February—March 2020

Nebraska Farm Business, Inc.

Tax Return Reminders

When you receive your 2019 tax return packet, please be sure to read the letter that is sent with it. The letter gives instructions on paying your taxes or receiving your refund.

Do not forget to sign your 8879 and return it to our office as soon as possible so we can e-file your return in a timely manner. This year electronic signing is available to whomever chooses to use it. Please ask your consultant about this option if you have questions.

Also, if you would like to have an electronic copy of your return in place of a paper one, or would like one in addition to your paper copy, please inform your consultant.

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Important Tax Deadlines

March 2nd, 2020: Filing for Qualified Farmers

March 16th, 2020: Filing for Partnerships & S-Corporations

April 15th, 2020: 1st Quarter Estimated Tax Payment Due

April 15th, 2020: Filing for Corporate and all other individuals

May 1st, 2020: Filing of Personal Property

June 15th, 2020: 2nd Quarter Estimated Tax Payment Due

July 31st, 2020: Federal Excise Tax (Form 720)

August 31st, 2020: Heavy Highway Use (Form 2290)

September 15th, 2020: 3rd Quarter Estimated Tax Payment

January 15th, 2021: 4th Quarter Estimated Tax Payment

Analyzing Liquidity

By: Tina Barrett

The following article is an excerpt from our Good Farmer to Great Manager Part 2 book. This is a continuation of the article in our last newsletter publication. If you have not read that article, you can find all of our past newsletters on our website. Please feel free to reference it before reading this one.

In a FINPACK analysis, you'll find the three liquidity ratios at the top right-hand side of the executive summary and on page three with a few more calculations. Both spots give you a beginning and an ending ratio because it is very important to know what direction these ratios are headed in. If you want to know more about what is included in current assets and current liabilities, you need look at the balance sheet.

Financial Standards Measures

Liquidity	Beg	End
Current ratio	1.26	1.10
Working capital	89,125	53,613
Working capital to gross revenues	10.2 %	6.1 %

	Liquidity Measures		*Begin*	*End*
(J)	Current assets		431,271	586,485
(K)	Current liabilities		342,146	532,872
	Current ratio	(J/K)	1.26	1.10
	Working capital	(J-K)	89,125	53,613
	Change in working capital		-35,512	
	Working capital to gross revenues		10.2 %	6.1 %

Just like when we looked at the other ratios, it's important to remember that the gross revenue figure used in these ratios is calculated with accrual gross revenues, rather than cash.

Remember when we calculated the accrual gross revenues back in the income section? If you divide working capital by accrual gross revenue, you'll get the ratio for working capital to gross revenues. FINPACK uses the current year accrual gross income to calculate both the beginning and end of the year working capital to gross revenue facts. This means that your beginning year number may not match your ending year number from the previous year's analysis. Last year's number would have been calculated with the previous year's gross revenue. In many ways, using the same number gives us better information than using the ending number from last year. This allows us to take out the inconsistency with the change in gross revenues and really see what the change was.

	Cash	Adjustments	Accrual
Gross Revenue	$732,349	$142,388	$874,737

If you want to compare year-end to year-end (which also has value) we have the history trend graphs and the historic database reports. These reports will show year-end values. Note that the 2017 working capital to gross revenues is 11.4% but the beginning number for 2018 in the analysis above is 10.2%. This is because the accrual gross revenue for 2018 was higher than in 2017.

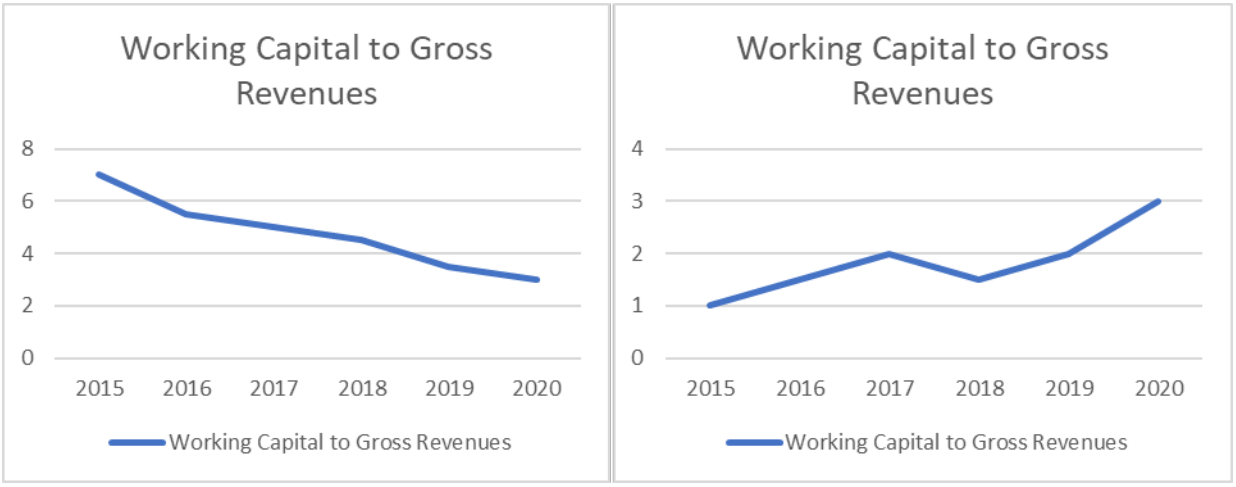
	2014	*2015*	*2016*	*2017*	*2018*	*Average*
Source	FINAN	FINAN	FINAN	FINAN	FINAN	
Liquidity Measures						
Current ratio	2.06	1.18	1.20	1.26	1.10	1.36
Working capital	276,225	78,230	68,241	89,125	53,613	113,087
Working capital to gross revenues	34.9 %	12.5 %	8.4 %	11.4 %	6.1 %	14.7 %

The historic database gives us a wealth of information by trending just about any number we could want. We can fit 5 years of data on one page with an average column so that is typically what we

print with the analysis, but we can go back as far as we have data. For some of the farms we work with, that would go back to 1995. There remains a question of how much value do we get in comparing working capital in 2019 to 1995? Those 25 years represent my life after high school! I sure am not the same person that I was in 1995, and there are not operations that are the same as they were in 1995. There is more value in that data from a research perspective than there is from a management perspective. At the same time doing an analysis for one year does not provide the same value as continually doing an analysis. An analysis provides good information, having the historic database provides invaluable information.

Look at the following two trends. Which would you rather have? Both end with a working capital to gross revenue of 3. Without knowing the story behind the farms, I would say I would want the second trend. It's started in the red and has worked its way to a great ratio. In reality, I need more information. The first farm could have been using extra cash to pay down long-term debt, saving interest expense over many years. The second farm could be on its second refinancing and be burning through equity as it tries to find solid ground.

Regardless of the "story", the second farm is looking like it is trending in a better liquidity position but we're going to have to keep digging deeper to find the rest of the story!

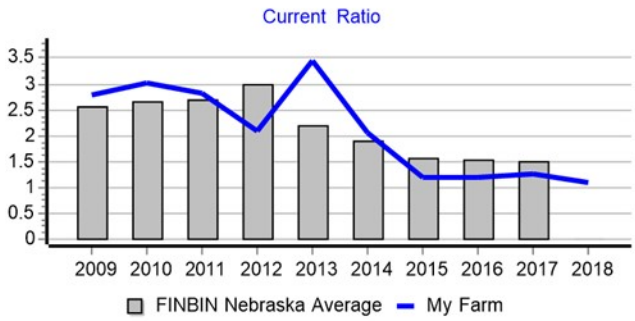


Both the current ratio and the working capital can be calculated just with the balance sheet. Here is a picture of the current assets and liabilities. These totals match up the numbers on page 3 of the analysis.

Current Assets			Value	***Current Liabilities***			Balance
Cash and checking (Schd A)			34,481	Accrued interest			14,108
Prepaid exp. & suppl. (Schd B)			40,000	Accounts payable and other accrued expenses			-
Growing crops			-				
Accounts receivable			-		Int	P & I	Principal
Hedging accounts (Schd E)			37,612	Current loans (Schd U)	Rate	Due	Balance
Other current assets			-	FSB-1st State Ba	5.00	-	385,039
Crops (Schd G)	Quantity	Value/Unit		Principal due within 12 months on term liabilities			133,725
Corn	59,242	3.56/bu.	210,902				
Soybeans	24,536	8.25/bu.	202,422				
Mkt Ivst (Schd H)	No.	Value/Unit					
Str Calves	37	160.00/cwt.	35,402				
Hfr Calves	30	146.00/cwt.	25,667				
Total Current Assets			**586,485**	**Total Current Liabilities**			**532,872**

Continue on page 4 →

These are the current ratio and working capital to gross revenue trends for the sample analysis. By looking at both these trends you can see times when the trend is actually different. In 2013, the current ratio increased significantly but the working capital to gross revenues only increased slightly.



Current Ratio
The extent to which current farm assets, if liquidated, would cover current farm liabilities.

Total current farm assets divided by total current farm liabilities.

Strong	Greater than 2
Caution	2 to 1.3
Vulnerable	Less than 1.3

Working Capital to Gross Reven
Measures operating capital available against the size of the business.

Working capital divided by gross revenues.

Strong	Greater than 30
Caution	30 to 10
Vulnerable	Less than 10

To really understand why, I need to see a balance sheet trend. Here is the balance sheet trend report (only using current assets and liabilities).

	Dec 31, 2010	*Dec 31, 2011*	*Dec 31, 2012*	*Dec 31, 2013*	*Dec 31, 2014*	*Dec 31, 2015*
Current Assets						
Cash and checking	22,262	190,886	223,443	59,461	4,672	13,908
Prepaid expenses and supplies	65,431	76,431	81,952	81,500	126,000	103,500
Hedging accounts	29,765	29,765	27,650	35,780	38,860	45,652
Crop inventory	599,586	394,909	334,050	281,981	269,985	280,517
Livestock held for sale	19,760	-	25,839	33,462	98,362	75,925
Total Current Assets	**736,804**	**691,991**	**692,934**	**492,184**	**537,879**	**519,502**
Current Liabillities						
Accrued interest	24,178	21,696	26,108	21,029	23,535	16,159
Principal due within 12 months on term loans	85,084	59,687	105,730	46,849	129,420	125,113
Current loans	135,000	165,000	198,364	74,833	108,699	300,000
Total Current Liabilities	**244,262**	**246,383**	**330,202**	**142,712**	**261,654**	**441,272**
Ratio Analysis						
Current ratio	3.02	2.81	2.10	3.45	2.06	1.18
Current ratio (business and personal)	3.10	2.89	2.19	3.70	2.21	1.27
Working capital	492,542	445,608	362,732	349,473	276,225	78,230
Working capital (business and personal)	515,767	468,789	396,157	388,816	317,846	119,851

This trend gives us some answers. In 2013, current assets dropped considerably, as did current liabilities. They dropped proportionally so working capital didn't change much, but the relationship between the two did change. This is a great example of how the current ratio can "throw a false result".

Good Farmer to Great Manager Part 2 goes more in depth about working to understand the information provided in a financial analysis. If you participate in this class, we ***highly*** encourage you to have an analysis done. The class will be more beneficial if you have YOUR ratios, YOUR breakeven calculations, and all of YOUR data. Your personal information will not be shared, but it will be helpful for you to have access to it as we compare averages, etc.

We have not yet started teaching Part 2, but keep your eyes peeled for more information in following publications.

NFB Crop Insurance Winter Notes:

Farm Bill - PLC & ARC:

Farm Bill Program Sign-Up/Change at your local FSA office. Can update selection until March 15. Especially important to consider all options in depressed commodity prices. The election of PLC, ARC-CO, or ARC-IC will be effective for 2019 and 2020. You may have the opportunity to 'change' in 2021, 2022, and 2023 on the farm.

Update your Yield Info at FSA– Farm Yields can increase:

Provide 2013-2017 Yield Report to update farm yields at the FSA office if it is your yields are higher than current PLC farm yield. This is a one time option this farm bill. Contact Brad for the report to provide to your FSA office!

MPCI Rate Reductions:

Much of Eastern Nebraska will see a rate decrease for Multi-Peril Crop Insurance Dryland & Irrigated insurance rates.

Additional Coverage Options:

Supplemental Coverage Option (SCO) is a product that can be used in conjunction with your Multi-Peril policy if you have selected PLC with the New Farm Bill. SCO is a Area Coverage Option that triggers a loss on an area basis. Ask Brad for details.

Check your Options!

We will provide you a FREE review of your current policy & look at opportunities for your operation! Contact us today!

March 15th is the deadline to Purchase, Transfer, Change, or update a policy!

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NFB Crop Insurance Inc. is an Equal Opportunity Provider

FEBRUARY 2020 - MARCH 2020

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"Yielding Success Through Financial Management"

2019 Analysis

Visit our website, nfbi.net, to learn more.

With the new year underway, it doesn't hurt to look back and see what kind of year your operation had.

Our analysis program may be right for you if you want to:

→ Understand Your Costs
→ Make Sound Financial Decisions
→ Rise Above the Competition
→ Make a Good Farm Better

If you are interested in getting started please contact your consultant to get the process rolling. It's never too late to get started!