American Farm
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The Farmer's "Market"

What's Inside:

FREE EVENT

American Farm Mortgage & Financial Services® *a subsidiary of Legence Bank* | Legence® Bank Member FDIC

SIU CARBONDALE Southern Illinois University

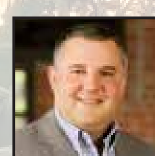
HOST

FUTURE OF AGRICULTURE:
ASK THE ANALYSTS

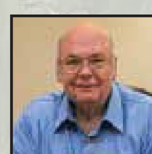
LIVE US FARM REPORT TAPING

CHIP NELLINGER
MARKET ANALYST
BLUE REEF AGRI-MARKETING

TYNE MORGAN
HOST
US FARM REPORT



JOHN KURTZ
PRESIDENT & CEO
KURTZ AUCTION & REALTY



BOB UTTERBACK
MARKET ANALYST
UTTERBACK MARKETING

JULY 16TH

WELCOME & VENDOR EXHIBIT 3:30 PM-4:00 PM
US FARM REPORT LIVE TAPING 4:00 PM-5:30 PM

SOUTHERN ILLINOIS UNIVERSITY-STUDENT CENTER BALLROOM D
1255 LINCOLN DRIVE, CARBONDALE, IL 62901

Message from the President

ALAN HOSKINS

Our FSA Partners

I was fortunate enough to attend a national conference with Farm Service Agency employees, members of the National Association of Credit Specialists (NACS) and National Association of Support Employees (NASE) groups. These individuals process, approve and administer the guaranteed, direct, emergency and grain facility loans programs. You also work directly with them to certify your acreage, obtain your Market Facilitation Payments (MFPs) or other similar program proceeds (when applicable) and process your ARC or PLC selection decision. Most of these people you have known for many years, go to church with, serve on community boards with and see in the grocery store, etc. In short, these are your friends and neighbors.

The individuals attending this annual meeting utilized their vacation time to participate, paid their own transportation costs to and from the meeting as well as personally buying their own meals! I have had the privilege of attending their conference for the past five years and have seen many of the same faces participating each year. Again, none of your tax dollars fund any FSA employee's participation, they make a personal investment.

Thoughts and concerns of the people belonging to these associations are very well respected within the United States Department of Agriculture. This is evidenced by the attendance of Washington, D.C. based USDA employees such as the Under Secretary for Farm Production and Conservation, Farm Service Agency Administrator, Deputy Administrator for Field Operations and the Deputy Administrator for Farm Loan Programs. These high-ranking USDA officials were in attendance both to communicate information and learn the needs and concerns of those in attendance. They participated in both individual conversations and question and answer sessions. When questions could not be immediately answered, they took notes and provided follow-up commitments to customer-facing attendees. Watching the interactions, it seemed apparent the views and comments of the participants were highly valued and considered.

As we are all painfully aware, the guaranteed and direct loan programs, MFP payments, etc. are all vitally important to producers in today's challenging environment. As the number of active farmers continue to dwindle, it becomes incumbent on both active and retired producers to reach out to their individual senators and representatives to reinforce how critical the support and funding of agricultural programs is to their constituents. However, it is not their responsibility alone. Those of us serving the farmers and ranchers also have a duty to work toward making sure the needed programs remain funded in an appropriate manner. This list includes, but is not limited to; lending institutions, equipment dealers, fertilizer and chemical sellers, grain merchandisers, amongst others. Don't hesitate to reach out to those with whom you do business and ask they also participate in the political process supporting agriculture. We all have a vested interest in the success of farmers and ranchers and need to assist them in manners of this type. Let's all work in a respective manner to ensure our elected officials know the great need of today's agriculture.

I have often heard if you want to learn where an individual's true passion lies, listen to their words, observe where their time and money is spent and see if the two are congruent. This week, I observed that phrase being modeled. I heard FSA employees express concern for their customer's needs before their own, while utilizing vacation time and personal funds to ensure those thoughts were understood. They voiced the hurt they feel when producers are pained as those are typically individuals they have known a good portion of their life. Rest assured you, as producers, have people serving you who truly care about your success. Please join me, on your next trip to the Farm Service Agency office, in saying THANK YOU to the employees. We are all fortunate, especially in today's world, to have such dedicated and compassionate people working to help us succeed.

How Do You Measure Up?

By Denise Bedell
Top Producer

Analyze financial ratios to prepare for market downturns.

Financial ratios allow a business to measure itself against its previous performance and against its peers. They can also show where new opportunities lie and where greater efficiency can be gleaned. Not to mention, ratios provide an early warning system for potential financial shocks.

Financial ratios take information from three sources: the balance sheet, the income statement and the cash flow statement. Most of this information is also available from the balance sheet that farmers have to produce for lenders. The data is then used to look at financial performance in five areas: liquidity, solvency, profitability, repayment capacity and financial efficiency.

These ratios are a key tool to help producers plan, budget and make capital expenditure decisions. "It is important to know how liquid and how solvent you are," says Hal Pepper, financial analysis specialist at the Center for Profitable Agriculture, University of Tennessee.

Pepper notes that liquidity and solvency ratios provide a clear idea of whether restructuring needs to be done, by looking at the farm's current ratio, for example. The current ratio is a financial measure equal to total current assets divided by total current farm liabilities—or what is owned divided by what is owed.

"If the ratio is greater than 1.0, the operation is considered liquid," Pepper explains. "The higher the ratio, the greater the liquidity."

Protect against the Future. In a period of market strength—as is the case now—it is more important than ever that producers make good decisions on how they spend their money, in order to protect against the tougher financial conditions that will occur when prices drop.

Plus, by producing and regularly maintaining financial records and using ratios for better farm management, it shows lenders that financial management is a priority.

"In a period like this where there ought to be profitability on a farm, we want to focus on making investments that affect return on assets," explains William Alan Miller, farm business management specialist in the Department of Agricultural Economics at Purdue University.

"Some farmers might be focused on buying items that can be deducted from taxes, especially with higher income, but when crop prices go back down, it might have been a better idea to have invested in things that allow them to become more profitable over the longer term," Miller says. "Before you can think in those terms, you have to do some measurements. If you don't know how you're doing, how can you tell where you need to improve?"

Miller says the two ratios he finds most useful are the asset turnover ratio and the operating profit margin ratio, which can be multiplied together to get return on assets. "Those two ratios are the key indicators of operating performance. How productively did I use my resources to generate revenue, and how much of that revenue did I keep?" he says.

Then, by benchmarking against peers, it can tell you how well you're using your assets. Miller says there is little difference between top-tier farms and average farms in operating profit margin ratios. The real difference is in asset turnover: Top-tier farms are getting more revenue dollars for their assets employed.

Analyzing financial ratios is relatively simple and inexpensive—and is invaluable in improving efficiency and profitability and reducing the impact of future market downcycles.

Sweet 16 Becomes Legal 21

The Sweet 16 financial ratios that are important to sound farm financial management have been expanded to include five new ratios:

- Working capital to gross income: Measures available operating capital versus the size of the business.
- EBITDA, or earnings before interest, taxes, depreciation and amortization: Measures earnings available for debt repayment.
- Capital debt repayment capacity: Measures all sources of income that could be used to pay debt.
- Replacement margin: Measures the ability to generate funds for debt repayment with maturities longer than one year and the ability to replace assets.
- Replacement margin coverage ratio: Shows if income covers term debt payments and cash contributions for new equipment.

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Understanding Your Business... From The Ground Up

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