**NAIDC Financial Statements**

**Changes from Previous Years & Impacts on Financial Ratios**

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**Why These Changes Are Being Made:**

Cornell has an outstanding farm records system that provides statewide averages for dairy farms. The financial statements that will be used in NAIDC this year (2023) have been modified so that the students can compare the information from the statements directly to the statewide averages that will be provided.

In previous years the financial statements provided by the host farms has not always been complete or accurate. This year, the financial statements the students receive will be very accurate representations of the host farms. This will allow better financial analysis and less confusion for the students.

**Changes to the Balance Sheet:**

The Current Asset section of the balance sheet will have slightly different categories. The **Purchased Feed Inventory, Homegrown Feed Inventory & Supply Inventories** will be combined into one category rather than being listed separately as in the past. Again, this year’s statement will be directly comparable to the NY state benchmarks that will be provided.

This change will have no impact on the calculation of the liquidity & solvency financial ratios.

|  |  |
| --- | --- |
| **Old Category** | **New Category** |
| Homegrown Feed Inventory  Purchase Feed Inventory  Supply Inventory | Homegrown Feed, Purchase Feed, & Supply Inventory |
| Investment in Growing Crops | Not available |
| Dairy Livestock Held for Sale | Not available |

**Changes to the Income Statement:**

There are several changes in the categories on the Income Statement. **Footnotes have been added to the Income Statement to explain the affected categories.**

**The Farm Revenue section will contain 3 categories instead of 4.**  “Other Dairy Revenues” (cooperative distributions, etc.) has been combined into “Other Farm Revenues”. Other Farm Revenues includes all revenues except for Milk Sales and Raised Calf, Cow, & Cull Sales. Other Farm Revenues will contain cooperative distributions, government payments, sale of crops or non-dairy livestock, and custom hire revenues.

Several of the expense categories have changed so that they match the NY state benchmarks:

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| --- | --- |
| **Old Category** | **New Category** |
| Chemicals | Milking Supplies & Chemicals |
| Contract Heifer Raising | Contract Heifer Raising & Purchased Replacements |
| Purchased Feed Expense | Purchased Grain & Concentrate Expense  Purchased Forages |
| Homegrown Feed Expenses | The expenses for homegrown feeds are not broken out separately. They will be included in “Crop Inputs”, “Fuel & Oil”, etc. It will not be possible to determine the cost of homegrown feed production from this income statement. |
| Insurance (Dairy-Specific) | Included with Insurance in Non-Dairy-Specific section |
| Depreciation (not including Section 179) | Depreciation, Management  (the interpretation is basically the same) |

There are a few differences in the “Other Information” section below the Income Statement:

|  |  |
| --- | --- |
| **Old Category** | **New Category** |
| Total Annual Owner Withdrawals  This represented the owners’ salaries if they were not included in the “Labor” category of the Income Statement – for example, Sole Proprietorships & Partnerships do not typically include the owner salary as a “Labor” expense. This also included any other family living expenses not covered by the owner salary. | Total Annual Owner Withdrawals  This represents the value of the owner & unpaid family labor. These withdrawals are not included in the “Labor” expense on the income statement. |
| Estimated Income Taxes | Total Additional Non-Farm Withdrawals  This category includes income taxes and any other non-farm withdrawal (retirement planning, off-farm investments, etc.) |
| Total Annual Principal & Interest Payments | Total Planned Annual Principal & Interest Payments  Same interpretation as before. |

**Impact on Financial Ratios & Analysis:**

The key figures on the financial statements will be interpreted in the same manner as previous years. Total Assets, Total Liabilities, Net Worth, Gross Income, Total Farm Expenses, & Net Farm Income all have the same interpretation. The following ratios will be calculated and interpreted in the same manner as listed on the [www.DairyChallenge.org](http://www.DairyChallenge.org) website (Student Resources):

|  |  |
| --- | --- |
| **No Changes Required for These Ratios** | |
| Liquidity | Current Ratio  Working Capital / Expenses |
| Solvency | Debt / Asset  Equity / Asset  Debt / Worth  Remember, you only need to calculate one of these ratios – if you know one, you automatically know the others! |
| Repayment Ability | Term Debt / EBITDA |
| Financial Efficiency | Operating Expense / Receipt Ratio  Sales / Total Assets |

The only changes that you need to make in your financial ratio calculations are:

|  |  |
| --- | --- |
| **Ratios That Will Be Affected** | |
| Repayment Ability | Debt Coverage Ratio  = (Net Farm Income + Interest + Depreciation – Total Annual Owner Withdrawals - Total Additional Non-Farm Withdrawals) / Total Planned Annual Principal & Interest Payments  The interpretation of this ratio will be the same. |
| Profitability | Rate of Return on Assets (ROA)  = (Net Farm Income + Interest – Total Annual Owner Withdrawals) / Total Farm Assets  The NY benchmarks divide by “Average Total Farm Assets” instead of “Total Farm Assets”. This should not have a major impact on your analysis – you can compare the ROA as calculated above to the NY benchmarks.  Operating Profit Margin  = (Net Farm Income + Interest – Total Annual Owner Withdrawals) / Gross Income from the Income Statement |

Please feel free to contact me if I can be of help in clarifying these issues or helping your students with the financial ratio calculations – [DocWhite@vt.edu](mailto:DocWhite@vt.edu)

**Disclaimer:** I have a team competing in NAIDC this year. I am also on the NAIDC Board of Directors. As a Board member I have helped with the formatting of the financial statements for the 2023 event. My role has been to maintain as much consistency in the statements from previous years – to reduce confusion and surprises for coaches and students.

I have only seen templates of the financial statements. These same templates are provided for all coaches and students on the [www.DairyChallenge.org](http://www.DairyChallenge.org) website (Student Resources). I have not seen any data from the host farms for the NAIDC competition.

If you have any questions or concerns about my involvement in this process, please contact Molly Kelley (NAIDC Executive Director – [MollyK@DairyChallenge.org](mailto:MollyK@DairyChallenge.org) )