

Kentucky Farm Business Management Program State

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Rick Costin, Editor

INSIDE

Average Farm Size Increases for Kentucky Grain Farms 1

KFBM Cooperators in Courier-Journal 2

Farm Family Financial Management 2

New Area Specialist 3

AVERAGE FARM SIZE CONTINUES TO INCREASE FOR KENTUCKY GRAIN FARMS

by D. Bart Peters

Since the beginning of the KFBM program in the late 60's, the average grain farm size has continued to rise. Current data puts Pennyroyal grain farms at an average of 1652 acres in 1998. Pennyroyal has the largest farms of the four areas, even though Purchase and Ohio Valley are right behind. Kentucky follows a national trend of fewer, but larger farms. Economies of scale have driven this trend, as equipment, labor, and living costs continue to increase.

However, larger size does not guarantee more profit. The 1998 Pennyroyal data proves just that. The size group that showed the most net income for 1998 was the 1000-2000 acre group with a net income of \$15,942 compared to only \$8,711 for the 2000 or more acre group. This would indicate that management plays a very large role in being profitable.

The question now becomes "Where will it

end?" How large will a farm have to be in 5 or 10 years to sustain a family, replace equipment, and make a profit? It is a very hard question to answer. There are still many smaller farms doing just those things. They are run by good managers and are in good financial position. This large average size also presents greater barriers to entry for beginning young farmers. Farmers of the future will have to come into their operation through an established one.

Advanced technology and more acres will present a large challenge in the new millennium. The result of which will no doubt continue the trend of fewer and larger farms. This leaves the final question "Are you prepared?"

Kentucky Farm Business Management Program

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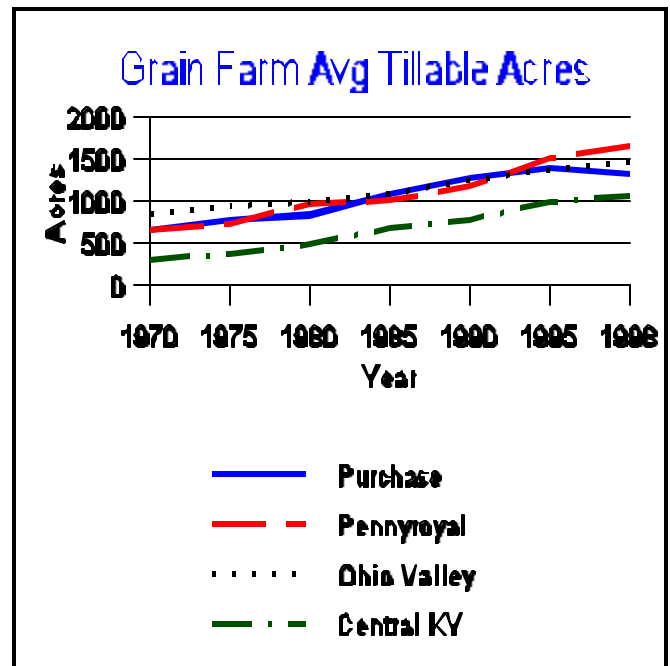
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KFBM COOPERATORS APPEAR IN COURIER- JOURNAL

by Craig Infanger



On Sunday, October 3, the *Courier-Journal* had an article in the Business section entitled “Computers Help Area Farmers Wring More Profit From the Land”. The article features two KFBM cooperators, Mike Ellis from Shelby County and George Hupman from Marion County.

The reporter, Joe Ward, did a good job of briefly highlighting the role computers are playing on farms in Kentucky. “At every step of the production process,” the article notes, “computers and satellite mapping can guide decisions that define the difference between financial success and failure.”

I encourage you to take a look at the article the next time you are surfing the web for agricultural information. You can find it at this address:
www.courier-journal.com/business/news/991003farm.html

FARM FAMILY FINANCIAL MANAGEMENT



by Martha Lee and
J. Waylon Ramming

As the farm economy is pressured by low commodity prices, we need to look at how family living draws impact the business. On average, family living plus income taxes for farms enrolled in the KFBM program are outstripping the farm’s

earnings. A falling net worth is the end result.

It is not our role to tell anyone how much they should spend or what their standard of living should be. When we speak of excessive draws in this article, we are speaking of a mathematical occurrence where family living plus income taxes are greater than accrual earnings. Here our term excessive draws does not judge the amount you should take from the business. That is an individual decision. There are two important concepts we can help with. The first is how much can the farm realistically support based upon what it has been generating in the past. The second idea is how to better live within your budget.

Most farm families may not immediately realize when they are overspending. It is imperative to have a good set of financial statements to analyze the sources and uses of your money. The family can not simply assume because there is money in the checkbook, there is money available for family living expenses. If for convenience the operating loan is linked to the checkbook, it may not be obvious to the family when they are borrowing for the family’s use and when they are borrowing for the farm.

Comparing balance sheets from year to year may expose the areas where the farm is temporarily financing excessive draws without running short on cash. Compare the grain, tobacco and market livestock inventories at the beginning of the year. With variable prices and yields, there will naturally be some ups and downs. Looking at a longer time frame will smooth some of the highs and lows. Consider how much of the previous year’s production you had

left on hand January 1. Let’s assume in the past at the end of the year you could sell the bean crop and payoff all the crop expenses, operating loan and scheduled term debt payments. Now you find yourself selling more and more of the corn crop and some of the tobacco before the first of the year just to stay current with your creditors. You should start thinking carefully where this is headed. If you see a definite trend in shrinking inventories then you know draws are likely outstripping earnings.

We use the example of inventories because it may not always be obvious to the farm manager unless he specifically looks for the changes. Just as common are the operations who finance the excess draws with borrowed capital. Increasing operating and long term loans relative to assets have the same negative impact on net worth. Dealer financing of everything from tractors to crop inputs, is on the rise. Don’t forget to consider these sources when you calculate your net position. Many people think as long as they can still borrow money to put out the crop they have no troubles. That is not true. A farm may have huge equity in land they have inherited or owned for a long time. This equity may put a lender in a very secure position on your loans. It is possible to meet all your payments and still have a falling net worth. It is not the lenders responsibility to direct your spending, only to ensure his bank gets repaid.

Lets take a look at a sample farm’s financial statements. This farm had an accrual net income of \$39,700 for 1998. Yet his Balance Sheet Summary shows a cost basis net worth loss of \$15,800! What went

wrong? The family draws were \$41,500 not including the state and federal income tax bill of \$12,500 (\$41,500 + \$12,500 = \$54,000). This farm business faced non-farm draws of \$54,000 with only \$39,700 of earnings. These excessive draws on the farm are largely responsible for the falling net worth. These figures may seem high. They are very close to the averages of what is happening. These excess draws are a problem on many farms. If continued, this level of draws will eventually put the farm in jeopardy.

It is predicted that commodity prices will not see large rebounds in the near future. Taking a look at your financial statements will give you an idea of what to expect from your business. If the largest profit the farm has generated in the past few years has not covered non-farm demands, it is time to make some decisions about the future. Calculate the average earnings for your farm for the past few years. If that amount is below the amount you desire for your family, there are alternatives. One alternative may be to add some off-farm income. A spouse can enter the paying workforce after the children are off to school. If the farm is faced with limited acreage, there are several alternatives. The producer can analyze the current farm plan to see if there are non-profitable enterprises that could be eliminated to free up his or her labor to pursue off farm income. It may be possible to lease out the farmland until the economy once again favors agriculture.

If you find yourselves in similar situations after analyzing your financial statements there are some things you can do to help manage

your family draws. The first step is to get the entire family involved. Communication is key. When everyone plays a role in deciding how much should be spent, then all the parties are more likely to stick with the budget. The family financial matters should be exactly that, a family matter. Set aside a given time to work on this very important matter. Choose a time when both partners are at their best, rested and in the proper frame of mind. Once the plan has been roughed out between the adults, bring in the children. The facts of a struggling farm economy can be related to children without creating unnecessary discomfort. The children can be involved by letting them find ways around the home and farmstead where money can be saved. Depending on their age, children may find part-time work off farm to pay for school clothes and learn firsthand money management.

Another helpful resource is your county agent for Family Consumer Science. The extension service has many publications available for managing the household. Two such publications *Penny-Pinching Ways to Save Money* and *Financial 'Quickies' to Plug Leaks in Your Budget* are available at [your County Extension office.](#)

Excess expenses are not confined to the household. When planning trips away from the farm, first determine what you can spend then find destinations that fall within the budget. It is likely everyone within the family will need to find budget leaks in their own spending habits to meet the spending goal. A good site to visit for help with constructing the family budget is www.afsaef.org. Take the time to

plan your budget. There is no reason to let frustration and anxiety control your happiness.

NEW AREA SPECIALIST



by Lynn Robbins

I am pleased to formally introduce the new Kentucky Farm Business Management Specialist for the Bluegrass Area, Colby Blair. Colby is from Owensboro. He has a B.A. in Economics from Transylvania University and an M.S. in Agricultural Economics from U.K. where he looked at the economics of an innovative pesticide application procedure. Upon graduation he worked for Novartis Crop Protection as a marketing representative covering Southwestern Indiana and Western Kentucky in 1997-98 and worked for Wilson Equipment Com-pany in Lexington from 1998 until he started with Bluegrass Farm Analysis September 7th, this year.

Colby is married to Heather, who is finishing her Ph.D. in Kinesiology at U.K. Heather and Colby both enjoy all kinds of sports, ranging from basketball to golf.

Darwin Foley has taken on the responsibility of working with the Bluegrass Area approximately one day per week during Colby's initial year to provide training and backup expertise. The two will have visited all the Bluegrass Area Cooperators by the end of October and have set the annual meeting for November 22nd.

Welcome Colby!

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