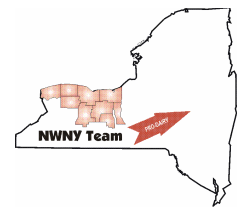


NWNY Dairy, Livestock & Field Crops Team

Cornell Cooperative Extension

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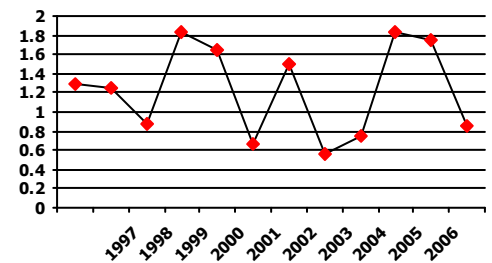
IMPACT STATEMENT

Farm Business Owners Achieve Sound Financial Planning and Control Using Cornell University Cooperative Extension's Dairy Farm Business Summary Program -- 2006

The Need

Financial risk is variability in financial results. Western NY farm business owners face a challenging financial risk management environment as depicted in Figure 1. The debt coverage ratio measures a business' ability to meet planned debt payments as budgeted. Note the risk, variability in recent years, and the frequency with which the measure falls below the critical 1.0 level. Below that level, for every dollar of debt payment planned there is less than a dollar available to meet the payments.

Debt Coverage Ratio Over Time



Graph. Debt Coverage Ratios Over Time – NYS Dairy Farm Business Summary Cooperators

Sound financial planning and control are keys to managing financial risk, and to achieve farm success. Over 35 dairy farm business operators annually complete Cornell Cooperative Extension's Dairy Farm Business Summary (DFBS) program. For these cooperators, the DFBS program fills an important need for summary and analysis of financial condition and performance. Cooperators recognize the need for sound financial planning and control in managing their businesses. They share this view with dairy farm business owners across the state. Three of the DFBS priorities are key components for dairy farm business owners for funding New York Farm Viability Institute (NYFVI) projects for 2007 – 08. They relate specifically to improving farm financial management capacities.

Extension's Response

The NWNy Team cooperates with the Cornell Department of Applied Economics and Management, PRO-DAIRY, lenders, farm business consultants, and farm business owners to complete summaries and analyses. The team supports data collection, data entry, diagnostics (to ensuring the accuracy of records), reporting and analysis. The NWNy Team provides cooperators with an evaluation of strengths and weaknesses to identify areas for improvement using the online two page comparison report. A regional meeting in April of each year provides participants with additional opportunities to evaluate the financial condition and performance of their businesses relative to others in the region, and with discussion of timely topics. This peer review session also demonstrated the new online comparison report.

The Results

By completing DFBS's for their businesses and by using the analyses in managing their businesses cooperators demonstrate:

- Knowledge of valuable farm financial management concepts;
- Awareness of the of financial planning and control skills in managing financial risks, and achieving farm goals;
- Farm financial management skills;
- Effective farm financial management behaviors including: the analysis of financial condition and performance; identification of areas for improvement; evaluation of alternatives; monitoring of progress; and changes to the farm financial management system such as recording of milk receipt detail by component, accurate tracking of inventories and accounts payable.

DFBS cooperators achieve higher levels of performance than they would if summary and analysis of financial condition was not part of their business plan. Research results by Gloy and others at Cornell showed that "These basic results strongly suggest that there are positive returns to conducting detailed financial analyses. Producers who wish to improve performance may benefit from applying appropriate techniques for analyzing financial strengths and weaknesses". Producers in the NWNy area are doing just that with positive results.