2009 KFMB Summary a Mixed Bag
Bart Peters

The Kentucky Farm Business Management Program (KFBM) has finished their 2009 farm record processing. The year 2009 was a very profitable year for most farmer-members of this program. Net farm income for all types and all areas averaged $300,581, only slightly less than the 2008 high of $311,603. The rainy weather presented many challenges for producers, including delays in planting and harvest. However, the rain also provided for above average corn and soybean yields, helping to maintain net farm income. In 2009, the average KFBM member farmed 2,054 total acres and 1,855 tillable acres.

This continues a long term trend of expanding farm size. These farms saw gross farm returns of $1,378,000 compared to $1,189,000 in 2008. Net farm income from operations percentage was 21.8%. In other words, every $1,000 of income produced $218 of profit. While this is a strong net profit margin, it is down from 2008 (25.7%). In short, gross income was higher in 2009, but expenses increased by a greater magnitude, leaving farmers with a lower profit percentage than in 2008.

KFBM farms are sorted into four main classifications: grain, dairy, hog, and beef. Grain farms account for 73% of the farms in the program. These farms may also include some livestock and/or tobacco but their predominant income is from cash grain sales. Livestock farms may also include grain and tobacco but feed most of their corn and receive most of their income from livestock or milk sales. The number of hog farms in KFBM is rapidly shrinking, but beef and dairy farms have maintained numbers. However, it is very possible that 2009 milk prices may have a long term negative effect on the number of dairy farmers in the program.

In 2009, grain farms led the way in terms of profitability. Their average net farm income was $410,000, compared to $411,000 in 2008. All types of livestock farms showed much lower net farm incomes. Table 1 describes net income and net profit margin by farm type.
Hog farms did show a solid net income for 2009. However, dairy and beef farms showed little or negative income from farming. Further, the milk price collapse last year resulted in a dairy farm net income drop from $81,047 in 2008 to $13,181 for 2009, an 83% decrease. Beef farms were the only type to show a negative net farm income.

Grain farms were further sorted into four different geographic regions: Central KY, Ohio Valley, Pennyroyal, and Purchase Area. Table 2 shows these results. Farms in the Central KY region are substantially smaller than those in the other areas, but had the second highest net profit margin, netting a very good farm income of $284,000. The average farm size in the other three areas is about 2,500 acres. Returns for all grain farms were strong in 2009.

Table 2. 2009 Grain Net Farm Inc. by Area

<table>
<thead>
<tr>
<th>Area</th>
<th>Net Income</th>
<th>Tillable Acres</th>
<th>Net Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central KY</td>
<td>$284,266</td>
<td>1396</td>
<td>29.2%</td>
</tr>
<tr>
<td>Ohio Valley</td>
<td>$412,464</td>
<td>2391</td>
<td>27.5%</td>
</tr>
<tr>
<td>Pennyroyal</td>
<td>$422,856</td>
<td>2585</td>
<td>20.4%</td>
</tr>
<tr>
<td>Purchase</td>
<td>$557,707</td>
<td>2653</td>
<td>31.9%</td>
</tr>
</tbody>
</table>

Compared to 2008, three of the four regions saw an increase in net farm income for 2009 (Table 3). The Pennyroyal Area was the exception, but 2009 was still its second best year according to KFBM records. While 2009 certainly presented many challenges for farmers, the end result for grain farmers was very positive.

Table 3. 2009 vs. 2008 Net Farm Income

<table>
<thead>
<tr>
<th>Area</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central KY</td>
<td>204,382</td>
<td>284,266</td>
</tr>
<tr>
<td>Ohio Valley</td>
<td>339,443</td>
<td>412,464</td>
</tr>
<tr>
<td>Pennyroyal</td>
<td>528,491</td>
<td>422,856</td>
</tr>
<tr>
<td>Purchase</td>
<td>412,261</td>
<td>557,707</td>
</tr>
</tbody>
</table>

Review of the Healthcare Legislation
Suzy Martin & Rush Midkiff

The health care reform signed into law in March of 2010 is a massive, complicated piece of legislation that will affect individuals and businesses alike. This article will touch on just a few of the topics which will likely be of concern to farm business operations.

1. The law gives small business owners tax credits to provide health coverage to employees. For this purpose, small business is defined as 10 or fewer employees with average annual wage paid of less than $25,000. Qualified businesses can receive a credit of up to 35% of their health premium costs through tax year 2013. The credit is phased out for businesses with more than 25 employees or an average annual wage of $50,000 or more.

2. Probably the most burdensome of all...businesses who employ more than 50 employees MUST provide “minimum essential” health coverage or risk getting fined. The fine is $2,000-per-employee, starting in 2014.

3. Starting in 2011, all businesses must report the value of the health care benefits they provide to employees on W-2s. However, the amount reported is not considered taxable income.

4. Also starting in 2011, any nonqualified distributions from health savings accounts will be penalized 20%. This is double the penalty from current rates.

5. In 2013, there will be a $2,500 per year cap on the amount an employee can contribute to a health care flexible spending account.

6. Starting in 2011, over-the-counter medication will not be eligible for reimbursement from flexible spending accounts or health savings accounts.

7. Individuals who do not have adequate health care coverage will actually start getting taxed (penalized) in 2014.

8. In 2014, those who are considered low income individuals can receive a refundable
On a final note, the law also changed reporting requirements for Form 1099s starting in the 2012 tax year. Any vendor that a business pays $600 or more to in “gross proceeds” will need to receive a 1099. This means that corporations are no longer exempt. It also means that businesses will report not only services, rents, interest, royalties, etc. but they will also report purchasing products, parts, inputs, so on and so forth. This could result in cumbersome end of the year form preparations.

Most of the changes do not begin until the 2011 tax year and many do not take effect until 2014. Keep an eye out for more articles clarifying the impact the new laws will have for members of the Kentucky Farm Business Management Group.

KDDC Update
Lauren Omer

After the milk price collapse of 2009, the dairies need a profitable year to recover. Milk prices have been higher in 2010 and returns over feed costs have improved. There are currently forty-four Kentucky Dairy Development Council (KDDC) dairies with KFBM. KDDC consultants across the state have encouraged dairies to join KFBM to improve their financial records. These dairies have received incentives through the MILK Program. The MILK Program funds should take producers through the end of 2010 and possibly into the first months of 2011. KDDC is currently working on a new grant to continue the MILK Program, but with updated or new criteria. They are talking with milk marketing organizations and producers to get feedback for the new criteria. The main emphasis of this grant is to increase producer participation in the KFBM program. We will try to keep you updated on any changes that take place.

Lincoln Trail-Bluegrass Farm Analysis Association Merger
Jerry Pierce

The Bluegrass Group’s Board of Directors determined that the members and mission of the Group will be best served by joining forces with the Lincoln Trail Association. The University has agreed to the merger and is assigning Lauren Omer to join Jonathan Shepherd as specialists to the combined Association.

The Lincoln Trail Board of Directors has agreed to the merger. Bluegrass Association will merge into the Lincoln Trail Association. The Lexington office will close. Lauren will work primarily out of Bowling Green and have an office in Elizabethtown. Jonathan will work out of Elizabethtown. The Association begins with 88 farms from Bluegrass, Lincoln trail, and Lauren’s KDDC farms. KFBM will provide financial support under a Memorandum of Agreement to supplement Lincoln Trail while Lauren and Jonathan recruit membership to reach a sustainable number.

KFBM Updates

- **NAFBAS** – Several Specialists will be attending the National Association of Farm Business Analysis Specialists Annual Meeting in Fargo, ND June 13th – 17th.

- **State Board Meeting** – the Annual Delegates meeting of the Kentucky Association of Farm Business Analysis Groups, Inc. will be held at Ellis Park in Evansville, IN during late July. The specific date will be announced soon.

- **Congratulations!**
  - Michael and Julie Forsythe became new parents on May 5th with the birth of their son, Jacob Daniel.
  - Christa and Lance Hofmann welcomed their second daughter, Shelby Leigh, into the world on June 1st.