

REPORT

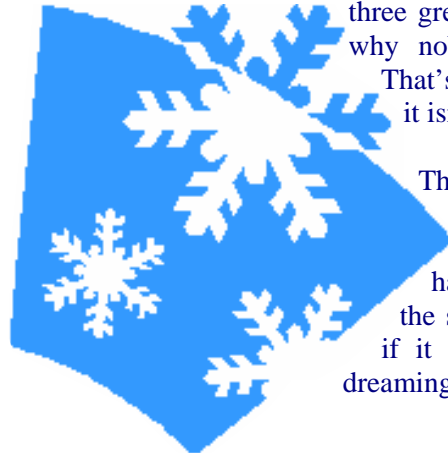
FARM BUSINESS MANAGEMENT NEWSLETTER



Let It Snow? (or Not!)

I hope you have been enjoying our good fall weather. Are you looking forward to snow for Christmas? I'm not so sure. There is a lot more yard to move snow from here than where we lived in LeRoy. Here we can't rely on the "Mighty Steve and his Happy Snowblower" to come and rescue us.

Here I rely on the old 460 and a snowblower that has been around the block more times than I would care to count. I found out that I'm not entirely prepared for winter. Last week, when a snow storm was threatening, I went out to hook up the snowblower. I tried to move the tractor and the battery was dead. I charged the battery. The tractor started and ran for about three seconds and then it quit. Out of gas. The big gas barrel was completely empty. There wasn't a mouthful of spare gas to be found on the farm. Solved that problem. Got the tractor started. Pumped up the tire. Found the part to hook up the three-point hitch. Dropped it on my finger. Hooked up the snowblower. Found a grease gun. Didn't work. Found another grease gun. Didn't work. Found another grease gun. Didn't work. Took parts from



three grease guns and made one that worked. That's why nobody throws anything away around here. That's also why we hook up the snowblower when it isn't snowing and twenty below.

The snowblower runs and blows wet air like crazy. We'll see what happens when it gets to the real white stuff. Did I mention the 460 has no cab or heat houser? Did I mention that the snowblower spout has to be moved by hand, if it can be moved at all? I'm not necessarily dreaming of a white Christmas.

Marketing Meeting (Risk Management) to be Held at Ostrander Co-op Elevator

In November, we had four people at our marketing meeting at the Ostrander Co-op Elevator office. That was a good start. We discussed how we could make a monthly marketing meeting interesting and keep it fresh.

We concluded that to talk about price risk only is kind of boring. We can broaden this to include many aspects

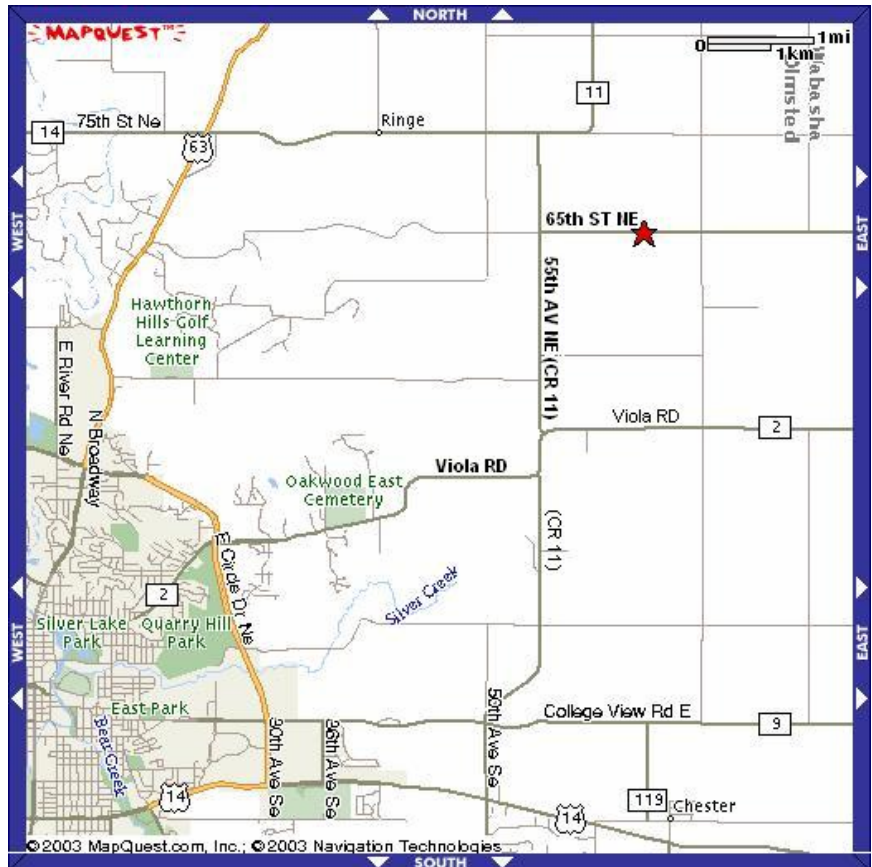
of risk management. We also decided to meet again on **Tuesday, December 16, 2003 at 8 a.m. at the Ostrander Farmers' Co-op Elevator office.** Craig and Doug make the coffee and provide super doughnuts. Our topic this time will be current issues in the market including a definition of "Cost-to-Carry" and a short study of "Basis". We are out of there by 9 a.m. I hope you will try to make it.

Open House at the Pikes'

It occurred to Deb and me that some of you might like to see where we live. I come to your houses all the time. Here is a chance for you to come to ours.

On Sunday, December 14, from 1-6 PM, we will have an Open House for you and your family. We will provide some holiday type refreshments. Take a break from your Christmas shopping and come out to the farm. We are just twelve miles from Apache Mall.

We would like to see you. See the map for directions. Everybody says we are easy to find.



For Your Calendar

Dan Miller (Spring Valley FBM) and I are joining forces to offer some educational opportunities for you. Put these dates on your calendar and plan for them. You will get more information later. We know when we want these meetings, but we don't know for sure where they will be. Probably Spring Valley, Preston, or Harmony.

❄️ **Tuesday, January 20, 2004**

1 PM— Lynn Lagerstedt, Farm Tech, talks about local agronomy issues.

❄️ **Tuesday, February 10, 2004**

1 PM— Crop Insurance. Speaker and place to be

decided.

❄️ **Tuesday, March 2, 2004**

1 PM— Farm Transfers. Speaker and place to be decided.



End – of – Year Activities

As we come up to the end of yet another year, it is time to record those inventories and get ready for the cash flow and analysis season. I will be sending out information that should be useful for these purposes at the end of December. It is also a time to put the finishing touches on tax estimates. Do you need to make that New Year's resolution to do better than ever on your records for next year?

If I don't see you before Christmas

**Merry Christmas and
Happy New Year!**

David M. Kohl

Professor, Virginia Tech

Agricultural Finance and Small Business Management

This is one in a series of articles written by Dr. David Kohl for the MnSCU Farm Business Management Education Program.



“Hey Doc, How Are My Neighbors Making It?”

In these days of a tight general and agricultural economy, how many of you are squeaking by financially but your neighbors, i.e. the Joneses, on the other hand, have a new car and truck, new machinery, and all the toys that go along with the consumption-based economy? Their kids go to the best schools and drive new vehicles, but we are struggling to make ends meet. Has this happened to you lately? It's one of the most commonly asked questions or comments that I hear before, after, or during the break at producer meetings.

Iceberg Theory

Unfortunately for those of you who may struggle to make ends meet, you are only seeing the tip of the financial iceberg. Let's examine how the Joneses are doing creative accounting under the water in the short-run that may lead to the demise of their financial ship over time.

Investigation of their balance sheet finds many of the secrets that are below the surface. First, that new car, truck, or piece of machinery may be financed with zero percent and have no payment for 12 to 24 months. Unfortunately, the down payment may be the unpaid account payable at the local cooperative for feed or fertilizer. In some cases, these assets are acquired because the land or income taxes were not paid. In recent months, there are stories of veterinarians and accountants who are not getting paid for their services on time.

How can the Joneses afford that new car for the kids or to send their children to that expensive private school, college, or university? One has to go no further than to check their credit reports and credit card balances. Nearly seven out of ten Americans have balances on their credit cards. According to the *USA Today* the average balance exceeds \$9,400. The total credit card debt is now \$1.7 trillion and household debt is 105 percent of net income.

Go deeper below the surface and you will find Johnny and Susie who are off to school exercising their freedom of consumer shopping on credit. The typical senior in college has an average balance of \$3,425 on their credit card, and when they graduate with a four-year degree their student loans will amount to \$22,000. The Joneses' kids are in law, veterinary, or medical school. These children will have school debts exceeding \$75,000. Those operating loans and credit cards are easy temptations that allow financial discipline to wander in the “spend now, pay later” society.

Equity Loans

This is no problem for the Joneses because they can simply take out a farm or home equity loan with

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the increasing land and home values. This strategy allows them to “harvest” the equity in the business or home and use it to stretch out these short-term financial missteps over longer and more affordable terms.

However, each time your neighbors exploit this strategy, they will frequently lose from 5 to 7 percent of the equity. This is because the monies have been spent on non-productive assets that have not generated income. If they start this with a strong balance sheet in their mid-40’s, by 65 years of age they have usually gone through the balance sheet equity. To compound this, when land and home values decline, this period can be shortened to five to ten years.

Friends and Relatives

In a recent seminar I had a young man who had \$10,000 of credit card debt and \$23,000 in student loans. However, as he later found out, he married another \$15,000 in credit card debt and \$16,000 in student loans. To his dismay, he was in a financial hole coming out of the gate in a family farm business. The solution was that his grandparents offered to match dollar for dollar in the payment of the credit card debt if they would cut up all but one card. Some of your neighbors are lucky enough to have a financial angel like this couple.

Finally, do not be in despair about all of the materialistic output. These free-spending neighbors often have no savings or investment accounts and are living from paycheck to paycheck.

To compound this, they have no financial records or use of financial professionals to help them navigate, whether it’s smooth sailing or stormy seas. They truly have no idea how their financial situation is deteriorating. This lack of understanding is what got Enron and Wall Street mutual funds accounts into trouble.

Yes, the good times are rolling for some as it appears on the surface. However, in the depths of the financial statements are currents of financial practices and lifestyles that in the long run can sink their financial ship.



Using Combine Monitor Information

By Ron VanNurden, FBM Instructor, Riverland— Owatonna

Many of you have good information from your combine GPS or monitoring system. I would like to use it during this record closeout/analysis season. We can do an individual analysis on each field you identify on your yield monitor. To do this, we would need some additional information about each field. I will be sending out an information sheet to fill out for those who want to look closer at each field when I send the closeout letter. If you have a GPS or simple yield monitor that prints out information about each field

being harvested and want to have each field analyzed separately, have the printed information from the monitor available and then fill out the information sheet for each of the fields. I think the process of analyzing each field or landlord’s cropland separately will help identify which land is making you money and which farms need to be adjusted. Those adjustments could be to fertility, weed control, rental values or other adjustments. I hope many of you will be willing to do the extra work it will take to sort out the information. I am certainly willing to do my part.

Getting Paid for No-till

(From the Riverland—Owatonna FBM newsletter)

Dave Marr, Farm Business Management instructor at Austin, brought to our attention a project sponsored in part by Iowa Farm Bureau that allows farmers to be paid for No-till. Actually, they call it Carbon Sequestering. There is also a project involving methane gas from livestock manure digester, called the Carbon Credit Pilot Project.

How does it work? A group of 47 companies is in the process of establishing the Chicago Climate Exchange, or CCX. This Exchange seems to be structured like the grain exchange or livestock exchange. Contracts of Carbon Credits called “exchange offsets” are the product being bought and sold. As with most Exchanges, the contracts have specific requirements and sizes. In this case, a contract is 10,000 tons of CO², or carbon. In addition, you must meet the sequestering requirements and file paper work to verify that the credits are being sequestered. You must allow inspection of your land and records by a representative of the exchange. The CCX is the place where price will be established for these credits. Companies can buy the credits and farmers can sell the credits they have available.

Farmers would submit projects to the CCX. If there are not enough credits in your project to equal one contract of 10,000 tons, then an organization can aggregate the credits of many farms. The Iowa Farm Bureau is the aggregator in Iowa. It could be a local co-op or other organization with access to farmland and an organization to verify compliance. Most farmers would look for an aggregator to participate in the program.

What would the farmer need to do? The farmer must submit to continuous no-till through 2006. The credits, called Certified Soil Offsets (CSOs), will be given at the rate of 0.5 metric tons of CO² Credits can be earned for land that was put into the approved tillage practice after January 1, 1999. In addition to no-till, those with land in grass cover plantings started after January 1, 1999 can enroll in the program and will receive 0.75 CSO metric tons per acre per year.

Livestock producers can be paid for collection and combustion of methane from manure digesters placed in operation in the U.S. on, or after, January 1, 1999. These credits, called Certified Agriculture Methane Offsets (CAMOs), will be issued at the rate of 18.25 tons of CO² per ton of methane combusted.

At this point, I have no idea how much you would be paid for sequestering these credits through no-till, grass cover or methane. No one else probably does either. That is the main purpose of the CCX. The purpose of this article is to make you aware of what is going on. I am not aware of any aggregators in Minnesota, or even if Minnesota farmers would qualify. Those involved are targeting the Midwestern U.S., the Delta area of the South and Brazil.

The Iowa Farm Bureau news release said this, which I think is a good summary. Companies are stepping forward to take actions in voluntarily reducing their emissions of greenhouse gases. They are willing to take early action to reduce any potential harmful effects of greenhouse gases on the world’s climate. Agricultural systems, working hand-in-hand with business and industry, can play an important role in minimizing any potential impact. These companies are looking to use renewable energy, voluntarily reducing emissions and carbon sequestering to meet the goal of reducing greenhouse gas emissions.

This could well be the next value-added enterprise you add to your farm.

Riverland - Agrilience Agronomy Seminar Held



Bob Schoper, Agrilience agronomist, speaks to the crowd at Digger’s on December 4. Bob explained what happened to the soybean crop in 2003. It was a combination of disasters that did in our beans last summer.



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Wind Easements Tax Treatment

(Gary Hatchfield, MN Extension Service, provided the information for this article which appeared in the Riverland—Owatonna FBM newsletter.)

Many these days are interested in constructing windmills on their farms. Wind easements are given by farmers to those who want to build the windmill. These easements give the windmill owner the right to build the windmill structure but also prohibit the farmer from building and structure that would block the wind that drives the windmill. In addition, these easements prohibit a farmer from building structures that would interfere with the maintenance of the windmill.

The easement payments are subject to the general rules for the sale of easements. The payments are compared with the original cost of the land affected by the easement. If the payment for the easement is less than the value of the land, they payment is not taxable but the basis value of the land is decreased by the amount of the easement payment. If the easement payment is more than the tax basis of the land (more than what was originally paid by the landowner), the excess is taxable as capital gain income. The basis of the land which the windmill easement affects, will have a zero basis.