



NUTS & BOLTS

... Teachers delivering knowledge that works to North America's Farm and Ranch Families

Volume 17 Number 3

Spring 2004

Go for the GREEN & GOLD

By Wayne Pike

Our Wisconsin conference hosts are getting ready to roll out the red carpet for us in the Dells on June 6-10. We hope you are planning to attend and have already registered. If you haven't registered or need more information you can contact our conference chairman, Ed Ruff, at eruff@swtc.edu or call him at 563-536-2830.

You are in for a treat when you get to see this part of Wisconsin in the spring. The landscape is about as diverse as we get in the Midwest with woods and rivers pushing right up to the crop land. Agricultural interests mix well with the recreational opportunities available at the Dells. It is really something for the whole family.

Our educational program also has something for everyone. Wisconsin is one of the most diversified farming areas in the world. We will get to see old and new, large and small, family and corporate, rural and urban. It is a case study in how creative people make agriculture work in Wisconsin.

Equally important are the recognizable faces and names of each of our members and guests. We are looking forward to seeing each of you with your family at our annual conference. Be sure to check www.nfrbmea.org for more details on the Dells and the program. See you in the Dells.

A Message from the NFRBMEA Resources Committee

By Chairman Ron Van Nurden, FBM instructor, Riverland Community College, Owatonna, Minnesota

The busy season is almost over for those of us in Farm Business Management. It is time to look back over the year, get the files cleaned out and start thinking about next year. This is also a good time to think about the NFRBMEA and what you might contribute to improving the profession. Our committee has a suggestion. Look over your spreadsheets, power point presentations, recruitment activities, on-line courses and other teaching materials you have created or used that might help others in the profession. Pick one and submit it to the resource committee for inclusion in our new on-line teaching resources library.

The committee is in the process of developing an on-line library of teaching and other professional materials that Farm and Ranch Business Management educators can use in their programs. We plan to make our on-line library accessible through a link on the NFRBMEA web site. All materials in the library will come from NFRBMEA members. Who better to use as a resource? You have used the materials, you know what students need to be successful and you have your fingers on the pulse of our changing American agriculture.

We are asking all NFRBMEA members to submit materials at any time by contacting one of our committee members listed below. Or, you may wish to bring a copy of your work to the national conference in the Dells. The committee will review the submitted materials at the conference and organize them into an easily accessible format. Please do not submit commercial software. Templates for commonly used software like Excel or Word are okay. Copyrights of the submitted material stay with the author.

Please consider sharing your good ideas with the NFRBMEA membership through our on-line library.

Thank you.

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Proposed By-laws Amendments to Consider

A message from Tom Weygandt, NFRBMEA President



We are closely approaching the 2004 Conference to be held at Wisconsin Dells. For those who have never attended a conference I highly urge you to join us. The conference is a place to recharge and to get new ideas.

At the business meeting during the conference, your Board of Directors is going to ask you to consider several by-laws amendments. You should receive notice of the proposed amendments in a separate mailing.

The first proposed amendment is to increase dues from \$20 to \$30. Needless to say, we are finding it more difficult to finance our activities than in the past. We want dues to continue to be very affordable to the membership while giving the Board more funds to work with.

The second area of amendment deals with the recognition that more and more of our members are retiring or moving to other occupations while still wanting to maintain their relationship with NFRBMEA. Additionally, the Board is planning increased cooperation with the NAFBAS organization. Several simple amendments are proposed to deal with these situations.

Finally, time is moving on. We propose to allow notice of meetings, proposed amendments, and Board of Director's meetings to be made by electronic mail. This will be a great time and money saver for us.

See you at the Dells!

Best Management Practices of Today's Successful Farming Operations

By Rick Morgan, NCTC Farm Business Management Instructor, Moorhead, MN

Several weeks ago I attended our 2003 Minnesota Association of Agricultural Educators Summer Conference where Dr. David Kohl, Professor, Agricultural and Applied Economics, Virginia Tech, listed the "Best Management Practices of Today's Successful Farming Operations" found through surveys of successful farming operations.

Practices found at the top of his list were: standardized records, cost and ratio tracking and benchmarking; business meetings with a team of advisors; strategic planning and visionary goal-setting, written in a concise manner; and education, trips, networking and alliances.

These first four practices read like the brochure that explains what students learn by enrolling in a Farm Business Management program through Northland Community and Technical College. Kohl's other

practices include: separate business & family or personal office; hire best people, utilize job descriptions, performance reviews and profit sharing; empower people to grow, trust & investment in people; compare weekly, monthly, quarterly, annual projections to actual & monitor deviations; diversification in off-farm businesses; modest debt, calculated risk-taker; and open communications with employees.

Also included in the list were: exercise program; and make family time. Seems that the group of surveyed farm operators understood the notion of what happens when one follows the "all work and no play" philosophy. My wife has the following quote on our refrigerator, "Taking care of yourself is not being self-centered.... It's being Centered."

Determining Your Costs of Production

By Duane Jaenicke

Almost every day I hear producers talk about the cost of production. As I think of the figures being tossed around, I realize that there are about as many numbers as there are producers talking about them and this makes for a lot of confusion.

Let's face it; there are several ways to calculate the cost of production, and many different levels of costs. Someone with a high debt load will have large interest costs, and rents can change by the township, or even section. Each operator will have to examine these and other factors when comparing his/her costs with those seen in print or those being touted by neighbors at the coffee shop.

Most costs of production are obvious and easy to list. Livestock producers can easily track feed costs, and grain producers know their seed expenses but costs such as fuel, equipment repairs, interest expense, supplies are a little more difficult to assign. However, there are simple formulas that can be obtained from your local Farm Business Management instructor to help you divide these costs.

The most difficult costs to assign to various farm enterprises (crops or livestock) are family living (or owner withdrawals), capital replacement/improvements, and debt service requirements. Let's look at each of these individually.

- ◆ **Family Living:** Many people don't realize how much money it takes to pay living expenses and many expenses are omitted in cash flow plans. Costs that are often underestimated include health insurance, retirement plans, non-farm capital purchases, education expenses, and income taxes. These costs must be included in any good cash flow or cost of production calculation.
- ◆ **Capital Replacement/Improvements:** Too often I have helped a producer with a cash flow projection which designates a certain dollar amount for capital replacements/improvements, but after review, turns out to be far too little. We must be aware of the need for fairly large sums of money to keep our line of equipment up to date.
- ◆ **Debt Service Requirements:** Farmers understand their principal and interest payments, but many are unsure where to find the money to pay the principal. Each of your enterprises should have their own obligation in order to service the debt. Make sure the cattle enterprise is paying for the new barn, and not an unrelated enterprise. You must be able to service your debt when developing a cash flow and calculating cost of production.

Many expenses are easy to allocate, but you need to be aware of the additional expenses that often hide in the background.

Visions in Minnesota FBM

By Wayne Pike

Farm business management instructors in Minnesota have been working on a new vision for farm management education in the state. We are attempting to think inside and outside the box to come up with new and exciting ways to meet the needs of the producers and taxpayers of Minnesota.

If you have gone through this process in your area, either on a statewide or local basis, it might be interesting to share your ideas with others in farm management education through the NFRBMEA.

We would like to put some of these ideas into the next Nuts & Bolts. Contact one of the co-editors with your vision.

2004 Triennial Conf.- Change in Rural America

By Wayne Pike

The University of Kentucky is conducting the 2004 Triennial Conference for ag educators and others interested in rural development. This conference is sponsored by eight different organizations related to extension programs throughout the country. For more information on the conference, see their web site at www.ca.uky.edu/triennial/index.html.

Dr. Richard Joerger, University of Minnesota, conducted the NFRBMEA professional development on-line survey that many of you completed late in the summer of 2003. Dr. Joerger submitted the survey results to the Triennial Conference and it was selected for presentation at the conference. This is an honor for Dr. Joerger and the NFRBMEA.

Greetings from NAFBAS

By Bob Rhea, NAFBAS National Executive Director

It has been a pleasure to learn about the efforts of NFRBMEA and to understand the many ways our 2 groups are similar in style and mission. I greatly enjoyed my time at the 2003 meeting in Minot and a September 2003 meeting in Des Moines with members of both group's boards proved to be very productive. I look forward to seeing many of you in the Dells this June.

National Association of Farm Business Analysis Specialists has 200 members in 22 states serving the accounting, consulting, analysis and tax management needs of 20,000 farm families. Most of our professional staff are connected to university ag econ departments or regional not-for-profit member owned cooperatives or both. Activities include assistance with farm records, farm visits, year-end business analysis and, for many, tax preparation. We also get uniquely involved with business plans, growth, retirement, and nearly any business, and many times, personal topic. Doesn't this sound much like the work of NFRBMEA professionals?

Our national organizations are even more closely matched. NAFBAS has an annual conference in June lasting 4-5 days beginning with a family event the first

evening. Annual dues for both groups are similar, registration fees are similar, both groups are hosting their 32nd annual meetings in 2004, and in 2003 both groups had national presidents named Jim from Minnesota!

I offer this special invitation to our 32nd annual meeting for National Association of Farm Business Analysis Specialists June 14-18 in Wichita, Kansas. Details can be found at our website: www.nafbass.org. In 2005, the NAFBAS meeting will be in Washington D.C. June 26-30 and in 2006 it will be great to share annual meetings with NFRBMEA in Omaha, Nebraska. The boards of both groups plan to meet together in Champaign, IL this September to fully explore the ways we can benefit the progress of each other.

I look forward to continuing study for new opportunities to enhance our efforts together.

Best wishes from NAFBAS,

Bob Rhea, National Executive Director
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Full Speed Ahead?

By Wayne Pike

On April 14, 1912, the ocean-going passenger liner, Titanic, struck an iceberg and sank within hours with many lives lost. The huge vessel scraped an iceberg along 248 feet of its starboard side, but the hole that did the damage was no larger than the size of an average desktop.

The people who owned, built and operated the Titanic never said that it was unsinkable. However, everyone wanted to believe that the Titanic was unsinkable so then everyone came to believe it. Unfortunately, the captain evidently believed it, too. An experienced captain, he sailed at full speed into what he should have known was ice-filled water.

It is hard to remember a time when things looked so good for agriculture. Crops, milk and meat prices are near their historical highs. Is now the time for full-speed

ahead for agriculture? Have we finally built an "unsinkable" ag economy? Our ocean has always been full of ice in the past. Has something changed to make it safer now? What do you believe? What should producers believe?

Will producers pencil out their profit before setting sail on a new voyage? Will they plot their courses with locked in profits? Will they control spending even more carefully as they find more to spend? Will they reduce debt as credit is increasingly available?

The Titanic tragedy taught the maritime world a hard lesson. It was the last passenger ship to ever be sunk by an iceberg. Catastrophes teach hard and memorable lessons. It doesn't have to be that way. We have the knowledge to avoid ag icebergs. We need to put that knowledge to use.

Spring Conference Call Meeting Minutes

April 20, 2004

(Recorded by Charles Duell, condensed for NUTS & BOLTS. For the complete minutes, please go to our [Website](#).)

Members participating: Jim Kelm, Ron Dvergsten, Rich Baumann, Tom Weygandt, Wayne Pike, Debra Pike, Laurie Morris, Charles Duell, Tom Ackerman, Ed Ruff.

Treasurer's report. Rich reported on the actual 03-04 vs. budget 03-04. Rich noted a shortfall in contributions and donations outside of the conference sponsors. Revenues were lower than projected and expenses were higher.

Membership secretary's report. Wayne reported 154 regular, 7 associate, 1 honorary lifetime. Last year at this time we had 176 regular members. We discussed how to increase membership.

The Board set policy that NFRBMEA will not supply member e-mail addresses to the public. The webmaster will make connections for anyone wishing to contact a member.

Webmaster's report. Deb reported 8,742 visitors to the web site. Conference information is posted on the Web.

The Board adopted a \$50.00 fee for commercial links to our Web site, but no fee for non-commercial links.

Mission Statement. We discussed proposed changes to the mission statement. Action delayed until the pre-conference board meeting.

By-laws committee. Tom Weygandt reported on the suggested by-law changes. The suggested by-law changes will be mailed via the postal service to each member at least 30 days prior to the conference in the Dells.

Change in Rural America Conference. Dr. Joerger is on the program in Lexington, KY to present the results of the NFRBMEA professional development survey. The Board approved Wayne and Deb's costs to represent NFRBMEA at the conference.

NAFBAS. Tom Weygandt reported that he had asked Jim Kelm to act as our conference planner for the joint NAFBAS conference to be held in 2006 in Omaha.

The Board decided to hold the fall NFRBMEA Board meeting in Champaign, Illinois, on September 27-29, with a joint meeting with NAFBAS on the 29th.

National Council. Tom reported that we were offered a seat on the National Council for \$3000 per year. Tom counter-offered a bid of \$1000-\$1500. Our seat would take effect following Gary Thome's term on the Council.

2004 Conference Report. Ed reported to the Board on the conference program, sponsorships, certificates of appreciation and liability insurance.

Distinguished Service Award. Four individuals have been selected for this award.

2005 Conference. Tom Ackerman reported on Ohio's progress in planning the 2005 conference.

Committees. Ron suggested that we need to work on membership committees, and other committees so we can have more active committee meetings.



Calling all Poultry Experts!! Can anyone identify this 3-week-old chick, who appears to be having a "bad hair day"? Contact the Co-editors at dapike@myclearwave.net.

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Balancing Opportunities, Risk and Reward

By Greg Kalinoski - NCTC Farm Business Management Instructor

As opportunities appear, we ask ourselves what risks may be involved and if we should pursue a potential great opportunity. Do you sometimes feel that way in today's farm economy? Do you feel frustrated with the weather, missed marketing opportunities, or whatever else does not go the way you would like it? You may not control the environment in which you operate, but you can do many things within the environment. What works one year may not work the next year.

Each year as you manage your farm business, you may experience a bit of uncertainty as you make management decisions. Good weather, favorable prices, and good luck do help and are assets you want on your side, but they may not be there when you need them the most. The weather does change, prices have a history of volatility, and the way we do business is constantly changing.

What can we do as producers? We have all heard of risk management, defined as "the uncertainty about an outcome and the possibility of an undesirable outcome." Production agriculture is more than production risk; it includes marketing risk, financial risk, legal risk, and human resource risk. The first step to manage risk is to continue to develop your knowledge base. During these times of change, you need to maintain competencies to compete successfully. Next determine your goals and your plan to accomplish them. Then, surround yourself with competent people to provide guidance. Finally, remain flexible and be willing to change as the business climate changes.

Yes, we can do all of the above and much more, but we must be able to make decisions and carry them out. Don't just talk about them and then think, "shoulda, woulda, coulda." In order to be rewarded for our efforts, we have to take advantage of the present risks.



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Successful Farmers *Do* Value Education

By Ron Dvergsten, Northland College FBM Instructor

During the past two years Northland Community and Technical College FBM instructors have had their established cash crop students complete a survey that coincides with the analysis year. The purpose of the survey has been to identify and prioritize the management factors related to financial success of their operation. In analyzing the survey data, one area that surprised me was the value placed on continuing education by the farmers in the High 20% profitability group.

Here are some of the statistical results of the High 20% profitability group relating to educational activities.

Level of formal education: The survey results showed that 100% of the farms in the High 20% profitability group have some type of post high school training, excluding FBM. 80 plus percent have a two-year degree and over 50 percent have a four-year college degree. These figures averaged over 30 percent higher than the Low 20% profitability group.

Continuing Educational Activities: All farmers in the High 20% profitability group have access to the Internet at their places of business. 70 percent of this group read five or more farm or business publications with regular-

ity, and 67 percent attend at least 10 farm related educational meetings per year. These figures were much higher than the Low 20% profitability group.

In addition to the specific questions, the survey allowed them to respond to a question asking them for the three primary reasons they felt contributed to their present success. The vast majority of the High 20% profitability group referenced in this essay portion of the survey said that the core components of Farm Business Management programs were of major importance. Many responded that having a good understanding and comprehension of their financial position, completing detailed cash flow plans, and knowing their cost of production by enterprise were things that were listed as factors influencing their financial success.

Additionally, the importance of having written business and personal goals were considered to be extremely important activities for the High 20% profitability group. This is almost like reading the course goals for many of our Farm Business Management courses. I believe FBM is on track toward meeting a major segment of our students' educational needs.

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New Requirements for Borrowers and Lenders

By Flint Daugherty, NCTC Farm Business Management Instructor, Hallock, MN

The process of borrowing money for farming and ranching operations has changed considerably over the last twenty years. Two major factors for this change were the disaster years and the implementation of the Freedom to Farm Bill. The days of collateral based lending are long gone. Most financial institutions and government agencies require more information than ever. Crop input suppliers are also looking for more financial information. The information required goes much further than a credit or beacon score. Producers are now often required to provide three to five years of financial and production records.

Financial records requested for an agricultural operation include current and previous year financial statements prepared year-end or coinciding with the fiscal year of the entity.

Accurate information is important as most lenders look at accrual adjusted earnings. Income and expense numbers also need to be presented with an explanation of high and low variations. Much of this information is used in trend and ratio analysis of the operation. Analysis primarily indicates the liquidity, solvency, profitability, repayment capacity and efficiency of operation. A lender uses much of the criteria when determining the risk rating for an operation. It is also used in the preparation of the next production cycle cash flow.



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Page 10

SPRING 2004 · NUTS & BOLTS

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