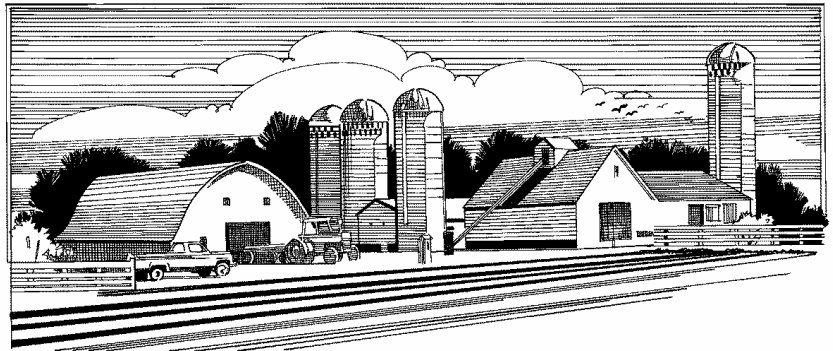


DECEMBER 2005

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# DAIRY FARM BUSINESS SUMMARY

## NEW YORK DAIRY FARM RENTERS 2004



Wayne A. Knoblauch  
Linda D. Putnam

Department of Applied Economics and Management  
College of Agriculture and Life Sciences  
Cornell University, Ithaca, New York 14853-7801

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**NEW YORK DAIRY FARM RENTERS**  
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## 2004 NEW YORK DAIRY FARM RENTER BUSINESS SUMMARY

### INTRODUCTION

Dairy farmers throughout New York State submit business records for summarization and analysis through Cornell Cooperative Extension's Farm Business Management Program. Averages from a compilation of the individual farm reports are published in six regional summaries and in one statewide summary.<sup>1</sup>

Accrual procedures have been used to provide the most accurate accounting of farm receipts and farm expenses for measuring farm profits. An explanation of these procedures is found on pages 4-6. Three measures of farm profits are calculated on pages 7 and 8. The balance sheet, statement of owner equity, and cash flow statement are featured on pages 9-16. The dairy program analysis includes data on the costs of producing milk (pages 19 and 20).

This New York Dairy Farm Renter Business Summary is an average of 23 businesses that are renting substantially all of the farm real estate. The farm income, financial summary, and business analysis sections of this report include comparisons with average data on 40 owned dairy farms in New York that are similar in size and location to the farms that rent. This report is prepared in workbook form for farm renters to use in the systematic study of their farm business operations.

Business records for 23 farms in Allegany, Chautauqua, Columbia, Delaware, Erie, Genesee, Jefferson, Niagara, Orange, Otsego, Saratoga, Schenectady, Seneca, Sullivan, and Washington Counties are summarized in this publication (see Figure 1 on page 2). The 40 owned dairy farms summarized in this publication include farms from these counties that are similar in size to the renters.

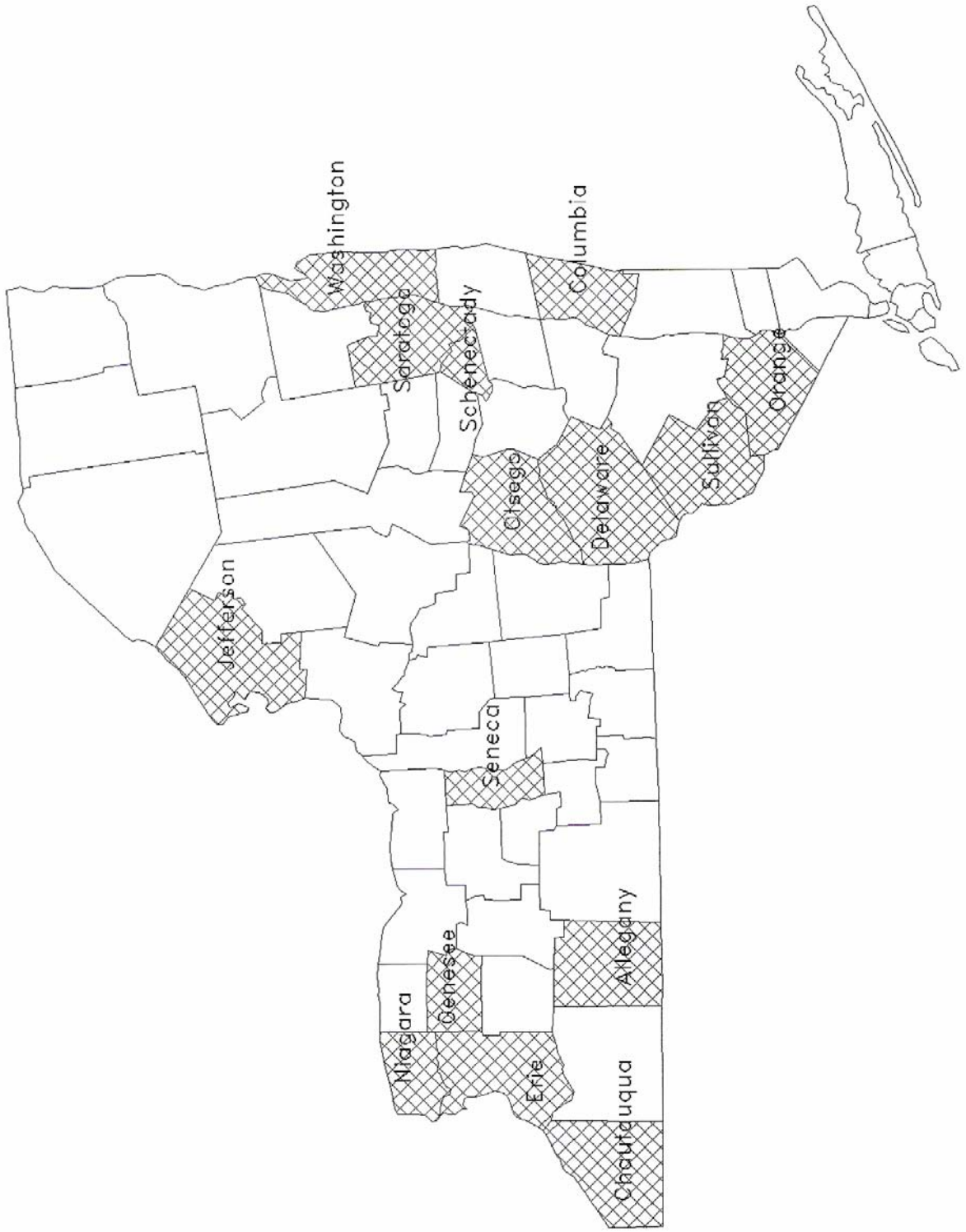
#### Use Comparative Profitability Data With Caution

The profitability analysis on page 8 implies that renting a dairy farm provides a greater return to the operator's labor and management than does owning the farm. Concessionary rental rates set by some land owners is a major factor. The farm owners are often father and mother and other landlords who are willing to accept a very low return for their investment. Total real estate costs including land, building and fence repair; taxes; real estate rent and lease; depreciation; and interest on real estate investment averaged \$150 per tillable acre on the owned dairy farms compared to \$108 per tillable acre on the rented farms. On a per cow basis, these real estate costs averaged \$439 per cow on the owned dairy farms compared to \$251 on the rented farms. This accounts for a \$16,115 difference in costs between owned and rented farms. With this difference in cost structure, the renters had higher rates of return on equity and all capital (with appreciation).

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<sup>1</sup>Wayne A. Knoblauch, Linda D. Putnam and Jason Karszes, Dairy Farm Management Business Summary, New York, 2004, R.B. 2005-03, November 2005.

Figure 1. Location of 23 New York Dairy Farm Renters, 2004.



## SUMMARY AND ANALYSIS OF THE FARM BUSINESS

### Business Characteristics and Resources Used

Recognition of important business characteristics and identification of the farm resources used are necessary for evaluating management performance. The combination of resources and management practices is known as farm organization. Important farm business characteristics, the number of farms reporting these characteristics, and a listing of the average labor, land, and dairy cattle resources used are presented in the following table.

#### BUSINESS CHARACTERISTICS AND RESOURCES USED 23 New York Dairy Farm Renters, 2004

<u>Type of Business</u>	<u>Number</u>	<u>bST Usage</u>	<u>Number</u>	
Single proprietorship	15	Used consistently	5	
Partnership	8	Used inconsistently	2	
Limited liability corporation	0	Started usage in 2004	0	
Subchapter S or C corporation	0	Stopped usage in 2004	1	
		Not used in 2004	15	
		Average percent usage, if used	41%	
<u>Milking System</u>	<u>Number</u>	<u>Labor Force*</u>	<u>My Farm</u>	<u>Average</u>
Dumping station	0	Operator 1	___mo.	13.7
Pipeline	14	Operator 2	___mo.	5.1
Herringbone parlor	7	Family paid	___mo.	1.4
Other parlor	2	Family unpaid	___mo.	3.2
		Hired	___mo.	8.5
		Total	___mo.	31.8
<u>Type of Barn</u>	<u>Number</u>	Worker equivalent		
Stanchion	14	(total ÷ 12)	_____	2.65
Freestall	8			
Combination	1			
<u>Dairy Records Service</u>	<u>Number</u>	Operator/Manager Equivalent	_____	1.39
Testing service	19			
On-farm system	0	<u>Land Use</u>	<u>My Farm</u>	<u>Average</u>
Other	0	Total acres rented	_____	274
None	4	Tillable acres rented	_____	204
<u>Business Record System</u>	<u>Number</u>	<u>Number of Cows</u>	<u>My Farm</u>	<u>Average</u>
Account book	5	Beg. year (owned)	_____	81
Accounting service	4	End year (owned & leased)	_____	88
On-farm computer	13	Average for year (owned & leased)	_____	88
Other	1			
<u>Milking Frequency</u>	<u>Number</u>	<u>Breed of Herd</u>	<u>My Farm</u>	<u>Percent</u>
2 times a day	21	Holstein	_____	94
3 times a day	1	Jersey	_____	3
Other	1	Other	_____	3

\*Based on hours actually worked by owner/operator, instead of standard 12 months per full-time owner/operator. The standard 12 months is used for operator/manager equivalent when calculating labor and management income per operator.

Predominate business characteristics of the 23 rented farms include the single proprietorship, pipeline milking system, stanchion or conventional stall barn, two time a day milking, herd records with a testing service, and an on-farm computer record system. Fifty-seven percent of the renters were using on-farm computers compared to 48 percent of the owners.

The average size of the labor force on the rented farms was 9 percent less than the 2.91 worker equivalent on owned farms. The rented farms averaged 204 tillable acres compared to 254 tillable acres on the 40 owned dairy farms. The owned farms averaged 30 cows per worker, compared to 33 cows per worker on the rented farms. In 2004, the rented farms used labor resources more efficiently than the owned farms.





Changes in prepaid expenses apply to non-inventory categories (noted by << in the tables). Include any expenses that have been paid for in advance of their use, for example, 2005 rent paid in 2004. A positive change is the amount the prepayment account increased from beginning to end year, a negative change indicates a decline in the account.

Change in accounts payable: An increase in payables is added and a decrease is subtracted when calculating accrual expenses.

Accrual expenses are the costs of inputs actually used in this year's production.

Worksheets are provided to enable any dairy farmer to compute his or her accrual farm expenses and compare them with the averages on the previous page.

### CASH AND ACCRUAL FARM EXPENSES WORKSHEET

Expense Item	Cash Paid	-	Change in Inventory or Prepaid Exp.	+	Change in Accounts Payable	=	Accrual Expenses
<u>Hired Labor</u>	\$ _____		\$ _____	<<*	\$ _____		\$ _____
<u>Feed</u>							
Dairy grain & concentrate	_____		_____		_____		_____
Dairy roughage	_____		_____		_____		_____
Nondairy	_____		_____		_____		_____
Professional nutritional services	_____		_____	<<	_____		_____
<u>Machinery</u>							
Machinery, hire, rent & lease	_____		_____	<<	_____		_____
Machinery repair & farm veh. exp.	_____		_____		_____		_____
Fuel, oil & grease	_____		_____		_____		_____
<u>Livestock</u>							
Replacement livestock	_____		_____	<<	_____		_____
Breeding	_____		_____		_____		_____
Vet & medicine	_____		_____		_____		_____
Milk marketing	_____		_____	<<	_____		_____
Bedding	_____		_____		_____		_____
Milking supplies	_____		_____		_____		_____
Cattle lease & rent	_____		_____	<<	_____		_____
Custom boarding	_____		_____	<<	_____		_____
bST expense	_____		_____		_____		_____
Livestock professional fees	_____		_____	<<	_____		_____
Other livestock expense	_____		_____		_____		_____
<u>Crops</u>							
Fertilizer & lime	_____		_____		_____		_____
Seeds & plants	_____		_____		_____		_____
Spray, other crop expense	_____		_____		_____		_____
Crop professional fees	_____		_____	<<	_____		_____
<u>Real Estate</u>							
Land, building & fence repair	_____		_____		_____		_____
Taxes	_____		_____	<<	_____		_____
Rent & lease	_____		_____	<<	_____		_____
<u>Other</u>							
Insurance	_____		_____	<<	_____		_____
Utilities (farm share)	_____		_____	<<	_____		_____
Interest paid	_____		_____	<<	_____		_____
Other professional fees	_____		_____	<<	_____		_____
Miscellaneous	_____		_____		_____		_____
Total Operating	\$ _____		\$ _____		\$ _____		\$ _____
Expansion livestock	\$ _____		\$ _____	<<	\$ _____		\$ _____
Extraordinary expense	\$ _____		\$ _____	<<	\$ _____		\$ _____
Machinery depreciation							
Building depreciation							
<b>TOTAL ACCRUAL EXPENSES</b>							\$ _____

\*A change in prepaid expense is noted by <<.

CASH AND ACCRUAL FARM RECEIPTS  
23 New York Dairy Farm Renters, 2004

Receipt Item	Cash Receipts	+	Change in Inventory	+	Change in Accounts Receivable	=	Accrual Receipts
Milk Sales	\$ 278,152				\$ 2,117		\$ 280,269
Dairy cattle	15,405		\$ 11,337		0		26,742
Dairy calves	3,805		607		0		4,412
Other livestock	596		0		0		596
Crops	1,637		7,968		-261		9,343
Government receipts	9,176		0*		-91		9,085
Custom machine work	885				-35		850
Gas tax refund	51				0		51
Other	1,997				0		1,997
- Nonfarm noncash capital**	<u>          </u>		(-) <u>0</u>		<u>          </u>		(-) <u>0</u>
Total Accrual Receipts	\$ 311,704		\$ 19,911		\$ 1,731		\$ 333,346

\*Change in advanced government receipts.

\*\*Gifts or inheritances of cattle or crops included in inventory.

Cash receipts include the gross value of milk checks received during the year plus all other payments received from the sale of farm products, services, and government programs. Nonfarm income is not included in calculating farm profitability.

Changes in inventory are calculated by subtracting beginning of year values from end of year values excluding appreciation. Increases in livestock inventory caused by herd growth and/or quality are added and decreases caused by herd reduction and for quality are subtracted. Changes in inventories of crops grown are also calculated. Changes in advanced government receipts are calculated by subtracting the end year balance from the beginning year balance (balances are listed with the current liabilities on the Balance Sheet).

Changes in accounts receivable are calculated by subtracting beginning year balances from end year balances. The January milk check for this December's marketings compared with the previous January's check is included as a change in accounts receivable.

Accrual receipts represent the value of all farm commodities produced and services actually generated by the farmer during the year.

CASH AND ACCRUAL FARM RECEIPT WORKSHEET

Receipt Item	Cash Receipts	+	Change in Inventory	+	Change in Accounts Receivable	=	Accrual Receipts
Milk Sales	\$ _____				\$ _____		\$ _____
Dairy cattle	_____		\$ _____		_____		_____
Dairy calves	_____		_____		_____		_____
Other livestock	_____		_____		_____		_____
Crops	_____		_____		_____		_____
Government receipts	_____		_____		_____		_____
Custom machine work	_____		_____		_____		_____
Gas tax refund	_____		_____		_____		_____
Other	_____		_____		_____		_____
- Nonfarm noncash capital**	_____		(-) _____		_____		(-) _____
Total Accrual Receipts	\$ _____		\$ _____		\$ _____		\$ _____

## Profitability Analysis

Farm owners/operators contribute labor, management, and capital to their businesses and the best combination of these resources maximizes income. Farm profitability can be measured as the return to all family resources or as the return to one or more individual resources such as labor and management.

Net farm income is the total combined return to the farm operator(s) and other unpaid family members for their labor, management, and equity capital. It is the farm family's net annual return from working, managing, financing, and owning the farm business. This is not a measure of cash available from the year's business operation. Cash flow is evaluated later in this report.

Net farm income is computed with and without appreciation. Appreciation represents the change in values caused by annual changes in prices of livestock, machinery, real estate inventory, and stocks and certificates (other than Farm Credit stock). Appreciation is a major factor contributing to changes in farm net worth and must be included for a complete profitability analysis.

### NET FARM INCOME New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Total accrual receipts	\$ 333,346	\$ 322,455	\$ _____
+ Appreciation: Livestock	6,062	7,078	_____
Machinery	1,746	3,514	_____
Real Estate	1,137	8,759	_____
Other Stock & Certificates	<u>669</u>	<u>-25</u>	_____
= Total Including Appreciation	\$ 342,960	\$ 341,781	\$ _____
- Total accrual expenses	<u>267,602</u>	<u>271,847</u>	_____
= Net Farm Income (with appreciation)	\$ 75,358	\$ 69,934	\$ _____
Per cow	\$ 853	\$ 807	\$ _____
Net Farm Income (without appreciation)	\$ 65,744	\$ 50,608	\$ _____
Per cow	\$ 744	\$ 584	\$ _____

Labor and management income is the return which farm operators receive for their labor and management used in operating the farm business. Appreciation is not included as part of the return to labor and management because it results from ownership of assets rather than management of the farm business. Labor and management income is calculated by deducting from net farm income excluding appreciation a charge for unpaid family labor and the opportunity cost of using equity capital at a 5 percent interest rate. The interest charge of 5 percent reflects the long-term average rate of return that a farmer might expect to earn in comparable risk investments in a low inflation economy.

LABOR AND MANAGEMENT INCOME  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Net farm income without appreciation	\$ 65,744	\$ 50,608	\$ _____
- Family labor unpaid @ \$2,200 per month	- 7,002	- 6,688	- _____
- Interest on average equity capital @ 5% real rate	- <u>11,851</u>	- <u>33,283</u>	- _____
= Labor & Management Income	\$ 46,892	\$ 10,637	\$ _____
Labor & Management Income per Operator/Manager	\$ 33,735	\$ 7,598	\$ _____

Return to equity capital measures the net return remaining for the farmer's equity or owned capital after a charge has been made for unpaid family labor and the owner-operator's labor and management. The earnings or amount of net farm income allocated to labor and management is the opportunity cost of operators' labor and management estimated by the cooperators. Return to equity capital is calculated with and without appreciation. The rate of return on equity capital is determined by dividing the amount returned by the average farm net worth or equity capital. Return to all capital is calculated by adding interest paid to the return to equity capital and then dividing by average farm assets to calculate the rate of return on average total capital. Net farm income from operations ratio is net farm income (without appreciation) divided by total accrual receipts.

RETURN TO EQUITY CAPITAL AND RETURN TO ALL CAPITAL  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Net farm income with appreciation	\$ 75,358	\$ 69,934	\$ _____
- Family labor unpaid @ \$2,200 per month	\$ 7,002	\$ 6,688	\$ _____
- Value of operators' labor & management	<u>43,026</u>	<u>36,175</u>	_____
= Return to equity capital with appreciation	\$ 25,330	\$ 27,071	\$ _____
+ Interest paid	<u>5,223</u>	<u>6,866</u>	_____
= Return to all capital with appreciation	\$ 30,553	\$ 33,937	\$ _____
Return to equity capital without appreciation	\$ 15,716	\$ 7,745	\$ _____
Return to all capital without appreciation	\$ 20,939	\$ 14,611	\$ _____
Rate of return on average equity capital:			
with appreciation	10.9%	4.1%	_____ %
without appreciation	6.8%	1.2%	_____ %
Rate of return on all capital:			
with appreciation	8.4%	4.2%	_____ %
without appreciation	5.7%	1.8%	_____ %
Net farm income from operations ratio	0.20	0.16	_____

Farm and Family Financial Status

The first step in evaluating the financial status of the farm is to construct a balance sheet, which identifies all the assets and liabilities of the business. The second step is to evaluate the relationship between assets, liabilities, and net worth and changes that occurred during the year.

2004 FARM BUSINESS & NONFARM BALANCE SHEET  
23 New York Dairy Farm Renters

Farm Assets	Jan. 1	Dec. 31	Farm Liabilities & Net Worth	Jan. 1	Dec. 31
<u>Current</u>			<u>Current</u>		
Farm cash, checking & savings	\$ 5,946	\$ 4,714	Accounts payable	\$ 9,144	\$ 7,386
Accounts receivable	17,795	19,526	Operating debt	6,699	8,354
Prepaid expenses	0	113	Short term	441	57
Feed & supplies	<u>46,956</u>	<u>59,017</u>	Advanced gov't. receipt	0	0
Total Current	\$ 70,697	\$ 83,370	Current portion:		
			Intermediate	14,793	17,860
			Long term	<u>4,976</u>	<u>5,319</u>
			Total Current	\$ 36,053	\$ 38,975
<u>Intermediate</u>			<u>Intermediate</u>		
Dairy Cows:			Structured debt		
owned	\$ 110,991	\$ 117,439	1-10 years	\$ 72,108	\$ 74,179
leased	0	0	Financial lease		
Heifers	47,385	57,937	(cattle & machinery)	600	410
Bulls & other livestock	754	1,759	Farm Credit stock	<u>298</u>	<u>265</u>
Mach. & equip. owned	99,324	109,678	Total Intermediate	\$ 73,007	\$ 74,854
Mach. & equip. leased	600	410			
Farm Credit stock	298	265	<u>Long Term</u>		
Other stock & cert.	<u>6,851</u>	<u>8,518</u>	Structured debt		
Total Intermediate	\$ 266,203	\$ 296,006	≥ 10 years	\$ 46,126	\$ 39,511
<u>Long Term</u>			Financial lease		
Land & buildings:			(structures)	<u>707</u>	<u>691</u>
owned	\$ 27,834	\$ 29,355	Total Long Term	\$ 46,833	\$ 40,202
leased	<u>707</u>	<u>691</u>			
Total Long Term	\$ 28,541	\$ 30,047	Total Farm Liabilities	\$ 155,892	\$ 154,031
Total Farm Assets	\$ 365,440	\$ 409,423	FARM NET WORTH	\$ 209,549	\$ 255,392
(Average for 6 farms reporting)			Nonfarm Liabilities*		
Nonfarm Assets*	Jan. 1	Dec. 31	& Net Worth	Jan. 1	Dec. 31
Personal cash, checking & savings	\$ 9,735	\$ 8,057	Nonfarm Liabilities	\$ 0	\$ 3,813
Cash value life ins.	0	0	NONFARM NET WORTH	\$ 25,748	\$ 26,654
Nonfarm real estate	0	0			
Auto (personal share)	4,333	9,250	FARM & NONFARM**	Jan. 1	Dec. 21
Stocks & bonds	600	947	Total Assets	\$ 391,188	\$ 439,890
Household furn.	8,750	9,583	Total Liabilities	<u>155,892</u>	<u>157,844</u>
All other	<u>2,330</u>	<u>2,630</u>			
Total Nonfarm	\$ 25,748	\$ 30,467	TOTAL FARM & NON-		
			FARM NET WORTH	\$ 235,296	\$ 282,046

\*Assumes that average nonfarm assets and liabilities for the nonreporting farms were the same as for those reporting.

Financial lease obligations are included in the balance sheet. The present value of all future payments is listed as a liability since the farmer is committed to make the payments by signing the lease. The present value is also listed as an asset, representing the future value the item has to the business.

Advance government receipts are included as current liabilities. Government payments received in 2004 that are for participation in the 2005 program are the end year balance and payments received in 2003 for participation in the 2004 program are the beginning year balance.

Date \_\_\_\_\_

2004 FARM BUSINESS & NONFARM BALANCE SHEET

Farm Assets			Farm Liabilities & Net Worth		
	Jan. 1	Dec. 31		Jan. 1	Dec. 31
<u>Current</u>			<u>Current</u>		
Farm cash, checking & savings	_____	_____	Accounts payable	_____	_____
			Operating debt	_____	_____
Accounts receivable	_____	_____	Short term	_____	_____
Prepaid expenses	_____	_____	Advanced gov't. receipt	_____	_____
Feed & supplies	_____	_____	Current portion:		
Total Current	_____	_____	Intermediate	_____	_____
			Long term	_____	_____
			Total Current	_____	_____
<u>Intermediate</u>			<u>Intermediate</u>		
Dairy Cows:					
owned	_____	_____			
leased	_____	_____	Financial lease	_____	_____
Heifers	_____	_____	(cattle & machinery)	_____	_____
Bulls & other livestock	_____	_____	Farm Credit stock	_____	_____
Mach. & equip. owned	_____	_____	Total Intermediate	_____	_____
Mach. & equip. leased	_____	_____			
Farm Credit stock	_____	_____	<u>Long Term</u>		
Other stock & cert.	_____	_____			
Total Intermediate	_____	_____	Financial lease	_____	_____
<u>Long Term</u>			(structures)	_____	_____
Land & buildings:			Total Long Term	_____	_____
owned	_____	_____			
leased	_____	_____	Total Farm Liabilities	_____	_____
Total Long Term	_____	_____			
Total Farm Assets	_____	_____	FARM NET WORTH	_____	_____
Nonfarm Assets			Nonfarm Liabilities & Net Worth		
	Jan. 1	Dec. 31		Jan. 1	Dec. 31
Personal cash, checking & savings	_____	_____	Nonfarm Liabilities	_____	_____
Cash value life ins.	_____	_____			
Nonfarm real estate	_____	_____			
Auto (personal share)	_____	_____	Total Nonfarm Liabilities	_____	_____
Stocks & bonds	_____	_____			
Household furn.	_____	_____	Nonfarm Net Worth	_____	_____
All other	_____	_____			
Total Nonfarm	_____	_____			
TOTAL FARM & NONFARM			Jan. 1	Dec. 31	
Total Farm and Nonfarm Assets			_____	_____	
Less Total Farm & Nonfarm Liabilities			_____	_____	
Farm & Nonfarm Net Worth			_____	_____	

Balance sheet analysis involves examination of relative asset and debt levels for the business. Percent equity is calculated by dividing end of year net worth by end of year assets. The debt to asset ratio is compiled by dividing liabilities by assets. Low debt to asset ratios reflect business solvency and the potential capacity to borrow. The leverage ratio is the dollars of debt per dollar of equity, computed by dividing total farm liabilities by farm net worth. Debt levels per productive unit represent old standards that are still useful if used with measures of cash flow and repayment ability. A current ratio of less than 1.5 or that has been falling warrants additional evaluation. The amount of working capital that is adequate must be related to the size of the farm business.

**BALANCE SHEET ANALYSIS**  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
<u>Financial Ratios - Farm:</u>			
Percent equity	62%	81%	_____ %
Debt/asset ratio: total	0.38	0.19	_____
long term	1.34	0.13	_____
intermediate & current	0.30	0.23	_____
Leverage ratio	0.60	0.23	_____
Current ratio	2.14	2.54	_____
Working capital     \$44,521     as % of total expenses	17%	(\$54,070) 20%	_____ %
<u>Farm Debt Analysis:</u>			
Accounts payable as % of total debt	5%	3%	_____ %
Long term liabilities as a % of total debt	26%	29%	_____ %
Current & intermediate liabilities as a % of total debt	74%	71%	_____ %
Cost of term debt (weighted average)	3.9%	5.0%	_____ %
<u>Farm Debt Levels Per Cow:</u>			
Total farm debt	\$ 1,743	\$ 1,765	\$ _____
Long term debt	\$ 455	\$ 505	\$ _____
Intermediate & long term debt	\$ 1,302	\$ 1,368	\$ _____
Intermediate & current debt	\$ 1,288	\$ 1,260	\$ _____

Farm inventory balance is an accounting of the value of machinery and equipment used on the balance sheet and the changes that occur from the beginning to end of year. Changes in the livestock inventory are included in the dairy analysis. Net investment indicates whether the capital stock is being expanded (positive) or depleted (negative).

**FARM MACHINERY AND EQUIPMENT INVENTORY BALANCE**  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Value beginning of year	\$ 99,324	\$ 183,926	\$ _____
Purchases	\$ 18,621	\$ 25,573	\$ _____
+ Nonfarm noncash transfer	957	2,387	_____
- Net Sales	1,096	1,464	_____
- Depreciation	<u>9,874</u>	<u>18,124</u>	_____
= Net investment	8,608	8,372	_____
+ Appreciation	<u>1,746</u>	<u>3,514</u>	_____
= Value end of year	\$ 109,678	\$ 195,812	\$ _____

The Statement of Owner Equity has two purposes. It allows (1) verification that the accrual income statement and market value balance sheet are interrelated and consistent (in accountants' terms, they reconcile) and (2) identification of the causes of change in equity that occurred on the farm during the year. The Statement of Owner Equity allows the farmer to determine to what degree the change in equity was caused by (1) earnings from the business, and nonfarm income, in excess of withdrawals being retained in the business (called retained earnings), (2) outside capital being invested in the business or farm capital being removed from the business (called contributed/withdrawn capital) and (3) increases or decreases in the value (price) of assets owned by the business (called change in valuation equity).

The change in farm net worth without appreciation is an excellent indicator of farm generated financial progress.

STATEMENT OF OWNER EQUITY (RECONCILIATION)  
23 New York Dairy Farm Renters, 2004

Item	Average	My Farm
Beginning of year farm net worth	\$ 209,674	\$ _____
Net farm income without appreciation	\$ 65,744	\$ _____
+ Nonfarm cash income	+ 2,064	+ _____
- Personal withdrawals & family expenditures excluding nonfarm borrowings	<u>- 33,846</u>	- _____
RETAINED EARNINGS	+ \$ 33,962	+ \$ _____
Nonfarm noncash transfers to farm	\$ 957	\$ _____
+ Cash used in business from nonfarm capital	+ 2,939	+ _____
- Note/mortgage from farm real estate sold (nonfarm)	<u>- 0</u>	- _____
CONTRIBUTED/WITHDRAWN CAPITAL	+ \$ 3,895	+ \$ _____
Appreciation	\$ 9,614	\$ _____
- Lost capital	<u>- 1,826</u>	- _____
CHANGE IN VALUATION EQUITY	+ \$ 7,788	+ \$ _____
IMBALANCE/ERROR	<u>- \$ -199</u>	- \$ _____
End of year farm net worth*	= \$ 255,518	= \$ _____
Change in net worth with appreciation.	\$ 45,844	\$ _____
<hr/>		
<u>Change in Net Worth</u>		
Without appreciation	\$ 36,230	\$ _____
With appreciation	\$ 45,844	\$ _____

\*May not add due to rounding.



Cash Flow Statement

Completing an annual cash flow statement is an important step in understanding the sources and uses of funds for the business. Understanding last year's cash flow is the first step toward planning and managing cash flow for the current and future years.

The annual cash flow statement is structured to show net cash provided by operating activities, investing activities, financing activities and from reserves. All cash inflows and outflows including beginning and end balances are included. Therefore, the sum of net cash provided from all four activities should be zero. Any imbalance is the error from incorrect accounting of cash inflows/outflows.

ANNUAL CASH FLOW STATEMENT  
23 New York Dairy Farm Renters, 2004

Item	Average	
<u>Cash Flow from Operating Activities</u>		
Cash farm receipts	\$ 311,704	
- Cash farm expenses	262,135	
- Extraordinary expense	<u>70</u>	
= Net cash farm income		\$ 49,499
Personal withdrawals & family expenses including nonfarm debt payments	\$ 34,860	
- Nonfarm income	<u>2,064</u>	
- Net cash withdrawals from the farm		\$ 32,796
= Net Provided by Operating Activities		\$ 16,703
<u>Cash Flow From Investing Activities</u>		
Sale of assets: Machinery	\$ 1,096	
+ real estate	0	
+ other stock & certificates	<u>450</u>	
= Total asset sales		\$ 1,545
Capital purchases: expansion livestock	\$ 971	
+ machinery	18,621	
+ real estate	2,728	
+ other stock & certificates	<u>1,448</u>	
- Total invested in farm assets		\$ 23,768
= Net Provided by Investment Activities		\$ -22,223
<u>Cash Flow From Financing Activities</u>		
Money borrowed (intermediate & long term)	\$ 22,058	
+ Money borrowed (short term)	239	
+ Increase in operating debt	1,655	
+ Cash from nonfarm capital used in business	2,939	
+ Money borrowed - nonfarm	<u>1,014</u>	
= Cash inflow from financing		\$ 27,904
Principal payments (intermediate & long term)	\$ 23,192	
+ Principal payments (short term)	623	
+ Decrease in operating debt	<u>0</u>	
- Cash outflow for financing		\$ 23,815
= Net Provided by Financing Activities		\$ 4,089
<u>Cash Flow From Reserves</u>		
Beginning farm cash, checking & savings	\$ 5,946	
- Ending farm cash, checking & savings	<u>4,714</u>	
= Net Provided from Reserves		\$ 1,232
<u>Imbalance (error)</u>		\$ -199

## ANNUAL CASH FLOW STATEMENT

Item	My Farm	
<u>Cash Flow from Operating Activities</u>		
Cash farm receipts	\$ _____	
- Cash farm expenses	_____	
- Extraordinary expense	_____	
= Net cash farm income		\$ _____
Personal withdrawals & family expenses including nonfarm debt payments	\$ _____	
- Nonfarm income	_____	
- Net cash withdrawals from the farm		\$ _____
= Net Provided by Operating Activities		\$ _____
<u>Cash Flow From Investing Activities</u>		
Sale of assets: Machinery	\$ _____	
+ real estate	_____	
+ other stock & certificates	_____	
= Total asset sales		\$ _____
Capital purchases: expansion livestock	\$ _____	
+ machinery	_____	
+ real estate	_____	
+ other stock & certificates	_____	
- Total invested in farm assets		\$ _____
= Net Provided by Investment Activities		\$ _____
<u>Cash Flow From Financing Activities</u>		
Money borrowed (intermediate & long term)	\$ _____	
+ Money borrowed (short term)	_____	
+ Increase in operating debt	_____	
+ Cash from nonfarm capital used in business	_____	
+ Money borrowed - nonfarm	_____	
= Cash inflow from financing		\$ _____
Principal payments (intermediate & long term)	\$ _____	
+ Principal payments (short term)	_____	
+ Decrease in operating debt	_____	
- Cash outflow for financing		\$ _____
= Net Provided by Financing Activities		\$ _____
<u>Cash Flow From Reserves</u>		
Beginning farm cash, checking & savings		\$ _____
- Ending farm cash, checking & savings		_____
= Net Provided from Reserves		\$ _____
<u>Imbalance (error)</u>		\$ _____

Repayment Analysis

The second step in cash flow analysis is to compare the debt payments planned for the last year with the amount actually paid. The measures listed below provide a number of different perspectives on the repayment performance of the business. However, the critical question to many farmers and lenders is whether planned payments can be made in 2005. The cash flow projection worksheet on the next page can be used to estimate repayment ability, which can then be compared to planned 2005 debt payments shown below.

**FARM DEBT PAYMENTS PLANNED**  
Same 17 New York Dairy Farm Renters, 2003 & 2004\*

Debt Payments	Average			My Farm		
	2004 Payments		Planned 2005	2004 Payments		Planned 2005
	Planned	Made		Planned	Made	
Long-term	\$ 6,156	\$ 6,299	\$ 6,407	\$ _____	\$ _____	\$ _____
Intermediate-term	26,397	23,964	24,255	_____	_____	_____
Short-term	188	0	0	_____	_____	_____
Operating (net red.)	647	1,258	3,814	_____	_____	_____
Accounts payable (net reduction)	<u>294</u>	<u>2,365</u>	<u>0</u>	_____	_____	_____
Total	\$ 33,682	\$ 33,886	\$ 34,476	\$ _____	\$ _____	\$ _____
Per cow	\$ 376	\$ 379		\$ _____	\$ _____	
Per cwt. 2004 milk	\$ 1.94	\$ 1.95		\$ _____	\$ _____	
Percent of total 2004 receipts	10%	10%		_____	_____	
Percent of 2004 milk receipts	12%	12%		_____	_____	

\*Farms that completed Dairy Farm Business Summaries for both 2003 and 2004.

The cash flow coverage ratio and debt coverage ratio measure the ability of the farm business to meet its planned debt payment schedule. The ratios show the percentage of planned payments (as of December 31, 2003) that could have been made with the amount available for debt service in 2004. Farmers that did not participate in DFBS last year will find in their report coverage ratios based on planned debt payments for 2005.

**COVERAGE RATIOS**  
Same 17 New York Dairy Farm Renters, 2003 & 2004

Item	Average	Item	My Farm
<u>Cash Flow Coverage Ratio</u>		<u>Debt Coverage Ratio</u>	
Cash farm receipts	\$ 321,989	Net farm income (w/o appreciation)	\$ 73,531
- Cash farm expenses	265,493	+ Depreciation	12,348
+ Interest paid (cash)	5,603	+ Interest paid (accrual)	5,603
- Net personal withdrawals from farm*	<u>37,055</u>	- Net personal withdrawals from farm*	<u>37,055</u>
(A) = Amount Available for Debt Service	\$ 25,044	(A') = Repayment Capacity	\$ 54,427
(B) = Debt Payments Planned for 2004 (as of December 31, 2003)	\$ 33,682	(B) = Debt Payments Planned for 2004 (as of December 31, 2003)	\$ 33,682
(A/B)=Cash Flow Coverage Ratio for 2004	0.74	(A'/B)=Debt Coverage Ratio for 2004	1.62
-----			
Same 32 New York Dairy Farm Owners, 2003 & 2004			
(A) = Amount Available for Debt Service	\$ 13,427	(A') = Repayment Capacity	\$ 23,986
(B) = Debt Payments Planned for 2004	29,792	(B) = Debt Payments Planned for 2004	29,792
(A/B)=Cash Flow Coverage Ratio for 2004	0.45	(A'/B)=Debt Coverage Ratio for 2004	0.81

\*Personal withdrawals and family expenditures less nonfarm income and nonfarm money borrowed. If family withdrawals are excluded, or inaccurately included, the coverage ratios will be incorrect.

## ANNUAL CASH FLOW WORKSHEET

Item	23 Dairy	My Farm		Expected Change	2005 Projection
	Farm Renters	Total	Per Cow		
Average number of cows	88				
<u>Accrual Operating Receipts</u>	(per cow)				
Milk	\$ 3,174	\$	\$		\$
Dairy cattle	303				
Dairy calves	50				
Other livestock	7				
Crops	106				
Miscellaneous receipts	136				
Total	\$ 3,775	\$	\$		\$
<u>Accrual Operating Expenses</u>					
Hired labor	\$ 239	\$	\$		\$
Dairy grain & concentrate	946				
Dairy roughage	95				
Nondairy feed	0				
Professional nutritional services	4				
Machinery hire, rent & lease	68				
Machinery repair & vehicle exp.	157				
Fuel, oil & grease	91				
Replacement livestock	93				
Breeding	54				
Vet & medicine	94				
Milk marketing	165				
Bedding	33				
Milking supplies	68				
Cattle lease	18				
Custom boarding	22				
bST expense	27				
Livestock professional fees	11				
Other livestock expense	64				
Fertilizer & lime	71				
Seeds & plants	41				
Spray & other crop expense	50				
Crop professional fees	1				
Land, building & fence repair	42				
Taxes	24				
Real estate rent & lease	162				
Insurance	50				
Utilities	106				
Misc. & other professional fees	44				
Total Less Interest Paid	\$ 2,842	\$	\$	\$	\$
<u>Net Accrual Operating Income</u>	(Total)				
(without interest paid)	\$ 82,398	\$			\$
- Change in livestock & crop inv.	19,911				
- Change in accounts receivable	1,731				
- Change in feed & supply inv.*	4,207				
+ Change in accounts payable**	-1,759				
NET CASH FLOW	\$ 54,791	\$			\$
- Net family withdrawals	31,782				
Available for Farm Debt Payments & Investments	\$ 23,009	\$			\$
- Farm debt payments	32,012				
Available for Farm Investments	\$ -9,003	\$			\$
- Capital purchases: cattle, machinery & improvements	\$ 23,768	\$		\$	\$
Additional Capital Needed	\$ 32,771	\$			\$

\*Includes change in prepaid expenses.

\*\*Excludes change in interest account payable.

Cropping Program Analysis

The cropping program is an important part of the dairy farm business and sometimes it is overlooked and neglected. A complete evaluation of available land resources, how they are being used, how well crops are producing and what it costs to produce them, is required to evaluate alternative cropping and feed purchasing choices.

LAND RESOURCES AND CROP PRODUCTION  
New York Dairy Farm Renters Reporting, 2004

Item	Average of Farms Reporting			My Farm	
<u>Crop Yields</u>	<u>Farms</u>	<u>Acres</u>	<u>Prod/Acre*</u>	<u>Acres</u>	<u>Prod/Acre</u>
Hay crop	19	144	2.49 tons DM	_____	_____ tons DM
Corn silage	16	68	18.23 tons 5.75 tons DM	_____ _____	_____ _____ tons DM
Other forage	0	0	0.00 tons DM	_____	_____ tons DM
Total forage	19	204	3.37 tons DM	_____	_____ tons DM
Corn grain	2	291	116 bushels	_____	_____ bushels
Oats	0	0	0 bushels	_____	_____ bushels
Wheat	0	0	0 bushels	_____	_____ bushels
Other crops	3	34		_____	
Tillable pasture	3	35		_____	
Idle	0	0		_____	
Total Tillable Acres	23	204		_____	

\*2004 average yields for 40 dairy farm owners in New York included: all hay crops, 2.8 tons dry matter per acre; corn silage, 16.8 tons per acre.

Average crop acres and yields compiled for the region are for the number of farms reporting each crop. Yields of forage crops have been converted to tons of dry matter using dry matter coefficients reported by the farmers. Grain production has been converted to bushels of dry grain equivalent based on dry matter information provided.

The following measures of crop management indicate how efficiently the land resource is being used and how well total forage requirements are being met.

CROP MANAGEMENT FACTORS FOR FARMS GROWING FORAGES  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Total tillable acres per cow	2.68	2.93	_____
Total forage acres per cow	2.21	2.45	_____
Harvested forage dry matter, tons per cow	7.46	8.55	_____

Average fertilizer and lime, seeds and plants, and spray and other crop expenses have been computed per tillable acre for all farms in the first column of the table below. Additional expense items such as fuels, labor, and machinery repairs are not included. There was not a sufficient number of farms providing a breakdown in expenses for hay crop and corn. Rotational grazing was used on 3 rented farms and 11 owned farms.

**CROP RELATED ACCRUAL EXPENSES**  
New York Dairy Farm Renters and Owners, 2004

Expense	Total Per Tillable Acre	Hay Crop		All Corn Per Acre	Corn Silage Per Ton DM	Corn Grain Per Dry Shell Bu.
		Per Acre	Per Ton DM			
<u>Dairy Farm Renters:</u>						
-----Average of 3 Farms Reporting Individual Crop Costs-----						
Fertilizer & lime	\$25.44	\$ 8.53	\$ 3.30	\$ 51.44	\$ 10.49	\$ 0.00
Seeds & plants	15.42	1.67	0.62	24.12	5.23	0.00
Spray & other crop expense	<u>13.99</u>	<u>1.33</u>	<u>0.46</u>	<u>74.48</u>	<u>17.00</u>	<u>0.00</u>
Total	\$54.85	\$ 11.53	\$ 4.38	\$150.04	\$ 32.72	\$ 0.00
<u>Dairy Farm Owners:</u>						
-----Average of 7 Farms Reporting Individual Crop Costs-----						
Fertilizer & lime	\$27.41	\$ 23.80	\$ 10.36	\$ 56.51	\$ 17.21	\$ 0.11
Seeds & plants	14.48	7.50	2.99	26.82	6.07	0.04
Spray & other crop expense	<u>13.04</u>	<u>2.90</u>	<u>0.76</u>	<u>42.03</u>	<u>9.39</u>	<u>0.08</u>
Total	\$54.93	\$ 34.20	\$ 14.11	\$125.36	\$ 32.67	\$ 0.23
<u>My Farm:</u>						
Fertilizer & lime	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Seeds & plants	_____	_____	_____	_____	_____	_____
Spray & other crop expense	_____	_____	_____	_____	_____	_____
Total	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

Most machinery costs are associated with crop production and should be analyzed with the crop enterprise. Total machinery expenses include the major fixed costs (interest and depreciation), as well as the accrual operating costs. Although machinery costs have not been allocated to individual crops, they are shown below per total tillable acre.

**ACCRUAL MACHINERY EXPENSES FOR FARMS GROWING FORAGES**  
New York Dairy Farm Renters and Owners, 2004

Item	Average Per Tillable Acre		My Farm	
	19 Dairy Farm Renters	40 Dairy Farm Owners	Total Expenses	Per Tillable Acre
Fuel, oil & grease	\$ 36.52	\$ 35.66	\$ _____	\$ _____
Machine repair & farm vehicle expense	63.60	88.52	_____	_____
Machine hire, rent & lease	29.56	12.50	_____	_____
Interest (5%)	24.37	37.44	_____	_____
Depreciation	<u>45.61</u>	<u>71.46</u>	_____	_____
Total	\$199.66	\$245.58	\$ _____	\$ _____

Dairy Program Analysis

Analysis of the dairy enterprise can tell a great deal about the strengths and weaknesses of the dairy farm business. Information on the following page should be used in conjunction with DHI and other dairy production information. Changes in dairy herd size and market values that occur during the year are identified in the table below. The change in inventory value without appreciation is attributed to physical changes in herd size and quality. This increase in inventory is included as an accrual farm receipt when calculating profitability without appreciation impacts.

DAIRY HERD INVENTORY  
New York Dairy Farm Renters and Owners, 2004

Item	Dairy Cows		Heifers					
	No.	Value	Bred		Open		Calves	
	No.	Value	No.	Value	No.	Value	No.	Value
<u>23 Dairy Farm Renters:</u>								
Beginning year (owned)	81	\$ 110,991	18	\$ 22,324	20	\$ 17,113	18	\$ 7,948
+ Change w/o apprec.		3,874		2,246		5,217		607
+ Appreciation		<u>2,574</u>		<u>752</u>		<u>1,165</u>		<u>565</u>
End year (owned)	83	\$ 117,439	19	\$ 25,322	26	\$ 23,496	19	\$ 9,120
End including leased	88							
Average number	88		62	(all age groups)				
<u>40 Dairy Farm Owners:</u>								
Beginning year (owned)	89	\$ 118,451	23	\$ 30,113	26	\$ 21,995	19	\$ 8,974
+ Change w/o apprec.		56		2,613		2,970		-990
+ Appreciation		<u>4,563</u>		<u>1,306</u>		<u>768</u>		<u>214</u>
End year (owned)	90	\$ 123,070	25	\$ 34,031	29	\$ 25,733	18	\$ 8,198
End including leased	89							
Average number	87		69	(all age groups)				
<u>My Farm:</u>								
Beginning year (owned)	—	\$ _____	—	\$ _____	—	\$ _____	—	\$ _____
+ Change w/o apprec.		_____		_____		_____		_____
+ Appreciation		_____		_____		_____		_____
End year (owned)	—	\$ _____	—	\$ _____	—	\$ _____	—	\$ _____
End including leased	—							
Average number	—		—	(all age groups)				

Total milk sold and milk sold per cow are extremely valuable measures of productivity on the dairy farm. These measures of milk output are based on pounds of milk marketed during the year.

MILK PRODUCTION  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters	40 Dairy Farm Owners	My Farm
Total milk sold, pounds	1,670,882	1,620,131	_____
Milk sold per cow, pounds	18,923	18,697	_____
Average milk plant test, % butterfat	2.39%	2.15%	_____

Monitoring and evaluating culling practices and experiences on an annual basis are important herd management tools. Culling rate can have an affect on both milk per cow and profitability.

ANIMALS LEAVING THE HERD  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters		40 Dairy Farm Owners		My Farm	
	Number	Percent*	Number	Percent*	Number	Percent*
Cows sold for beef	23	26.2	20	23.5	_____	_____
Cows sold for dairy	1	1.4	1	1.7	_____	_____
Cows died	5	6.1	4	4.9	_____	_____
Culling rate**		32.2		28.4	_____	_____

\*Percent of average number of cows in the herd. \*\* Cows sold for beef plus cows died.

The cost of producing milk has been compiled using the whole farm method, and is featured in the following table. Accrual receipts from milk sales are compared with the accrual costs of producing milk per hundredweight of milk. Using the whole farm method, operating cost of producing milk is estimated by deducting nonmilk accrual receipts from total accrual operating expenses plus expansion livestock purchased. Purchased input cost of producing milk is the operating cost plus depreciation. Total cost of producing milk includes the operating cost plus depreciation on machinery and buildings, the value of unpaid family labor, the value of operator(s) labor and management, and an interest charge for using equity capital.

COST OF PRODUCING MILK AND ACCRUAL RECEIPTS FROM MILK  
New York Dairy Farm Renters and Owners, 2004

Item	23 Dairy Farm Renters		40 Dairy Farm Owners		My Farm	
	Total	Per Cwt.	Total	Per Cwt.	Total	Per Cwt.
<u>Accrual Cost of Producing Milk</u>						
Operating cost	\$204,065	\$12.21	\$200,993	\$12.41	\$ _____	\$ _____
Purchased input cost	\$214,525	\$12.84	\$225,193	\$13.90	\$ _____	\$ _____
Total cost	\$276,404	\$16.54	\$301,339	\$18.60	\$ _____	\$ _____
<u>Accrual Receipts from Milk</u>	\$280,269	\$16.77	\$275,802	\$17.02	\$ _____	\$ _____
Net Milk Receipts	\$265,658	\$15.90	\$259,501	\$16.02	\$ _____	\$ _____

The accrual operating expenses most commonly associated with the dairy enterprise are listed in the table below. Evaluating these costs per unit of production enables the comparison of different size dairy farms for strengths and areas for improvement.

DAIRY RELATED ACCRUAL EXPENSES  
New York Dairy Farm Renters and Owners, 2004

Item	Average Per Cwt. Milk		My Farm
	23 Dairy Farm Renters	40 Dairy Farm Owners	Per Cwt.
Purchased dairy grain & concentrate	\$5.00	\$5.01	\$ _____
Purchased dairy roughage	0.50	0.16	_____
Total Purchased Dairy Feed	\$5.50	\$5.17	\$ _____
Purchased grain & concentrate as % of milk receipts	29%	29%	_____ %
Purchased feed & crop expense	\$6.36	\$6.05	\$ _____
Purchased feed & crop expense as % of milk receipts	37%	36%	_____ %
Breeding	\$0.29	\$0.27	\$ _____
Veterinary & medicine	0.50	0.47	_____
Milk marketing	0.87	1.01	_____
Bedding	0.17	0.15	_____
Milking supplies	0.36	0.38	_____
Cattle lease	0.09	0.00	_____
Custom boarding	0.12	0.15	_____
bST expense	0.14	0.12	_____
Livestock professional fees	0.06	0.05	_____
Other livestock expense	0.34	0.28	_____



Capital and Labor Efficiency Analysis

Capital efficiency factors measure how intensively the capital is being used in the farm business. The asset turnover ratio is the ratio of total farm income to total farm assets. It is calculated by dividing total accrual operating receipts plus appreciation by average total farm assets. Measures of labor efficiency are key indicators of management's success in generating products per unit of labor input.

CAPITAL EFFICIENCY  
New York Dairy Farm Renters and Owners, 2004

Item	Per Worker	Per Cow	Per Tillable Acre
<u>23 Dairy Farm Renters:</u>			
Farm capital	\$ 146,248	\$ 4,389	\$ 1,896
Machinery & equipment	39,625	1,189	514
<u>Ratios</u>			
Asset turnover 0.88	Operating expense 0.76	Interest expense 0.02	Depreciation expense 0.03
<u>40 Dairy Farm Owners:</u>			
Farm capital	\$ 282,721	\$ 9,495	\$ 3,244
Machinery & equipment	65,260	2,192	749
<u>Ratios</u>			
Asset turnover 0.42	Operating expense 0.75	Interest expense 0.02	Depreciation expense 0.07
<u>My Farm:</u>			
Farm capital	\$ _____	\$ _____	\$ _____
Machinery & equipment	_____	_____	_____
<u>Ratios</u>			
Asset turnover _____	Operating expense _____	Interest expense _____	Depreciation expense _____

LABOR FORCE ANALYSIS  
New York Dairy Farm Renters and Owners, 2004

Efficiency	23 Dairy Farm Renters		40 Dairy Farm Owners		My Farm	
	Total	Per Worker	Total	Per Worker	Total	Per Worker
Cows, average number	88	33	87	30	_____	_____
Milk sold, pounds	1,670,882	630,323	1,620,131	556,109	_____	_____
Tillable acres	204	77	254	87	_____	_____
Labor Costs	23 Dairy Farm Renters		40 Dairy Farm Owners		My Farm	
	Total	Per Cow	Total	Per Cow	Total	Per Cow
Value of operator(s) labor*	\$ 41,228	\$ 467	\$ 40,920	\$ 472	\$ _____	\$ _____
Family unpaid*	6,996	79	6,688	77	_____	_____
Hired	21,068	239	26,143	302	_____	_____
Total Labor	\$ 69,296	\$ 785	\$ 73,746	\$ 851	\$ _____	\$ _____
Machinery Cost	\$ 43,028	\$ 487	\$ 62,285	\$ 719	\$ _____	\$ _____
Total Labor & Machinery	\$ 112,324	\$ 1,272	\$ 136,031	\$ 1,570	\$ _____	\$ _____
Hired labor expense per hired worker equivalent	\$ 25,563		\$ 23,553		\$ _____	
Hired labor expense as % of milk sales	7.5%		9.5%		_____%	

\*\$2,200 per month.

## COMPARATIVE ANALYSIS OF THE FARM BUSINESS

Progress of the Farm Business

Comparing your business with average data from regional DFBS cooperators that participated in both of the last two years is one part of a business checkup. It is equally important for you to determine the progress your business has made over the past two or three years and to set targets or goals for the future.

PROGRESS OF THE FARM BUSINESS  
Same 17 New York Dairy Farm Renters, 2003 & 2004

Selected Factors	Average		My Farm		Goal
	2003	2004	2003	2004	
<u>Size of Business</u>					
Average number of cows	89	89	_____	_____	_____
Average number of heifers	65	67	_____	_____	_____
Milk sold, lbs.	1,857,977	1,733,379	_____	_____	_____
Worker equivalent	2.70	2.72	_____	_____	_____
Total tillable acres	225	222	_____	_____	_____
<u>Rates of Production</u>					
Milk sold per cow, lbs.	20,821	19,374	_____	_____	_____
Hay DM per acre, tons	2.3	2.5	_____	_____	_____
Corn silage per acre, tons	13.5	17.8	_____	_____	_____
<u>Labor Efficiency</u>					
Cows per worker	33	33	_____	_____	_____
Milk sold per worker, lbs.	688,140	637,272	_____	_____	_____
<u>Cost Control</u>					
Grain & concentrate purchased as % of milk sales	34%	30%	_____ %	_____ %	_____ %
Dairy feed & crop expense per cwt. milk	\$5.40	\$6.24	\$ _____	\$ _____	\$ _____
Labor & machinery costs/cow	\$1,235	\$1,269	\$ _____	\$ _____	\$ _____
Operating cost of producing cwt. milk	\$10.78	\$11.75	\$ _____	\$ _____	\$ _____
<u>Capital Efficiency*</u>					
Farm capital per cow	\$4,477	\$4,921	\$ _____	\$ _____	\$ _____
Machinery & equipment per cow	\$1,260	\$1,415	\$ _____	\$ _____	\$ _____
Asset turnover ratio	0.74	0.81	_____	_____	_____
<u>Profitability</u>					
Net farm income without appreciation	\$27,727	\$73,531	\$ _____	\$ _____	\$ _____
Net farm income with appreciation	\$38,090	\$83,359	\$ _____	\$ _____	\$ _____
Labor & management income per operator/manager	\$4,910	\$40,400	\$ _____	\$ _____	\$ _____
Rate of return on equity capital with appreciation	-3.6%	11.8%	_____ %	_____ %	_____ %
Rate of return on all capital with appreciation	-0.5%	8.9%	_____ %	_____ %	_____ %
<u>Financial Summary</u>					
Farm net worth, end year	\$249,074	\$306,656	\$ _____	\$ _____	\$ _____
Debt to asset ratio	0.39	0.34	_____	_____	_____
Farm debt per cow	\$1,863	\$1,737	\$ _____	\$ _____	\$ _____

\*Average for the year.

RECEIPTS AND EXPENSES PER COW AND PER HUNDREDWEIGHT  
Same 17 New York Dairy Farm Renters, 2003 & 2004

Item	2003		2004	
	Per Cow	Per Cwt.	Per Cow	Per Cwt.
Average Number of Cows	89		89	
Cwt. of Milk Sold		18,580		17,334
<u>ACCRUAL OPERATING RECEIPTS</u>				
Milk	\$ 2,706	\$ 13.00	\$ 3,237	\$ 16.71
Dairy cattle	81	0.39	341	1.76
Dairy calves	37	0.18	52	0.27
Other livestock	9	0.04	3	0.02
Crops	68	0.32	95	0.49
Miscellaneous receipts	280	1.34	134	0.69
Total Receipts	\$ 3,181	\$ 15.27	\$ 3,862	\$ 19.94
<u>ACCRUAL OPERATING EXPENSES</u>				
Hired labor	\$ 221	\$ 1.06	\$ 216	\$ 1.11
Dairy grain & concentrate	911	4.37	973	5.02
Dairy roughage	71	0.34	76	0.39
Nondairy feed	1	0.00	0	0.00
Professional nutritional services	3	0.01	6	0.03
Machine hire/rent/lease	44	0.21	52	0.27
Machinery repair & vehicle expense	168	0.81	155	0.80
Fuel, oil & grease	81	0.39	94	0.49
Replacement livestock	39	0.19	93	0.48
Breeding	52	0.25	58	0.30
Veterinary & medicine	85	0.41	91	0.47
Milk marketing	184	0.89	172	0.89
Bedding	41	0.20	36	0.19
Milking supplies	65	0.31	65	0.33
Cattle lease	0	0.00	0	0.00
Custom boarding	36	0.17	30	0.15
bST expense	31	0.15	29	0.15
Livestock professional fees	12	0.06	13	0.07
Other livestock expense	48	0.23	77	0.40
Fertilizer & lime	69	0.33	86	0.44
Seeds & plants	35	0.17	39	0.20
Spray/other crop expense	37	0.18	35	0.18
Crop professional fees	0	0.00	1	0.00
Land, building, fence repair	48	0.23	32	0.17
Taxes	31	0.15	32	0.16
Real estate rent/lease	153	0.73	155	0.80
Insurance	42	0.20	54	0.28
Utilities	110	0.53	110	0.57
Interest paid	78	0.37	63	0.32
Other professional fees	10	0.05	16	0.08
Miscellaneous	12	0.06	29	0.15
Total Operating Expenses	\$ 2,719	\$ 13.06	\$ 2,886	\$ 14.90
Expansion Livestock	0	0.00	15	0.08
Extraordinary Expense	0	0.00	1	0.01
Machinery Depreciation	124	0.59	130	0.67
Real Estate Depreciation	28	0.13	8	0.04
Total Expenses	\$ 2,871	\$ 13.78	\$ 3,040	\$ 15.70
Net Farm Income Without Appreciation	\$ 310	\$ 1.49	\$ 822	\$ 4.24

Condensed Summary and Selected Business Factors for Two Herd Size Groups

CONDENSED FARM BUSINESS SUMMARY FOR TWO RENTER GROUPS BY HERD SIZE  
23 New York Dairy Farm Renters, 2004

Item	13 Dairy Farm Renters with < 70 Cows		10 Dairy Farm Renters with > 70 Cows	
	Per Cow	Per Cwt.	Per Cow	Per Cwt.
<u>ACCRUAL EXPENSES</u>				
Hired labor	\$27	\$0.16	\$343	\$1.71
Dairy grain & concentrate	710	4.31	1,063	5.28
Dairy roughage	194	1.18	47	0.23
Nondairy feed	0	0.00	0	0.00
Professional nutritional services	2	0.01	6	0.03
Machine hire, rent & lease	31	0.19	87	0.43
Machine repairs & farm vehicle expense	130	0.79	170	0.84
Fuel, oil & grease	78	0.47	97	0.48
Replacement livestock	127	0.77	77	0.38
Breeding	33	0.20	65	0.32
Veterinary & medicine	70	0.43	106	0.53
Milk marketing	173	1.05	162	0.80
Bedding	20	0.12	39	0.19
Milking supplies	64	0.39	70	0.35
Cattle lease & rent	0	0.00	27	0.13
Custom boarding	6	0.04	31	0.15
bST expense	9	0.05	36	0.18
Livestock professional fees	11	0.07	11	0.05
Other livestock expense	52	0.31	70	0.35
Fertilizer & lime	41	0.25	86	0.43
Seeds & plants	31	0.19	46	0.23
Spray & other crop expense	18	0.11	66	0.33
Crop professional fees	0	0.00	1	0.00
Land, building & fence repair	65	0.39	30	0.15
Taxes & rent	157	0.96	200	0.99
Utilities	87	0.53	116	0.57
Interest paid	88	0.54	45	0.22
Other professional fees	11	0.06	15	0.07
Misc. (including insurance)	75	0.46	84	0.42
Total Operating Expenses	\$2,311	\$14.03	\$3,194	\$15.86
Expansion livestock	0	0.00	16	0.08
Extraordinary expense	2	0.01	0	0.00
Machinery depreciation	113	0.69	111	0.55
Building depreciation	11	0.07	3	0.02
Total Accrual Expenses	\$2,437	\$14.80	\$3,325	\$16.51
<u>ACCRUAL RECEIPTS</u>				
Milk sales	\$2,751	\$16.70	\$3,384	\$16.80
Dairy cattle	199	1.21	355	1.76
Dairy calves	51	0.31	50	0.25
Other livestock	-2	-0.01	11	0.06
Crops	85	0.52	116	0.58
Miscellaneous receipts	113	0.69	147	0.73
Total Accrual Receipts	\$3,196	\$19.41	\$4,062	\$20.17
<u>PROFITABILITY ANALYSIS (Total)</u>				
Net farm income (without appreciation)		\$39,298		\$100,124
Net farm income (with appreciation)		\$40,671		\$120,452
Labor & management income/operator		\$20,912		\$46,127
Rates of return on:				
Equity capital without appreciation		-5.9%		10.3%
Equity capital with appreciation		-4.4%		15.1%
All capital without appreciation		-0.3%		8.4%
All capital with appreciation		0.4%		12.0%

SELECTED BUSINESS FACTORS FOR TWO RENTER GROUPS BY HERD SIZE  
23 New York Dairy Farm Renters, 2004

Item	13 Dairy Farm Renters with < 70 Cows	10 Dairy Farm Renters with > 70 Cows
<u>Cropping Program Analysis</u>		
Total acres rented	156	428
Tillable acres rented	101	339
Hay crop acres <sup>22</sup>	78	173
Corn silage acres <sup>22</sup>	22	80
Hay crop, tons DM/acre	2.1	2.7
Corn silage, tons/acre	18.0	18.3
Forage DM per cow, tons	7.1	7.6
Tillable acres/cow	2.5	2.7
Fertilizer & lime expense/tillable acre	\$19.09	\$32.49
Machinery cost/tillable acre	\$171	\$211
<u>Dairy Analysis</u>		
Number of cows	52	136
Number of heifers	33	100
Milk sold, pounds	852,475	2,734,810
Milk sold/cow, pounds	16,467	20,139
Operating cost of producing milk/cwt.	\$11.33	\$12.57
Total cost of producing milk/cwt.	\$17.89	\$16.00
Price/cwt. milk sold	\$16.70	\$16.80
Purchased dairy feed/cow	\$904	\$1,110
Purchased dairy feed/cwt. milk	\$5.49	\$5.51
Purchased grain & concentrate as % of milk receipts	26%	32%
Purchased feed & crop expense/cwt. milk	\$6.04	\$6.49
<u>Capital Efficiency</u>		
Farm capital/worker	\$113,860	\$166,259
Farm capital/cow	\$3,981	\$4,591
Real estate/cow	\$260	\$367
Machinery investment/cow	\$1,122	\$1,222
Asset turnover ratio	0.81	0.92
<u>Labor Efficiency</u>		
Worker equivalent	1.81	3.75
Operator/manager equivalent	1.21	1.63
Milk sold/worker, lbs.	472,286	729,121
Cows/worker	29	36
Labor cost/cow	\$897	\$729
<u>Financial Measures</u>		
Percent equity	45%	69%
Debt/asset ratio - long term	3.44	0.62
Debt/asset ratio - intermediate & current	0.35	0.28
Change in net worth with appreciation	\$15,028	\$85,905
Total farm debt per cow	\$2,276	\$1,486
Debt payments made per cow	\$400	\$370
Debt payments as % of milk sales	14%	11%
Amount available for debt service	\$11,358	\$40,440
Debt coverage ratio for 2004	1.09	1.83

<sup>22</sup>Average of all farms, not only those reporting data.

Regional Farm Business Chart

The Farm Business Chart is a tool which can be used in analyzing your business. Compare your business by drawing a line through or near the figure in each column which represents your current level of performance. The five figures in each column represent the average of each 20 percent or quintile of farms included in the regional summary.

FARM BUSINESS CHART FOR FARM MANAGEMENT COOPERATORS  
23 New York Dairy Farm Renters, 2004

Size of Business			Rates of Production			Labor Efficiency	
Worker Equivalent	No. of Cows	Pounds of Milk Sold	Pounds Milk Sold Per Cow	Tons Hay Crop DM/Acre	Tons Corn Silage Per Acre	Cows Per Worker	Pounds Milk Sold Per Worker
(14)*	(12)	(12)	(12)	(11)	(11)	(14)	(14)
6.0	215	4,395,819	22,689	3.7	27	48	866,625
2.4	90	1,723,642	20,580	2.7	20	40	744,858
2.1	68	1,309,072	19,069	2.5	19	32	635,853
1.8	55	907,220	16,901	2.0	16	28	495,051
1.5	40	574,194	11,929	1.0	13	22	315,896

Cost Control

Grain Bought Per Cow	% Grain is of Milk Receipts	Machinery Costs Per Cow	Labor & Machinery Costs Per Cow	Feed & Crop Expenses Per Cow	Feed & Crop Expenses Per Cwt. Milk
(12)	(12)	(14)	(14)	(12)	(12)
\$480	20%	\$159	\$881	\$623	\$4.46
735	25	315	1,210	955	5.28
907	29	533	1,396	1,165	6.01
1,100	33	673	1,525	1,378	7.26
1,239	40	869	1,813	1,644	8.83

Value and Cost of Production			Profitability		
Milk Receipts Per Cow	Operating Cost Producing Milk Per Cwt.	Total Cost Producing Milk Per Cwt.	Net Farm Income With Appreciation	Net Farm Income Without Appreciation	Labor & Management Income Per Operator
(12)	(12)	(12)	(4)	(4)	(4)
\$3,923	\$8.02	\$13.85	\$165,254	\$136,490	\$68,433
3,371	10.30	15.55	111,012	94,634	48,415
3,196	12.41	16.63	66,368	65,992	39,609
2,845	13.53	18.87	47,344	41,570	24,358
2,022	15.44	24.83	11,922	9,962	-2,441

\*Page number of the participant's DFBS where the factor is located.

Regional Financial Analysis Chart

The farm financial analysis chart is designed just like the Farm Business Chart and may be used to assess the financial health of the farm business. Most of the financial measures used in the chart are defined on pages 7, 8, 11, and 15 of this publication. References to DFBS output page numbers for participating dairy farmers are provided in the table headings.

FINANCIAL ANALYSIS CHART  
23 New York Dairy Farm Renters, 2004

Liquidity (repayment)				
Planned Debt Payments Per Cow	Available for Debt Service Per Cow	Cash Flow Coverage Ratio	Debt Payments as Percent of Milk Sales	Debt Per Cow
(10)*	(16)	(10)	(10)	(7)
\$ 65	\$668	7.24	2%	\$254
296	422	1.40	9	1,242
420	371	0.92	17	2,103
580	242	0.57	20	2,846
745	-128	-4.65	25	4,004

Solvency			Profitability	
Leverage Ratio**	Percent Equity	Debt/Asset Ratio Current & Intermediate	Percent Rate of Return with appreciation on:	
(7)	(7)	(7)	Equity (4)	Investment*** (4)
-1.50	97%	0.03	62%	21%
0.24	80	0.16	23	13
0.77	57	0.37	15	10
1.65	36	0.54	4	4
4.05	-5	0.69	-60	-24

Efficiency (Capital)				
Asset Turnover Ratio	Machinery Investment Per Cow	Total Farm Assets Per Cow	Change in Net Worth With Appreciation	
(14)	(14)	(14)	(8)	
1.44	\$324	\$7,017	\$28,877	
1.10	714	6,318	26,448	
0.84	1,079	4,259	24,251	
0.70	2,129	3,193	9,091	
0.53	2,663	2,667	-22,075	

\*Page number of the participant's DFBS where the factor is located.

\*\*Dollars of debt per dollar of equity, computed by dividing total liabilities by total equity.

\*\*\*Return on all farm capital (no deduction for interest paid) divided by total farm assets.

## IDENTIFY AND SET GOALS

If businesses are to be successful, they must have direction. Written goals help provide businesses with an identifiable direction over both the long and the short term. Goal setting is as important on a dairy farm as it is in other businesses. Written goals are a tool which farm operators can use to ensure that the business continues to move in the proper direction. Goals should be **SMART**:

1. Goals should be Specific.
2. Goals should be Measurable.
3. Goals should be Achievable but challenging.
4. Goals should be Rewarding.
5. You should designate a Time when each goal will be achieved.

Goal setting on a dairy farm does not have to be a complex process. In many cases it provides a process for writing down and agreeing on goals that you have already given some thought to. It is also important to remember that once you write out your goals they are not cast in concrete. If a change takes place which has a major impact on the farm business, the goals should be reworked to accommodate that change. Refer to your goals as often as necessary to keep the farm business progressing.

It is important to identify both objectives (long-range) and goals (short-range) when looking at the future of your farm business.

A suggested format for writing out your goals is as follows:

- a. Begin with a mission statement which describes why the business exists based on the preferences and values of the owners.
- b. Identify 4-6 objectives.
- c. Identify SMART goals.

### Worksheet for Setting Goals

#### I. Mission and Objectives

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## GLOSSARY AND LOCATION OF COMMON TERMS

**Accounts Payable** - Open accounts or bills owed to feed and supply firms, cattle dealers, veterinarians and other providers of farm services and supplies.

**Accounts Receivable** - Outstanding receipts from items sold or sales proceeds not yet received such as the payment for December milk sales received in January.

**Accrual Expenses** - (defined on page 5)

**Accrual Receipts** - (defined on page 6)

**Annual Cash Flow Statement** - (defined on page 13)

**Appreciation** - (defined on page 7)

**Asset Turnover Ratio** - (defined on page 21)

**Balance Sheet** - A "snapshot" of the business financial position at a given point in time, usually December 31. The balance sheet equates the value of assets to liabilities plus net worth.

**bST Usage** - An estimate of percentage of herd that was injected with bovine somatotropin during the year.

**Capital Efficiency** - The amount of capital invested per production unit. Relatively high investments per worker with low to moderate investments per cow imply efficient use of capital.

**Cash From Nonfarm Capital Used in the Business** - Transfers of money from nonfarm savings or investments to the farm business where it is used to pay operating expenses, make debt payments and/or capital purchases.

**Cash Flow Coverage Ratio** - (defined on page 15)

**Cash Paid** - (defined on page 4)

**Cash Receipts** - (defined on page 6)

**Change in Accounts Payable** - (defined on page 5)

**Change in Accounts Receivable** - (defined on page 6)

**Change in Inventory** - (defined on page 4)

**Cost of Term Debt** - A weighted average of the cost of borrowed capital to the farm. Calculate by multiplying end of year principal of each loan that is borrowed by the interest rate for each loan at that time. Add up each amount that is calculated for each loan and then divide by total amount of borrowed funds. Do not include accounts payable, operating debt or advanced government receipts. This information is found on pages 10 and 11 of the data entry form.

**Culling Rate** - (defined on page 19)

**Current Portion** - Principal due in the next year for intermediate and long term debt.

**Current Ratio** - Measures the extent to which current farm assets, if liquidated, would cover current farm liabilities. Calculated as current farm assets at end year divided by current farm liabilities at end year.

**Dairy (farm)** - A farm business where dairy farming is the primary enterprise, operating and managing this farm is a full-time occupation for one or more people and cropland is owned.

**Dairy Cash-Crop (farm)** - Operating and managing this farm is the full-time occupation of one or more people, cropland is owned but crop sales exceed 10 percent of accrual milk receipts.

**Debt Per Cow** - Total end-of-year debt divided by end-of-year number of cows.

**Debt to Asset Ratios** - (defined on page 11)

**Depreciation Expense Ratio** - Machinery and building depreciation divided by total accrual receipts.

**Dry Matter** - The amount or proportion of dry material that remains after all water is removed. Commonly used to measure dry matter percent and tons of dry matter in feed.

**Equity Capital** - The farm operator/manager's owned capital or farm net worth.

**Expansion Livestock** - Purchased dairy cattle and other livestock that cause an increase in herd size from the beginning to the end of the year.

**Farm Debt Payments as Percent of Milk Sales** - Amount of milk income committed to debt repayment, calculated by dividing planned debt payments by total milk receipts. A reliable measure of repayment ability, see page 15.

**Farm Debt Payments Per Cow** - Planned or scheduled debt payments per cow represent the repayment plan scheduled at the beginning of the year divided by the average number of cows for the year. This measure of repayment ability is used in the Financial Analysis Chart.

**Financial Lease** - A long-term non-cancelable contract giving the lessee use of an asset in exchange for a series of lease payments. The term of a financial lease usually covers a major portion of the economic life of the asset. The lease is a substitute for purchase. The lessor retains ownership of the asset.

**Hired Labor Expense per Hired Worker Equivalent** - The total cost to the farm per hired worker equivalent. Divide accrual hired labor expense by number of hired plus family paid worker equivalent.

**Hired Labor Expense as % of Milk Sales** - The percentage of the gross milk receipts that is used for labor expense. Divide accrual hired labor expense by accrual milk sales.

**Income Statement** - A complete and accurate account of farm business receipts and expenses used to measure profitability over a period of time such as one year or one month.

**Interest Expense Ratio** - Accrual interest expense divided by total accrual receipts.

**Labor and Management Income** - (defined on page 8)

**Labor and Management Income Per Operator** - The return to the owner/manager's labor and management per full-time operator.

**Labor Efficiency** - Production capacity and output per worker.

**Leverage Ratio** - (defined on page 11)

**Liquidity** - Ability of business to generate cash to make debt payments or to convert assets to cash.

**Net Farm Income** - (defined on page 7)

**Net Farm Income from Operations Ratio** - (defined on page 8)

**Net Worth** - The value of assets less liabilities equal net worth. It is the equity the owner has in owned assets.

**Operating Costs of Producing Milk** - (defined on page 20)

**Operating Expense Ratio** - Total accrual expenses less interest and machinery and building depreciation divided by total accrual receipts.

**Opportunity Cost** - The cost or charge made for using a resource based on its value in its most likely alternative use. The opportunity cost of a farmer's labor and management is the value he/she would receive if employed in his/her most qualified alternative position.

**Other Livestock Expenses** - All other dairy herd and livestock expenses not included in more specific categories. Other livestock expenses include; bedding, DHIC, milk house and parlor supplies, livestock board, registration fees and transfers.

**Part-Time Cash-Crop Dairy (farm)** - Operating and managing this farm is not a full-time occupation, crop sales exceed 10 percent of accrual milk receipts and cropland is owned.

**Part-Time Dairy (farm)** - Dairy farming is the primary enterprise, cropland is owned but operating and managing this farm is not a full-time occupation for one or more people.

**Personal Withdrawals and Family Expenditures Including Nonfarm Debt Payments** - All the money removed from the farm business for personal or nonfarm use including family living expenses, health and life insurance, income taxes, nonfarm debt payments, and investments.

**Profitability** - The return or net income the owner/manager receives for using one or more of his or her resources in the farm business. True "economic profit" is what remains after deducting all costs including the opportunity costs of the owner/manager's labor, management, and equity capital.

**Purchased Inputs Cost of Producing Milk** - (defined on page 20)

**Repayment Analysis** - An evaluation of the business' ability to make planned debt payments.

**Replacement Livestock** - Dairy cattle and other livestock purchased to replace those that were culled or sold from the herd during the year.

**Return on Equity Capital** - (defined on page 8)

**Return on Total Capital** - (defined on page 8)

**Return to Operators' Labor, Management, and Equity Capital** - (defined on page 7)

**Rotational Grazing** - The dairy herd is on pasture at least three months of the year, changing paddock at least every three days.

**Solvency** - The extent or ability of assets to cover or pay liabilities. Debt/asset and leverage ratios are common measures of solvency.

**Total Costs of Producing Milk** - (defined on page 20)

**Whole Farm Method** - A procedure used to calculate costs of producing milk on dairy farms without using enterprise cost accounts. All non-milk receipts are assigned a cost equal to their sale value and deducted from total farm expenses to determine the costs of producing milk.

**Working Capital** - A theoretical measure of the amount of funds available to purchase inputs and inventory items after the sale of current farm assets and payment of all current farm liabilities. Calculate as current farm assets at end year less current farm liabilities at end year.

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