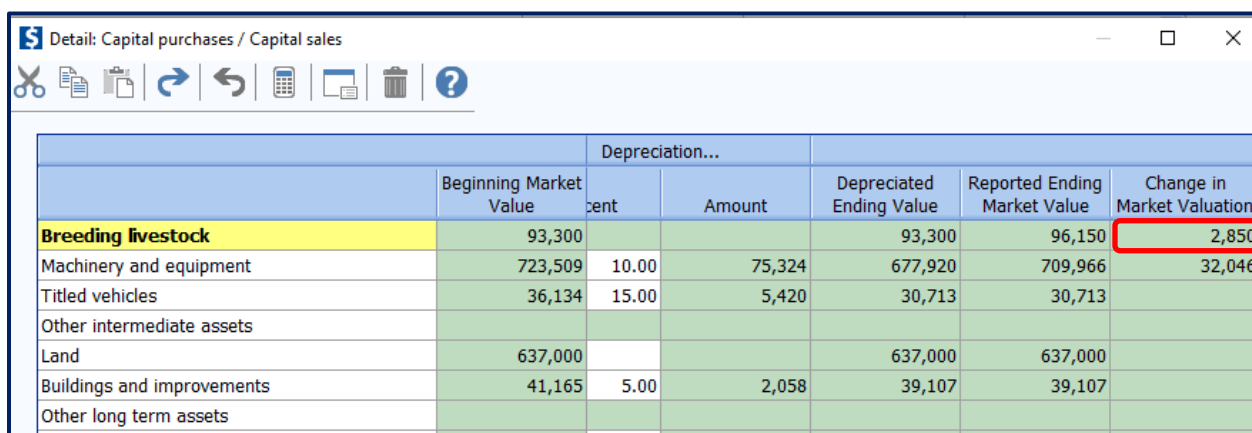


Treatment of Breeding Livestock in FINPACK's Earned Net Worth Analysis

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The purpose of *Earned Net Worth Analysis* is to back out *Change in Market Valuation* from total market value net worth change to arrive at the amount of net worth change resulting from earnings. The FINPACK approach is to estimate economic depreciation on each asset category. Any change greater or less than the amount explained by depreciation is *Change in Market Valuation*. Once *Earned Net Worth Change* is calculated, it is used to evaluate repayment capacity based on the *Term Debt Coverage Ratio*.

Below is the detail input form FINPACK uses to estimate *Change in Market Valuation*. For example, after depreciation, the ending value of Machinery and Equipment should be \$677,920. However, machinery was valued at \$709,966 on the ending balance sheet. The difference of \$32,046 is *Change in Market Valuation* and will be backed out to arrive at *Earned Net Worth Change*.



	Beginning Market Value	Depreciation...		Depreciated Ending Value	Reported Ending Market Value	Change in Market Valuation
		Percent	Amount			
Breeding livestock	93,300			93,300	96,150	2,850
Machinery and equipment	723,509	10.00	75,324	677,920	709,966	32,046
Titled vehicles	36,134	15.00	5,420	30,713	30,713	
Other intermediate assets						
Land	637,000			637,000	637,000	
Buildings and improvements	41,165	5.00	2,058	39,107	39,107	
Other long term assets						

Breeding livestock issues: This approach works well for depreciable assets like machinery and buildings. Breeding livestock, however, are another animal (pun intended). Often breeding livestock are raised and

are therefore not depreciable. More importantly, a change in the value of breeding livestock may be due to a change in the number of head rather than a valuation change. For this reason, FINPACK treats any change in breeding livestock value (as well as other intermediate and other long term assets) as *Inventory Change* rather than *Change in Market Valuation*. Even though this example shows *Change in Market Valuation* for breeding livestock on the detail input form, that amount is not included in the amount backed out to calculate *Earned Net Worth Change* (see main input form below). In other words, any change in the value of these assets is treated as *Earned Net Worth Change* rather than *Change in Market Valuation*.

Year	2016		2017		2018	
Beginning balance sheet	December 31, 2015		December 31, 2016 - Cost		December 31, 2017	
Ending balance sheet	December 31, 2016 - C		December 31, 2017		December 31, 2018	
DEPRECIATION AND MARKET VALUE CHANGE						
Ending mkt value, noncurrent and personal assets	1,744,640		1,716,103		1,703,894	
Capital sales	(+)	...	(+)	25,000	(+)	11,264
Beginning mkt value, noncurrent and personal asset	(-)	1,714,469	(-)	1,744,640	(-)	1,716,103
Capital purchases	(-)	45,807	(-)	84,995	(-)	44,000
Total asset value change	(=)	-15,637	(=)	-88,532	(=)	-44,945
Breeding livestock & other asset inv. change		1,743		-3,114		2,850
Business depreciation	(+)	-80,831	(+)	-82,947	(+)	-82,803
Personal asset depreciation	(+)	-1,039	(+)	-1,566	(+)	-1,331
Change in market valuation	(+)	64,490	(+)	-905	(+)	36,339
Total asset value change	(=)	-15,637	(=)	-88,532	(=)	-44,945