Braeside Farm: Financial Analysis of a Startup Service Business

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Susan Edwards, Grand Valley State University

Braeside Farm, founded in October 2008, provides the West Michigan area with a premiere hunter/jumper, dressage training and horse boarding facility designed to meet the needs of beginner through advanced riders. Its mission is to provide a full-service riding and boarding facility, focusing on excellent care of the horse and enjoyment for the rider in a competitive arena. In addition, Braeside hopes to offer horse training and sales programs that help match horses to riders within and beyond its stables. Group adventures for all ages, including organized trail rides and overnight experiences accommodating both horse and rider, are under consideration. The farm’s current and prospective services are shown in Table 1.

INTRODUCTION

The West Michigan equine facility market currently caters to two classes of riders: 1) the highly competitive, upper socio-economic class; and 2) the casually competitive, lower socio-economic class. Braeside Farm markets toward the middle to upper middle class riders who have the desire and financial means to compete at all levels, but who would largely focus on regional events. Its services are more comprehensive than the majority of barns in the area, but Braeside Farm sacrifices some of the personalization available at the more elite barns in the area. Braeside is extremely proud of its trainers, who are as qualified as their counterparts at the elite barns and far better known than the trainers at the smaller barns are. It has had the ability to attract top-level junior trainers and the youth who aspire to be serious riders. Simply put, Braeside Farm is the only B level barn in a field of few A and many C level barns.

While other barns tend to focus on one aspect of the horse world, such as showing and competing, Braeside Farm also concentrates on clients who wish to support their primary riders. For example, a child who is interested in competing in weekly horse shows, an adult who would like to learn to ride and/or those who are interested in simply furthering their relationship with their horse.

Braeside Farm’s goal is to maintain its current clientele, while capturing the equestrian market that is without a premiere barn in the area. The facility is located directly off a major highway in the Grand Rapids, Michigan metropolitan area with close access to the areas of Rockford, Comstock Park, Wyoming, Sparta and Walker, Cadillac, Kent City, and Muskegon. This area was chosen not only because of its easy-to-access location, but also because it was offering a very healthy value per acre of land and a comparatively low property tax rate.

COMPANY BACKGROUND

The enterprise consists of two limited liability corporations (LLC): Braeside Property LLC and Braeside Farm LLC. The first entity owns the fourteen-acre property, which consists
of a twenty-four stall boarding facility, a covered indoor riding facility, five outdoor paddocks, two outdoor riding arenas, a hay barn and a residence. The residence provides an additional benefit to the business of providing a means for around the clock onsite security for the property. Additionally, since living on the grounds is a requirement of the barn manager position, the market value of the monthly rent is deducted from the manager’s salary.

Braeside Farm LLC is the operating side of the business, which pays a monthly rental expense to Braeside Property LLC. Braeside Farm LLC collects the monthly boarding fees, pays operating expenses and maintains the assets. Table 2 presents the original organizational structure for the business. For the first year of operations, the enterprise was owned by two married couples, but as the first year ended, a lack of financial responsibility in meeting partnership obligations led to a legal dissolution of the two LLCs on January 31, 2010. A concern of the partnership breakup decision was that the remaining owners could face immediate repayment on existing loans, according to the business attorney. The lender’s justification, due to the fact the original business plan and structure were not in place, would support the right to call the mortgage and line of credit.

PRO FORMA AND ACTUAL FINANCIAL STATEMENTS

Table 3 contains the forecasted profit and loss for the first year of operations. Based on these projections, along with the business plan, a local lender approved a $140,000 mortgage secured by an interest in the property and a $25,000 commercial line of credit to the Property LLC. One of the two couples (Owner 1) provided the remaining financing of $215,000. Actual results for the first year of operations are contained in Tables 4, 5 and 6. Your task is advise the lender to extend or end the bank’s loan exposure to Braeside Property. Use the following questions to guide your recommendation.

1. Repayment of the mortgage was based on monthly payments with an annual interest rate of 7.25%, a maturity of twenty years (240 months) and maturity date of five years (60 months). Given the terms, what is the monthly principal and interest (PI) payments?
2. Based on your findings for the first question and what you know about expected income and expenses, what is an appropriate monthly rental payment from Braeside Farm to Braeside Property?
3. Assuming a monthly rental payment of $2,700, evaluate Braeside Farm’s performance to budget for the first twelve months of operations.
4. A major monthly outflow for Braeside Farm is the labor required to feed, water, clean and take to pasture the boarded horses. Based on advice from the CPA, the farm meets the three conditions to deduct the monthly housing rent from the barn manager’s wages. Comment on this decision relative to other options the business may have with the residence.
5. As of the end of the first year of operations, the lender could call the loans since the ownership of the LLC had changed. Given this right from a legal perspective, should the bank terminate the lending relationship with the entity? From the owner’s perspective, should the business be sold, liquidated or continue in operations?
<table>
<thead>
<tr>
<th><strong>Horse Care:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulating each horse’s feeding needs, supplements, requirements and daily turnout.</td>
</tr>
<tr>
<td>Maintaining a routine schedule for each horse’s farrier needs, dental and veterinary care.</td>
</tr>
<tr>
<td>Maintaining a bi-monthly dewormer program for each horse.</td>
</tr>
<tr>
<td>Administering any medications, bandages, or recovery care for each horse as needed.</td>
</tr>
<tr>
<td>Handling horses for veterinary, farrier, chiropractic, dentistry or other care.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Boarder Care:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting up regular lesson schedules for each boarder and training rides for boarded horses.</td>
</tr>
<tr>
<td>Maintaining a regular exercise regiment for each client’s horse.</td>
</tr>
<tr>
<td>Aid in the purchase and/or selling of a client’s horse.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Schooling Horses Program:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Choosing the appropriate horses for the program and maintaining training on the horses.</td>
</tr>
<tr>
<td>Maintaining the equipment required for the program.</td>
</tr>
<tr>
<td>Arranging lessons accordingly with each trainer.</td>
</tr>
<tr>
<td>Maintain any leasing arrangements with any school horse to a client.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>On-site Horse Shows:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting dates for monthly schooling shows at the facility.</td>
</tr>
<tr>
<td>Preparing a class list for each schooling show.</td>
</tr>
<tr>
<td>Organizing the boarders and riding school clients for each show.</td>
</tr>
<tr>
<td>Prepare arena for each event at the schooling shows.</td>
</tr>
<tr>
<td>Hire an appropriate judge for each schooling show.</td>
</tr>
<tr>
<td>Inform other trainers of the show dates and supply them with a show bill.</td>
</tr>
</tbody>
</table>
Table 2: Organization Structure

- **The Bank of Holland (TBOH)**
  - Holds $140K Mortgage
  - Holds $25K Line of Credit

- **Braeside Property LLC**
  - Collects Rent from Farm
  - Pays Principal, Interest and Taxes to TBOH

- **Braeside Farm LLC**
  - Pays Rent to Property
  - Collects Boarding Fees
  - Pays Expenses
### Braeside Farm LLC

#### Budgeted Income v. Expenses

**For the Period Ending December 31, 2009**

<table>
<thead>
<tr>
<th>Income:</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>BF Show</td>
<td>0</td>
<td>1,500</td>
<td>1,500</td>
<td>0</td>
<td>3,000</td>
</tr>
<tr>
<td>School Horse Lease</td>
<td>2,640</td>
<td>2,640</td>
<td>2,640</td>
<td>2,640</td>
<td>10,560</td>
</tr>
<tr>
<td>Boarding Income</td>
<td>10,680</td>
<td>10,680</td>
<td>13,570</td>
<td>17,205</td>
<td>52,135</td>
</tr>
<tr>
<td>Trainer Arena Fees Income</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>360</td>
</tr>
<tr>
<td>Camp Income</td>
<td>0</td>
<td>650</td>
<td>1,300</td>
<td>0</td>
<td>1,950</td>
</tr>
<tr>
<td>Other Income</td>
<td>400</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>1,750</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>13,810</td>
<td>16,010</td>
<td>19,550</td>
<td>20,385</td>
<td>69,755</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense:</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Expense</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Advertising and Promotion</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bank Service Charges</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contract Labor</td>
<td>1,701</td>
<td>1,701</td>
<td>1,701</td>
<td>1,701</td>
<td>6,804</td>
</tr>
<tr>
<td>Farrier</td>
<td>375</td>
<td>375</td>
<td>375</td>
<td>375</td>
<td>1,500</td>
</tr>
<tr>
<td>Gasoline, Fuel and Oil</td>
<td>1,050</td>
<td>1,050</td>
<td>1,050</td>
<td>1,050</td>
<td>4,200</td>
</tr>
<tr>
<td>Hay &amp; Grain</td>
<td>5,208</td>
<td>5,208</td>
<td>5,968</td>
<td>6,837</td>
<td>23,221</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>3,000</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>8,100</td>
<td>8,100</td>
<td>8,100</td>
<td>8,100</td>
<td>32,400</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Shavings</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>6,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>6,000</td>
</tr>
<tr>
<td>Vet Fees</td>
<td>510</td>
<td>510</td>
<td>510</td>
<td>510</td>
<td>2,040</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>20,694</td>
<td>20,694</td>
<td>21,454</td>
<td>22,323</td>
<td>85,165</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income less Expenses</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(6,884)</td>
<td>(4,684)</td>
<td>(1,904)</td>
<td>(1,938)</td>
<td>(15,410)</td>
</tr>
</tbody>
</table>
### Table 4
**Braeside Farm LLC**
**Actual Income v. Expenses**
**For the Period Ending December 31, 2009**

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BF Show</td>
<td>0</td>
<td>309</td>
<td>701</td>
<td>0</td>
<td>1,010</td>
</tr>
<tr>
<td>School Horse Lease</td>
<td>0</td>
<td>665</td>
<td>30</td>
<td>0</td>
<td>695</td>
</tr>
<tr>
<td>Boarding Income</td>
<td>8,912</td>
<td>9,435</td>
<td>10,983</td>
<td>15,683</td>
<td>45,013</td>
</tr>
<tr>
<td>Trainer Arena Fees Income</td>
<td>203</td>
<td>160</td>
<td>225</td>
<td>340</td>
<td>928</td>
</tr>
<tr>
<td>Camp Income</td>
<td>380</td>
<td>120</td>
<td>0</td>
<td>0</td>
<td>500</td>
</tr>
<tr>
<td>Other Income</td>
<td>0</td>
<td>221</td>
<td>0</td>
<td>20</td>
<td>241</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>9,495</strong></td>
<td><strong>10,910</strong></td>
<td><strong>11,939</strong></td>
<td><strong>16,043</strong></td>
<td><strong>48,386</strong></td>
</tr>
<tr>
<td><strong>Expense:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicle Expense</td>
<td>0</td>
<td>658</td>
<td>367</td>
<td>185</td>
<td>1,210</td>
</tr>
<tr>
<td>Advertising and Promotion</td>
<td>638</td>
<td>438</td>
<td>0</td>
<td>0</td>
<td>1,076</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>247</td>
<td>907</td>
<td>109</td>
<td>268</td>
<td>1,531</td>
</tr>
<tr>
<td>Bank Service Charges</td>
<td>91</td>
<td>279</td>
<td>502</td>
<td>101</td>
<td>974</td>
</tr>
<tr>
<td>Contract Labor</td>
<td>2,619</td>
<td>2,343</td>
<td>3,624</td>
<td>3,212</td>
<td>11,798</td>
</tr>
<tr>
<td>Farrier</td>
<td>666</td>
<td>140</td>
<td>650</td>
<td>108</td>
<td>1,564</td>
</tr>
<tr>
<td>Gasoline, Fuel and Oil</td>
<td>939</td>
<td>1,371</td>
<td>874</td>
<td>246</td>
<td>3,430</td>
</tr>
<tr>
<td>Hay &amp; Grain</td>
<td>3,253</td>
<td>4,792</td>
<td>3,891</td>
<td>5,456</td>
<td>17,392</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>865</td>
<td>1,655</td>
<td>0</td>
<td>1,091</td>
<td>3,611</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>3,443</td>
<td>2,374</td>
<td>0</td>
<td>1,124</td>
<td>6,940</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>9,165</td>
<td>8,027</td>
<td>8,931</td>
<td>8,708</td>
<td>34,831</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>3,792</td>
<td>2,951</td>
<td>753</td>
<td>506</td>
<td>8,002</td>
</tr>
<tr>
<td>Shavings</td>
<td>2,042</td>
<td>2,066</td>
<td>740</td>
<td>810</td>
<td>5,658</td>
</tr>
<tr>
<td>Supplies</td>
<td>2,219</td>
<td>1,604</td>
<td>819</td>
<td>549</td>
<td>5,190</td>
</tr>
<tr>
<td>Utilities</td>
<td>1,422</td>
<td>1,999</td>
<td>1,323</td>
<td>1,560</td>
<td>6,304</td>
</tr>
<tr>
<td>Vet Fees</td>
<td>0</td>
<td>3,248</td>
<td>0</td>
<td>104</td>
<td>3,352</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td><strong>31,400</strong></td>
<td><strong>34,852</strong></td>
<td><strong>22,583</strong></td>
<td><strong>24,028</strong></td>
<td><strong>112,863</strong></td>
</tr>
<tr>
<td><strong>Income less Expenses</strong></td>
<td><strong>(21,905)</strong></td>
<td><strong>(23,942)</strong></td>
<td><strong>(10,645)</strong></td>
<td><strong>(7,985)</strong></td>
<td><strong>(64,477)</strong></td>
</tr>
</tbody>
</table>
### Table 5
Braeside Farm LLC
Balance Sheet
As of December 31, 20XX

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash - Bank of Holland (BOH)</td>
<td>(165.22)</td>
<td>1,764.06</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>310.00</td>
<td>2,500.00</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>144.78</td>
<td>4,264.06</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>31,900.16</td>
<td>25,868.16</td>
</tr>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Horses</td>
<td>4,950.00</td>
<td>5,300.00</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>73,354.42</td>
<td>67,054.42</td>
</tr>
<tr>
<td><strong>Accumulated Depreciation</strong></td>
<td>(15,063.93)</td>
<td>(1,660.60)</td>
</tr>
<tr>
<td><strong>Total Fixed Assets</strong></td>
<td>95,240.65</td>
<td>96,661.98</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>95,385.43</td>
<td>100,926.04</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Credit Cards</td>
<td>22,695.69</td>
<td>9,768.57</td>
</tr>
<tr>
<td><strong>Other Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicle Reimbursement - Owner 1</td>
<td>1,210.00</td>
<td>0.00</td>
</tr>
<tr>
<td>School Horse Loan - Owner 1</td>
<td>4,200.00</td>
<td>4,200.00</td>
</tr>
<tr>
<td>Advance - Braeside Properties</td>
<td>99,966.37</td>
<td>89,921.37</td>
</tr>
<tr>
<td>Advance - Owner 1</td>
<td>14,300.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Advance - Owner 2</td>
<td>460.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Bridge Loan - Owner 1</td>
<td>16,400.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Equipment Loan - BOH</td>
<td>13,949.19</td>
<td>0.00</td>
</tr>
<tr>
<td>Line of Credit - BOH</td>
<td>24,877.73</td>
<td>22,500.00</td>
</tr>
<tr>
<td><strong>Total Other Current Liabilities</strong></td>
<td>175,363.29</td>
<td>116,621.37</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>198,058.98</td>
<td>126,389.94</td>
</tr>
<tr>
<td><strong>Long-term Liabilities</strong></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>198,058.98</td>
<td>126,389.94</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>(102,673.55)</td>
<td>(25,463.90)</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES &amp; EQUITY</strong></td>
<td>95,385.43</td>
<td>100,926.04</td>
</tr>
</tbody>
</table>
Table 6  
Braeside Farm LLC  
Statement of Cash Flows  
For the Period Ending December 31, 2009

<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>(77,209.65)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>13,403.33</td>
</tr>
<tr>
<td>Adjusted Net Income</td>
<td>(63,806.32)</td>
</tr>
<tr>
<td>Change in Accounts Receivable</td>
<td>2,190.00</td>
</tr>
<tr>
<td>Vehicle Reimbursement - Owner 1</td>
<td>1,210.00</td>
</tr>
<tr>
<td><strong>Net cash provided by Operating Activities</strong></td>
<td><strong>(60,406.32)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow From Investing Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>(6,032.00)</td>
</tr>
<tr>
<td>Horses</td>
<td>350.00</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>(6,300.00)</td>
</tr>
<tr>
<td><strong>Net cash provided by Investing Activities</strong></td>
<td><strong>(11,982.00)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow From Financing Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Credit Card Balances</td>
<td>12,927.12</td>
</tr>
<tr>
<td>Change in Advance - Braeside Properties</td>
<td>10,045.00</td>
</tr>
<tr>
<td>Advance - Owner 1</td>
<td>14,300.00</td>
</tr>
<tr>
<td>Advance - Owner 2</td>
<td>460.00</td>
</tr>
<tr>
<td>Bridge Loan - Owner 1</td>
<td>16,400.00</td>
</tr>
<tr>
<td>Equipment Loan - BOH</td>
<td>13,949.19</td>
</tr>
<tr>
<td>Change in Line of Credit - BOH</td>
<td>2,377.73</td>
</tr>
<tr>
<td><strong>Net cash provided by Financing Activities</strong></td>
<td><strong>70,459.04</strong></td>
</tr>
</tbody>
</table>

| **Net cash increase for period**          | (1,929.28)  |
| **Cash at beginning of period**           | 1,764.06   |
| **Cash at end of period**                 | (165.22)   |