Sustainable Canadian Agricultural Partnership

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FARM FINANCIAL ANALYSIS – Minimum Reporting Requirements

The Farm Financial Analysis (FFA) includes up to four working days of service provided by the Farm Advisor. A minimum of one farm visit is required.

Statement of Work

The Advisor will:

- ☐ Before starting work, obtain from the farm business income tax returns for a minimum of two consecutive years as well as any other relevant financial information. In the case of First Nations Farmers and where Income Tax records are not available the Advisor will try to collect any and all income and expense related information relevant to the completion of a financial statement
- ☐ Collect all the data required to complete the analysis and reporting requirements listed below
- ☐ Prepare a written report in plain language that the farm business owner can understand, the report will include all the information listed below that applies to this farm business
- ☐ Meet with the farm business to review and discuss the FFA results and make sure that it meets the objectives of the farm business for undertaking the FFA
- ☐ Give a copy of the final FFA to the farm business
- ☐ Submit a copy of the final FFA report to OSCIA

Business Overview (maximum one page)

- ☐ Name and address of the farm business
- ☐ Brief description of the operation outlining the type (e.g. dairy, grains & oilseed, grains & livestock, hog farrow to finish or weaner, poultry & fruit, etc.), quota holdings and size (total acres cultivated, size of herd, etc.)
- ☐ Short statement explaining the farm business's key objectives for completing a FFA

Financial summary of profitability/ viability of the farm operation including:

- ☐ Net worth
- ☐ Net farm income
- ☐ An explanation in plain language of the significance of ratios to the farm business and how the ratios relate to the farming operation
- ☐ Financial Plan:
  - ☐ Assessment of the present profitability/ viability of the operation
  - ☐ Analysis of the operation's ability to achieve the identified goals in the farm business's Action Plan

Farm Financial Statements

- ☐ Opening current market value balance sheet (current and long-term assets and liabilities, and net worth) for month of the Advisor's initial farm visit, includes detailed assets and liabilities worksheets to support the balance sheet
- ☐ Revenue and expense statement for the previous two consecutive years[1] using filed income tax information (from T2042, T1, T2 or CAIS/AgriStability forms). This information may not be available for some beginning farmers
- ☐ A current year[2] revenue and expense projections for 12 consecutive months that will serve as the base year statement to compare with the previous years' statements (If you find that this information is not available due to extraordinary circumstances, contact OSCIA for an exemption or direction)

- ☐ A current year[2] revenue and expense statement on an accrual basis for 12 consecutive months providing for accrual adjustments in revenues, sales, inventory changes, and process and accrual adjustments in variable and fixed expenses

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Farm business ratio analysis: Six Required Ratios

- ☐ The six mandatory ratios are: Asset Turnover, Current Ratio, Operating Profit Margin Ratio, Return on Assets, Debt to Equity Ratio, Debt Repayment Capacity Ratio

The Advisor will use these ratios to complete analysis of the following issues:

- ☐ **Financial Efficiency**: assesses how effective the business is in using its assets to generate income
  - Asset Turnover = Gross farm sales divided by Total farm assets

- ☐ **Liquidity**: assesses the business's ability to pay their bills as they come due
  - Current Ratio = Current Assets / Current Liabilities

- ☐ **Profitability**: measures how well the business is able to generate a profit
  - Operating Profit Margin Ratio = (Net farm income + interest expense – Owner's withdrawals for unpaid labour and return to management) divided by Gross Farm Sales
  - Return on Assets = (Net farm income + interest expense – Owner's withdrawals for unpaid labour and return to management) divided by Total farm assets

- ☐ **Solvency**: determines how much the business is relying on debt to finance the business
  - Debt to Equity ratio = Total liabilities divided by Equity

- ☐ **Repayment Capacity**: measures ability of a borrower to repay term farm debt from farm and non-farm income
  - Debt Servicing Capacity Ratio = Amount available to service debt divided by Debt payment requirements

The farm business and Advisor may agree to use additional ratios if appropriate

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Financial Plan: Financial projections for a minimum of one year (monthly or quarterly) to meet identified goals in the farm business's Action Plan

The financial plan will consist of the following:

- ☐ Projected income and expense estimates for a minimum of one year of the business cycle
- ☐ Assessment and discussion of the profitability/ viability of the operation
- ☐ Outline of the impact on different areas of the farm business shown below that apply, e.g. Marketing, Production, Human Resources, Financial Management, Social Responsibility, Succession Planning, Business Structure, Business Goals
- ☐ Projected statement of assets and liabilities taking into consideration any new investment in the business
- ☐ Calculation of Financial Ratios for the projected periods and comments. The ratios should include the ratios outlined in Farm Business Ratio Analysis outlined above
- ☐ Discussions of benchmarking reports available to the farm business and their use/ benefits
- ☐ Cash flow projection (monthly or quarterly) for a minimum of one year

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[1] These requirements may be optional for beginning farmers

[2] Current year – If a farm business is more than six (6) months into their current fiscal year at the time of the initial visit with the Advisor, the current year for the revenue and expense statement refers to either (a) a financial analysis and input beginning in the first month of their current fiscal year and running forward to the ending month of their current fiscal year, OR (b) projections for 12 consecutive months beginning with the statement date of the balance sheet assuming no operational or financial changes. If the farm business is less than six (6) months into their current fiscal year at the time of the initial visit with the Advisor, the previous fiscal year will be accepted as the current year (unless otherwise agreed to and approved by OSCIA).