profit consulting firm that offers culturally relevant and innovative strategies, services, and products that support systemic change. Our firm is 100 percent women-owned and 50 percent Native-owned. Our team of community development specialists brings a broad range of experience to our work. We plan, develop, and implement client-driven strategies. We collaborate, partner, and consult with local nonprofit organizations, national intermediaries, coalitions, government agencies, housing authorities, lenders, private sector entities, community development financial institutions (CDFIs), and philanthropies.

Seven Sisters LLC has extensive knowledge of Indian Country. We understand the unique issues facing Native communities, especially the challenges of accessing credit and capital, Native agriculture systems and stakeholders, and the homeownership process on trust land and surrounding areas. Our team is dedicated to supporting and strengthening the work of organizations that support these communities.

Seven Sisters is committed to supporting the Native Agriculture industry, and has considerable experience in this field. We work closely with many active stakeholders in the Native Agriculture space, including Akiptan, the Native American Agriculture Fund, the Intertribal Agriculture Council, Lakota Funds, Four Bands Community Fund, the S.T.R.I.V.E. Initiative, and Thunder Valley CDC. Seven Sisters is honored to work with Akiptan to create this financial management guide for Native ranchers.

NOTES

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