Nebraska Farm Business, Inc.

YIELDING SUCCESS THROUGH FINANCIAL MANAGEMENT June 2015 Edition

It's That Time of Year Again.....

Form 720 Federal Excise Tax: *DUE July 31st*…Employers who provide medical reimbursement plans for 2 or MORE employees are required to file a Form 720 and pay an excise tax of $2.08 per covered person. If you only have one employee (i.e. spouse) you don't need to file the form or pay the tax. If you would like NFBI to file the Form 720 again this year or if you have any questions, please contact our office.

Form 2290 Heavy Highway Use: *DUE August 31st*… NFBI can e-file the form and get you a stamped copy all within the same day! All we need back from you is a signed copy of the 8879, stating you give us permission to e-file your return. If we have filed your return in the past, please just let us know that you would like it done again this year. If we haven't filed one for you in the past, we would need the following information: Your EIN number, the VIN number(s) for the truck(s), and whether they are suspended or not. Please contact our office or email Kayla (Kayla@nfbi.net) or Anthony (Anthony@nfbi.net) for further information.

Phone: 402-464-6324
Fax: 402-464-6355
Email: info@nfbi.net
Website: www.nfbi.net

Summer Visits: Would you like to go over your analysis in more detail? Do you have a larger question in regards to your operation? The summer is a perfect time to meet and go over things! Call the office to set up an appointment for a one-on-one Summer visit with your consultant.

Accounting: Now is a great time to get your bank statements in!

- Have timely records of your income & expenses
- It's easier to code 3 months of statements vs. 10 months
- You avoid late fees (We ask that you have January—June in by September 1st)

Penalties for Health Insurance Premium Reimbursement Starting after June 30th!!!

If you have more than 1 employee and are reimbursing them for health insurance premiums, talk with your consultant today! The IRS will begin issuing penalties at the rate of $100 per day per employee.

"CAN I AFFORD THIS?"

"Producers often ask this question, but there is not always an easy answer. Unfortunately, the only time the answer is obvious is when the answer is "NO" because the financial situation is so tough there is no other choice. Most times, however, there are several things to consider.

Cash Flow

A cash flow is a good measure of whether you can afford a purchase or not. If there is extra cash remaining after all expenses are paid for the year, you may be able to afford it. Since a cash flow is only a projection, you must be sure that it is made with reasonable estimations. If you can only make the purchase cash flow if you sell your corn for $6.00/bu., it wouldn't be reasonable in 2015. Also, be sure your cash flow contains all expected expenses plus some room for surprises. A cash flow that is too conservative can be just as detrimental to planning as a cash flow that is not attainable. In either case, making decisions off fabricated information can lead to poor decisions.

Net Worth

For 2015 many crop operations' cash flows have negative projections. Does that mean these operations can't afford to purchase anything? No, not necessarily. Between 2006 and 2014 the farms included in the NFBI averages added over $1.8 million to their net worth. While it would be nice to continue on that pace, it can't be expected. If we see an average of a $150,000 loss over the next two years, the 10 year average net worth increase would still be $1.5 million. Ending a 10 year period with an average net worth increase of $150,000 per year would still be the best 10 years on record. If we had a steady growth of net worth instead of spikes and valleys, it would be easier to decide if major purchases could be made.

Choices

Regardless of whether you have a positive cash flow or enough net worth to "burn", each major purchase decision comes with a choice. You may be choosing to use the extra cash flow instead of adding to net worth or you may be choosing to use previously earned net worth to purchase the item. Both choices are okay as long as you know what you're giving up. Even in the past few years when it was easy to cash flow purchases, it wasn't always the best decision to spend the money. Just because a purchase is deductible it is not always a good choice to spend the money and spending the money on family living is not always a bad choice. Each decision to spend money is a choice.

There are often two extreme views on net worth. Some want to spend as much of their net worth as they can before they die and enjoy what they've earned. Others want to save as much as they can to be able to pass it onto the next generation; often times sacrificing their own happiness. Many still find a balance between using their net worth and saving for their children. Your personal preference on this matter will play into the decision of "should I buy" something.

So if the answer to "Can I Afford This?" is yes, then the next question should be "Is this how I want to spend my money?" Whether it is an $80 per month internet TV subscription, a $250,000 tractor or an $800,000 house, there is a choice being made of where your net worth is being spent and where your working capital is being tied up.

Beginning Farmer Analysis Program

- Open to anyone farming less than 5 years
- Discounted Financial Analysis for 5 years
- On Farm Benchmarking Visits for Analysis

For more detailed information... visit our website at www.nfbi.net or

COST OF PRODUCTION: YEARS WITH LOW CROP PRICES

With cost of production going up and prices per bushel going down and leveling out looking at past trends can be helpful in analyzing your farming operation.

The table on the next page compares the cost of production per acre for irrigated corn on cash rented land for 2009 and 2014. 2009 was the last year we had comparable corn prices to 2014. This article looks at irrigated corn on cash rented land, but similar information is provided in our average books on owned and cash rented land as well as soybeans.

The average price for corn was \$3.76 per bushel in 2009 and \$3.69 in 2014. The overall cost has increased \$132.35 or almost 20%. The cost per bushel was held steady by an increase of yields during the same time frame. Fertilizer and chemical costs per acre surprisingly decreased from 2009 to 2014, but the 65% increase in land rent wasn't a surprise as the cash rents started to increase a few years ago when the price per bushel was in the \$6 to \$7 range. (See the chart on page 51 of the 2014 NFBI Whole State Average book). By looking closer at the numbers, the biggest change was in the operating power/machinery cost with a 64% increase in fuel & oil and a 48% increase in general repairs and supplies. Custom hire and machinery leases also went up a combined 30%.

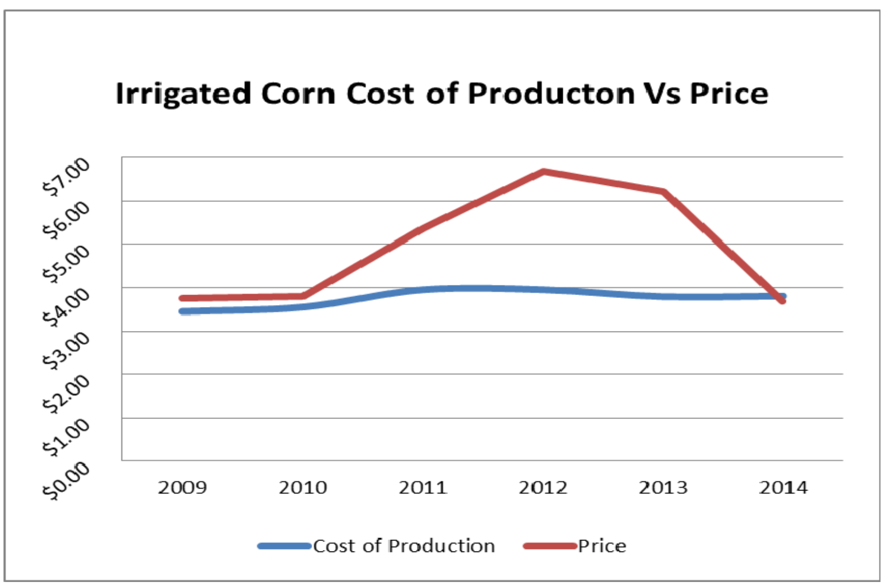
The increase in other direct costs are made up entirely of irrigation energy and repairs. Other items in this category such as drying/storage and operating interest decreased, with marketing costs and professional fees having a small increase.

The depreciation expense per acre did drop, which can be explained by producers who were being a little more frugal with the machinery purchases in 2014. Also, there wasn't a definite answer to depreciation rules, such as bonus and section 179, until late 2014. Although we use management depreciation for the analysis, excess purchases to reduce taxes still show up as a depreciation expense here.

The detail of the numbers can be tricky sometimes as farms can operate very differently. One producer may own all his equipment and do all the work himself, while the next may lease a good portion of his equipment and/or have part of his operation custom farmed. Looking at the big picture, however, the profit trend has decreased slightly from 2009 numbers, with a 31 cent per bushel profit, to an 11 cent per bushel loss in 2014. See the graph on the next page for more detail.

COST OF PRODUCTION: YEARS WITH LOW CROP PRICES, TABLE & GRAPH

Irr. Corn on Cash	2009	2014	Diff.	% of Total Inc.
Seed	$68.05	$91.14	$23.09	17%
Fertilizer	$143.87	$116.20	-$27.67	-21%
Chemicals	$50.75	$47.12	-$3.63	-3%
Crop Insurance	$23.36	$32.58	$9.22	7%
Oper. Pwr/Mach Costs	$74.52	$101.02	$26.5	20%
Land Rent	$171.74	$258.11	$86.37	65%
Depreciation	$57.45	$48.50	-$8.95	-7%
Term Interest	$5.82	$3.91	-$1.91	-1%
Other Direct Costs	$64.38	$87.18	$22.80	17%
Overhead Exp.	$28.33	$34.86	$6.51	5%
Total Expenses	$688.27	$820.62	$132.35	100%



This graph shows the price and cost of production for Irrigated Corn. The area of red above the blue is profit.